Version 1.1

General Certificate of Education
June 2003
Advanced Level Examination

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

Thursday 19 June 2003 Afternoon 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 5 is the synoptic question which assesses your understanding of 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:** ***8 marks***

The following information has been extracted from the published accounts of Musketts Group plc for the year ended 31 December 2002.

	£000
Operating profit	13 367
Depreciation	4 750
Increase in stocks	70
Increase in debtors	32
Increase in creditors	5 907
Amortisation of goodwill	216
Profit on sale of tangible fixed assets	152

REQUIRED

Prepare the "reconciliation of operating profit to the net cash flow from operating activities" for the year ended 31 December 2002. *(8 marks)*

2 **Total for this question:** ***8 marks***

Go Getter plc, a health club chain, has enjoyed excellent results over the last few years. The company has established an excellent reputation and is regarded as the market leader. As a result, the managing director and marketing director believe that:

(1) their brand names are worth £500 000; and

(2) the goodwill of the business is worth £1 000 000.

During the year Go Getter plc acquired Jem Ltd. The purchase price included:

(3) £50 000 for goodwill; and

(4) £25 000 for intangible assets.

REQUIRED

Explain, with reference to FRS 10, how **each** of the items (1) to (4) above should be treated when preparing the final accounts of Go Getter plc. *(8 marks)*

3 **Total for this question:** ***22 marks***

Frith plc made a bonus issue of ordinary shares on 31 May 2003. The shares were issued on the basis of 1 share for every 4 held. The directors of the company wish to retain the reserves in their most distributable form.

The capital and reserves extract from the balance sheet *before* the issue is shown below.

Capital and reserves	**£000**
Ordinary shares of 10p each	1600
Share premium account	250
Revaluation reserve	140
Profit and loss account	240
	2230

REQUIRED

(a) Prepare the capital and reserves extract from the balance sheet *after* the bonus issue. *(6 marks)*

(b) Explain why a company might choose to make a bonus issue of shares. *(4 marks)*

(c) Assess the effect of the bonus issue on an ordinary shareholder. *(6 marks)*

When assets are revalued, any surplus is transferred to a revaluation reserve rather than credited to the profit and loss account.

REQUIRED

(d) Explain, with reference to accounting concepts, why this is so. *(6 marks)*

4 **Total for this question:** ***12 marks***

There is increasing concern that auditors are not always truly independent.

REQUIRED

(a) Explain the role of the auditor. *(4 marks)*

(b) Evaluate the potential effect on shareholders if auditors are not truly independent. *(8 marks)*

5 **Total for this question:** ***50 marks***

Trafgar Holdings plc owns several companies in the leisure sector e.g. health clubs, restaurants and public houses. The board of directors is considering making an investment in Magpie Brewery Ltd, a local brewery based in the North East of England. Although Magpie is a local brewery, it supplies award-winning beer and lager nationally.

The board is considering two alternative methods of financing the investment, by issuing:

- ordinary shares;
- debentures.

On the opposite page there is:

(1) an extract from the most recent published accounts for Magpie Brewery Ltd;

(2) some industry average ratios.

REQUIRED

(a) Using the list of industry average ratios calculate comparative ratios for Magpie Brewery Ltd. (State the formulae used.) *(14 marks)*

(b) Comment on the ratios, assessing the strengths and weaknesses of Magpie Brewery Ltd using the industry average ratios as a means of comparison. *(14 marks)*

(c) Assess the usefulness of using industry averages when comparing ratios. *(4 marks)*

(d) Explain the advantages **and** disadvantages of the **two** methods of finance being considered and advise the board which one it should choose. *(10 marks)*

(e) Discuss to what extent published accounts are useful in making investment decisions. *(8 marks)*

Magpie Brewery Ltd
Profit and loss account for the year ended 31 March 2003

	£000
Turnover	2754
Cost of sales	1854
Gross profit	900
Net operating expenses	656
Operating profit	244
Interest payable	50
Operating profit before taxation	194
Taxation	40
Retained profit for the year	154

Magpie Brewery Ltd
Balance sheet as at 31 March 2003

	£000	£000
Fixed assets		1990
Current assets		
Stock	255	
Debtors	180	
Cash	325	
	760	
Creditors amounts falling due within one year	222	
Net current assets		538
Total assets less current liabilities		2528
Creditors amounts falling due after more than one year		600
Net assets		1928
Capital and reserves		
Called up share capital		1000
Profit and loss account		928
		1928

Industry average ratios

Net profit margin	15%
Return on capital employed	13%
Current ratio	2.5:1
Acid test ratio	0.9:1
Debtors' collection period	40 days
Stock turnover (based on closing stock)	15 times
Gearing	40%

END OF QUESTIONS