# ACCOUNTING THEORY AND PRACTICE

**Professional 1**
**June 1999**

# MARKING SCHEME

CIPFA

 (Copyright)

**Question 1**
(a)

**PLAINMOOR PLC**

**PROFIT AND LOSS ACCOUNT YEAR ENDED 31 MARCH 1999**

| | £000 | £000 | £000 | |
|---|---|---|---|---|
| Turnover | | | 4,900 | |
| Opening Stock | | 205 | | |
| Purchases | | 995 | | |
| Production Costs | | 1,200 | | |
| | | 2,400 | | |
| Less closing stock | | 310 | 2,090 | |
| Gross Profit | | | 2,810 | |
| Admin Expenses | 329 | | | |
| Research & development | 20 | | | *1* |
| Contingency provision | 90 | | | *1* |
| Debtor write off | 41 | | | |
| Doubtful debts | 46 | 526 | | *1*(w1) |
| Distribution expenses | | 957 | | |
| Depreciation provision | | | | |
| Buildings | 143 | | | *1*(w2) |
| Plant & Equipment | 94 | | | *1*(w3) |
| Motor Vehicles | 283 | 520 | 2,003 | *1*(w4) |
| Operating profit | | | 807 | |
| Investment income | | | 19 | |
| Debenture interest paid | | | 60 | |
| Profit | | | 766 | |
| Preference dividends | | | | |
| Paid [5% x 200]-5 | 5 | | | ½ |
| Proposed | 5 | 10 | | |
| Ordinary dividends | | | | |
| Paid | 10 | | | |
| Proposed [4p x 1,500] | 60 | 70 | 80 | ½ |
| Retained Profit | | | 686 | |

**PLAINMOOR PLC**
**BALANCE SHEET AS AT 31 MARCH 1999**

| | £000 | £000 | £000 | £000 | |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Intangible | | | | | |
| Research and development | | | | 80 | *1* |
| | cost | depcn | nbv | | |
| Tangible | | | | | |
| Land and buildings | 4,375 | 2,943 | 1,432 | | ½ |
| Plant and equipment | 1,375 | 844 | 531 | | ½ |
| Motor vehicles | 1,415 | 1,083 | 332 | | ½ |
| | 7,165 | 4,870 | 2,295 | 2,295 | |
| Investments | | | | 850 | |
| | | | | 3,225 | |
| **Current Assets** | | | | | |
| Stock | | | 310 | | |
| Debtors | | | 593 | | *1*(w5) |
| Bank | | | 383 | | |
| | | | 1,286 | | |
| Creditors due < 1 year | | | | | |
| Trade creditors | | 500 | | | |
| Proposed dividends | | 65 | 565 | 721 | *1* |
| (60 + 5) | | | | | |
| Total assets less current liabilities | | | | 3,946 | |
| Creditors due > 1 year | | | | | |
| 6% Debentures | | | 1,000 | | |
| Provisions for Liabilities and charges | | | | | |
| Legal action | | | 90 | 1,090 | *1* |
| | | | | 2,856 | |
| **Financed By** | | | | | |
| Ordinary shares £1 | | | | 1,500 | |
| 5% cumulative preference shares | | | | 200 | |
| share premium account | | | | 100 | |
| P & L reserve | | | | 370 | |
| P & L for year | | | | 686 | ½ |
| | | | | 2,856 | |
| | | | | | *(13)* |

**workings**

w1 (700-41)*10%-20 = 46
w2 (4,375-800)*4% = 143
w3 (1,375-750)*15% = 94
w4 1415 * 20% = 283
w5 700-66-41=593

| | | | |
|---|---|---|---|
| (b) | (i) | Research and development costs | |
| | | SSAP 13-development costs | |
| | | - pure research brief description | *1* |
| | | - applied research | *1* |
| | | - developmental | *2* |
| | | - profits are probable capitalise | *½* |
| | | - outcome unknown write off to P&L | *½* |
| | | | *(5)* |
| | (ii) | Post balance sheet events | |
| | | SSAP 17 description | *1* |
| | | - adjusting events | *1* |
| | | -non adjusting events | *1* |
| | | | *(3)* |
| | (iii) | Accounting for contingencies | |
| | | SSAP 18 describe | *1½* |
| | | probable provide | *½* |
| | | possible disclose | *½* |
| | | remote ignore | *½* |
| | | reference to FRS 12 | *1* |
| | | | *(4)* |
| | | | *(12)* |
| | | | *(25)* |

