

General Certificate of Education
January 2005
Advanced Level Examination



ACCOUNTING **ACC6**
**Unit 6 Published Accounts of Limited Companies
and Accounting Standards**

Wednesday 19 January 2005 Morning Session

In addition to this paper you will require:
an answer book for Accounting.
You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC6.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 3 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Answer **all** questions.

1

Total for this question: 20 marks

Extracts from the balance sheet of Solano plc are shown below. Immediately after the balance sheet was drawn up, the directors of Solano plc announced a rights issue of ordinary shares. The rights issue was made on the basis of 1 share for every 3 held at a premium of 60p per share. The rights issue was successful, with all rights being taken up. The directors have used the funds to redeem the debentures and repay the short-term loan.

Extracts from the Balance Sheet of Solano plc as at 31 December 2004

	£m
CURRENT ASSETS	
Stock	49
Debtors	506
Cash at bank	15
CREDITORS: amounts falling due within one year	
Trade creditors	380
Short-term loan	120
CREDITORS: amounts falling due after more than one year	
10% Debenture 2003-06	450
CAPITAL AND RESERVES	
Called-up share capital	1200
Share premium account	50
Revaluation reserve	168
Profit and loss account	2220

Additional information

The ordinary shares have a nominal value of £1 each.

REQUIRED

- (a) Prepare the following extracts from the balance sheet **after** the rights issue:
- (i) current assets;
 - (ii) creditors: amounts falling due within one year;
 - (iii) creditors: amounts falling due after more than one year;
 - (iv) capital and reserves. *(9 marks)*
- (b) Explain the term “gearing”. *(6 marks)*
- (c) Calculate the gearing ratio before **and** after the rights issue. Show the formula used. *(3 marks)*
- (d) Comment on the ratios calculated in (c). *(2 marks)*

2

Total for this question: 30 marks

An extract from the published accounts of Barton plc is shown below.

Profit and loss account	
Year ended 31 October 2004	
	£000
Turnover	2550
Cost of sales	1125
Gross profit	1425
Administrative expenses	1175
Operating profit	250
Dividends	125
Retained profits for the year	125
Earnings per share	12.5p

Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

Additional information

The company has 2 000 000 ordinary shares of £1 each, issued and fully paid.

The current market price of ordinary shares is 195 pence.

REQUIRED

- (a) Calculate the following ratios for Barton plc, showing the formulae used:
- (i) dividend per share;
 - (ii) dividend cover;
 - (iii) dividend yield;
 - (iv) price/earnings ratio. *(8 marks)*
- (b) Discuss whether a potential investor should purchase ordinary shares of Barton plc. *(10 marks)*
- (c) Outline the objectives of FRS 18 (Accounting policies) with regard to the selection, review and disclosure of accounting policies. *(6 marks)*
- (d) Explain why it is essential for a user of published accounts that companies disclose their accounting policies. *(6 marks)*

3

Total for this question: 50 marks

The balance sheet of JMC plc for the year ended 31 December 2004, together with comparative figures for 2003, is shown below.

JMC plc		
Balance sheet as at 31 December	2004	2003
	£000	£000
Fixed assets (Note 1)	7233	5602
Current assets		
Stock	858	988
Debtors	935	888
Cash in hand	112	32
	<u>1905</u>	<u>1908</u>
Creditors: amounts falling due within one year		
Trade creditors	675	452
Taxation	20	60
Proposed dividend	100	175
	<u>795</u>	<u>687</u>
Net current assets	<u>1110</u>	<u>1221</u>
Total assets less current liabilities	8343	6823
Creditors: amounts falling due after more than one year		
Loans	213	413
Net assets	<u>8130</u>	<u>6410</u>
Capital and reserves		
Called-up share capital	6000	4410
Share premium account	771	441
Revaluation reserve	1074	1074
Profit and loss account	285	485
	<u>8130</u>	<u>6410</u>

Note 1

Tangible fixed assets	£000
Cost	
At 1 January 2004	6523
Additions	2396
Disposals	<u>(665)</u>
At 31 December 2004	<u>8254</u>
Depreciation	
At 1 January 2004	921
Charge for the year	165
Disposals	<u>(65)</u>
At 31 December 2004	<u>1021</u>
Net book value	
At 1 January 2004	5602
At 31 December 2004	7233

Additional information

The proceeds from the sale of fixed assets in 2004 were £666 000.

REQUIRED

- Calculate the operating profit for the year ended 31 December 2004. *(5 marks)*
- Prepare the reconciliation of operating profit to the net cash flow from operating activities for the year ended 31 December 2004. *(10 marks)*
- Prepare the cash flow statement, following the format given in FRS 1, for the year ended 31 December 2004.
(Note: you are **not** required to prepare the reconciliation of the movement of net debt.) *(15 marks)*
- Explain how a company can make a loss but still have an increase in cash. *(10 marks)*
- Discuss the extent to which cash is more significant for business survival than profit. *(10 marks)*

END OF QUESTIONS

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