

General Certificate of Education  
June 2006  
Advanced Level Examination



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

**ACC6**

Friday 16 June 2006 9.00 am to 10.15 am

**For this paper you must have:**

- 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.  
5 of these marks are for the Quality of Written Communication.
- The marks for questions are shown in brackets.
- Question 3 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.
- You are reminded of the need for good English and clear presentation in your answers. Some questions involve only numerical work; all other questions should be answered in continuous prose. Quality of Written Communication will be assessed in all prose answers.

Answer **all** questions.

**Total for this question: 30 marks**

**1**

The directors of Twine plc are in the process of preparing the final accounts for the year ended 31 May 2006. The draft accounts include the following information.

	£
Net assets	15 000 000
Net profit	2 300 000

However, the draft accounts need to be amended to take account of the following.

- (1) During the year, Twine plc purchased a partnership. The tangible assets of the partnership have been included in the accounts. However, the purchase price included the following:
  - goodwill valued at £1 200 000, with an estimated economic life of 20 years;
  - brand names valued at £800 000, with an estimated economic life of 4 years.
- (2) Stock originally included in the draft accounts at cost £50 000 has been damaged. It will have to be repaired at a cost of £3000 before it can be sold. It is estimated that, following the repairs, the stock could be sold at auction for £55 000, less 10% commission.

### REQUIRED

- (a) Calculate:
  - (i) net assets;
  - (ii) net profit;
 after making adjustment for items (1) and (2). Show your workings. *(17 marks)*
- (b) State the relevant accounting standard to be applied to item (1) and item (2). *(2 marks)*
- (c) Explain why it is important for the users of published accounts to know that the accounts are prepared in accordance with accounting standards. *(11 marks)*

**Total for this question: 20 marks**

2

Xiang is considering investing in ordinary shares of either Elriani plc or Nicol plc. The current market price of ordinary shares in both companies is 160p. He has obtained the following ratios for Elriani plc.

Dividend per share	5p
Dividend yield	3%
Dividend cover	1.7 times
Earnings per share	8.5p
Price/earnings	18.82

He has also extracted the following information from the accounts of Nicol plc.

	<b>£</b>
Issued ordinary shares of £1 each fully paid	50 000 000
Net profit after tax	10 000 000
Ordinary share dividends	4 000 000

**REQUIRED**

(a) Calculate the following ratios for Nicol plc. State the formula used.

- (i) Dividend per share
- (ii) Dividend yield
- (iii) Dividend cover
- (iv) Earnings per share
- (v) Price/earnings

*(10 marks)*

(b) Advise Xiang which company he should invest in, in order to:

- (i) maximise his income;
- (ii) maximise his potential capital gain.

Your advice should be based on the information given and the ratios calculated in (a).

*(10 marks)*

**Total for this question: 50 marks**

3

The directors of Nick Ltd are in the process of preparing the final accounts for the year ended 31 May 2006. The draft balance sheet is shown below.

**Nick Ltd**  
**Balance Sheet at 31 May 2006**

	£	£
<b>Fixed Assets</b>		
Land and buildings		100 000
Other fixed assets		<u>45 000</u>
		145 000
<b>Current assets</b>		
Stock	20 000	
Debtors	18 000	
Less provision for doubtful debts	<u>(900)</u>	
	37 100	
<b>Creditors: amounts falling due within one year</b>		
Creditors	16 500	
Bank overdraft	25 000	
Short-term loan	<u>35 000</u>	
	76 500	
<b>Net current liabilities</b>		<u>(39 400)</u>
<b>Total assets less current liabilities</b>		<u>105 600</u>
<b>Capital and reserves</b>		
Ordinary shares of 50p each		20 000
Profit and loss account		<u>85 600</u>
		<u>105 600</u>

The directors of Nick Ltd have two major concerns.

- Despite making a profit, they are unable to pay a dividend due to a lack of cash.
- They feel that the balance sheet does not reflect the underlying strength of the business.

The directors intend to address these concerns by implementing the following.

- (1) Revaluing the land and buildings. They have been advised that the land and buildings should be valued at £200 000.
- (2) Rewarding the shareholders by making a bonus issue of shares. The issue would be on the basis of four new shares for every one share held. The directors want to maintain reserves in their most distributable form.
- (3) Issuing £80 000 of Debentures redeemable between 2018 and 2020. The proceeds of the issue would be used to buy new fixed assets for £35 000 and to repay the short-term loan. Any remaining amount would be used to reduce the overdraft.
- (4) Reducing the provision for doubtful debts to 2% of debtors.

**REQUIRED**

- (a) Prepare a revised balance sheet, assuming the directors carry out their intentions. *(20 marks)*
- (b) Discuss to what extent you think the directors have been successful in reflecting the strength of the business in the revised balance sheet. Use accounting ratios to support your answer. *(20 marks)*
- (c) Distinguish between the roles of the directors and the auditors in the preparation of the published accounts of a limited company. *(10 marks)*

**END OF QUESTIONS**

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