**Question 2**

**(a)**

## MOLYNEUX PLC CASH FLOW STATEMENT
## FOR YEAR END 31 MARCH 1999

| | £000 | |
|---|---|---|
| Net cash flow from operations | 526 | *5* (w1) |
| Returns on investments & servicing of finance | | |
| Interest received | 18 | *1* (w2) |
| Interest paid | -32 | *1* (w3) |
| Taxation | -183 | *1* (w4) |
| Capital expenditure | -210 | *2* (w5) |
| Equity dividends paid | -73 | *1* (w6) |
| Management of liquid resources | 11 | *½*(w7) |
| Financing | 58 | *1½*(w8) |
| Increase in cash | 115 | |
| | | *(13)* |

| | | | | | |
|---|---|---|---|---|---|
| (w1) | operating profit | 469 | (w2) | opening | 4 |
| | depreciation | 27 | | during year | 17 |
| | sale of equip | -25 | | closing | -3 |
| | stock | -33 | | | 18 |
| | debtors | 167 | | | |
| | creditors | -78 | | | |
| | interest | -1 | | | |
| | | 526 | | | |
| (w3) | opening bal | -4 | (w4) | opening | -41 |
| | year | -35 | | year | -172 |
| | closing | 7 | | closing | 30 |
| | | -32 | | | -183 |
| (w5) | opening bal | 1407 | (w6) | opening | -15 |
| | depcn | -27 | | year | -63 |
| | revalue | -30 | | closing | 5 |
| | book value | -100 | | | -73 |
| | closing bal | -1585 | | | |
| | sales income | 125 | | | |
| | | -210 | | | |
| (w7) | 35-24=11 | | (w8) | share cap | 24 |
| | | | | share premium | 6 |
| | | | | creditors | 28 |

58

(b)

| | | |
|---|---|---|
| (i) | reconciliation of increase/decrease in cash with the movement in net debt in period | *½* |
| | - definition of net debt | *1* |
| | - show what the reconciliation is | *2* |
| (ii) | analysis of net debt and its movements during the year | *½* |
| | - requires all the net debt components to be reconciled from opening balance to closing balance | *½* |
| | -identify the required details | *2½* |
| | | *(7)* |
| | | *(20)* |

**Question 3**
(a)

Cost of control in Rodney

| | | | | | |
|---|---|---|---|---|---|
| cost of ordinary shares | 1,000 | ordinary shares | (680*.75) | 510 | ½ |
| cost of preference shares | 210 | preference shares | (300*.667) | 200 | ½ |
| | | revaluation | (180*.75) | 135 | ½ |
| | | revenue reserve | (300*.75) | 225 | ½ |
| | | goodwill | | 140 | |
| | 1,210 | | | 1,210 | |
| | | | | | *(2)* |

Cost of control in Trigger

| | | | | | |
|---|---|---|---|---|---|
| cost of ordinary shares | 475 | ordinary shares | (.9*630) | 567 | ½ |
| revenue reserve (.9*100) | 90 | | | | ½ |
| capital reserve | 2 | | | | |
| | 567 | | | 567 | |
| | | | | | *(1)* |

| | | | |
|---|---|---|---|
| **Minority interest in Rodney** | | | |
| Ordinary shares | (.25*680) | 170 | ½ |
| Preference shares | (.333*300) | 100 | ½ |
| Revaluation | (.25*180) | 45 | ½ |
| Revenue | (.25*480) | 120 | ½ |
| | | 435 | |
| **Minority interest in Trigger** | | | |
| Ordinary shares | (.1*630) | 63 | ½ |
| Revaluation | (.1*50) | 5 | ½ |
| Revenue | (.1*100) | 10 | ½ |
| | | 78 | |
| Total | | 513 | ½ |
| | | | *(4)* |

Consolidated revenue reserve

| | | | | | |
|---|---|---|---|---|---|
| Pre acq Rodney (.75*300) | | 225 | bal Delboy | 400 | ½ |
| mi-r | (.25*480) | 120 | bal Rodney | 480 | ½ |
| mi z | (.1*100) | 10 | bal trigger | 100 | ½ |
| goodwill w/o | (140-2) | 138 | pref dividend | 10 | *1* |
| balance | | 587 | pre acq trigger(.9*100) | 90 | ½ |
| | | 1,080 | | 1,080 | |
| | | | | | *(3)* |

**Delboy group Consolidated Balance Sheet as at 31 March 1999**

| | | | |
|---|---|---|---|
| Tangible fixed assets | (3255+580+1175+180) | 5,190 | *1* |
| Current assets | (1960+1340+300-30+10) | 3,580 | *1* |
| Current liabilities | (3395+440+625-10) | -4,450 | ½ |
| | | 4,320 | |
| Ordinary shares | | 3,175 | |
| Revaluation reserve | | 45 | ½ |
| Revenue reserve | | 587 | ½ |
| Minority interest | | 513 | ½ |
| | | 4,320 | |
| | | | *(4)* |
| | | | *(14)* |

(b)

| | | | | |
|---|---|---|---|---|
| cost of shares | 155 | shares (.25*630) | 158 | ½ |
| revenue reserve (.25*100) | 25 | goodwill | 22 | *1* |
| | 180 | | 180 | |

Post acquisition retained profit

| | | | |
|---|---|---|---|
| Balance at acquisition | (£100,000) | | |
| Balance 31/3/99 | £100,000 | | |
| | £200,000*.25 | £50,000 | *1* |

Revaluation reserve £50,000*.25 £13,000 ½

Balance sheet extract

Investment in associated company 196 (see note)

| | | |
|---|---|---|
| Reserves | | |
| Revaluation reserve | 13 | ½ |
| Revenue reserve | 50 | ½ |

Note to balance sheet

| | | |
|---|---|---|
| cost | 155 | ½ |
| post acq profit | 50 | ½ |
| post acq revalue | 13 | ½ |
| goodwill w/o | (22) | ½ |
| | 196 | |
| | | *(6)* |

*(20)*

**Question 4**

(a)

(i) EPS = Profit Attributable to oldshareholder / No old shares

| | | | |
|---|---|---|---|
| Basil | 420 / 500 | 84p | *½* |
| Cybil | 360 / 300 | 120p | *½* |
| Manuel | 143 / 200 | 71.5p | *½* |

(ii) PE Ratio = Market Value / EPS

| | | | |
|---|---|---|---|
| B | 800 / 84 | = 9.5 | *½* |
| C | 900 / 120 | = 7.5 | *½* |
| M | 1000 / 71.3 | = 14 | *½* |

(iii) Gearing = New equity finance / Total Finance or New equity / Equity

| | | | |
|---|---|---|---|
| B | Nil | | |
| C | 100 / 700 = 14.3% | 100 / 600 = 16.7% | *½* |
| M | 200 / 60 | 200 / 400 =50% | *½* |

*(4½)*

(b) Explanation of shareholders ratios *1*

EPS *1*
P/E *1*
Gearing *1*
FRS M????? II *1*

*(5)*

(c) ROCE 3 methods available *3*

| | | |
|---|---|---|
| B | $\frac{600}{800}$ | 66.6% |
| C | $\frac{600}{700}$ | 85.7% |
| M | $\frac{300}{600}$ | 50% |

Explanation of the outcome of the analysis *6*
Comparison of the comapnies *1½*
*(10½)*
*(20)*

**Question 5**

(a) Current cost information should be published as an addition to historic cost accounts and should consist of a P & L a/c and a balance sheet.

P & L
- current cost operating profit or loss
- profit or loss attributable to shareholders
- current cost EPS *2*

Balance sheet
- fixed assets and stocks at value to business
- current cost reserve *1*

*(3)*

(b) Depreciation adjustment
- difference depcn on historic and current cost

COSA *3*
- difference current and historic cost of stock

MWCA *3*
- debtors/creditors adjustments *3*

Gearing Adjustment
- attributable to shareholders *3*

*(1 mark to each section for description*
*2 marks to each section for showing calculations)*

*(12)*

*(15)*

**Question 6**

- analysis between continuing operations and discontinuing items *1*
- revision of SSAP6 reclassifying exceptional and extraordinary items *1*
- revision of SSAP 3 EPS calculate after extraordinary items *1*
- Statement of recognised gains and losses to show changes in wealth rather than just profit *1*
- Memorandum note of historic profits and losses (restatement of profit based historical costs excluding revaluations) *1*
- Reconciliation of shareholders funds *1*

*(Plus maximum of 1 ½ marks for each of the above sections for a reasoned discussion)*
*(15)*