



ADVANCED GCE ACCOUNTING

Company Accounts and Interpretation

F004

Candidates answer on the Answer Booklet

OCR Supplied Materials:

- 8 page Answer Booklet

Other Materials Required:

- Calculators may be used

**Wednesday 27 January 2010
Morning**

Duration: 1 hour 30 minutes



INSTRUCTIONS TO CANDIDATES

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the spaces provided on the Answer Booklet.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- You must show the calculations leading to your answers.
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (*).
- In these two questions/sub-questions, you will be assessed on the quality of your written communication. In one of these questions, the focus will be on your ability to present numerical information legibly and in an appropriate accounting format. In the other, you will be assessed on the legibility and style of writing, the clarity and coherence of your arguments and the accuracy of your spelling, punctuation and grammar.
- This document consists of **8** pages. Any blank pages are indicated.



**A calculator may
be used for this
paper**

- 1 The following balances were extracted from the books of Medley plc on 31 October 2009.

	Dr £	Cr £
Purchases	875 000	
Sales		1 875 000
Stock 1 Nov 2008	67 500	
Discounts	9 000	3 750
Sales returns	7 000	
£1 ordinary shares		500 000
Ordinary share capital calls not paid	10 000	
Commission received		50 000
General administrative expenses	137 500	
General distribution costs	231 250	
Profit and loss	45 000	
Debtors	75 000	
Creditors		46 750
Office equipment	112 500	
Delivery vehicles	275 000	
Land and buildings	646 750	
Provision for depreciation of office equipment		37 500
Provision for depreciation of delivery vehicles		70 000
General reserve		112 500
Share premium		125 000
Bank	93 750	
Provision for doubtful debts		2 250
Salaries	237 500	
	<u>2 822 750</u>	<u>2 822 750</u>

Additional information.

- (i) The closing stock was valued at £69 375.
- (ii) General administrative expenses prepaid £4 375.
General distribution costs owing £3 500.
- (iii) Commission receivable of £1 500 is outstanding for the year.
- (iv) The provision for doubtful debts is to be maintained at £2 250.
- (v) An independent surveyor has revalued land and buildings to £812 500.
No entries have yet been made in the accounts. Land and buildings are not depreciated.
- (vi) Salaries are split equally between distribution costs and administrative expenses.
- (vii) Depreciation is to be provided as follows:
 - office equipment – 20% per annum on cost.
 - delivery vehicles – 20% per annum using the reducing balance method.
 Delivery vehicles are treated under distribution costs. Office equipment is split equally between distribution costs and administrative expenses.
- (viii) The directors recommend a transfer to the general reserve of £56 250 and an ordinary share dividend of £156 250.
- (ix) Corporation tax for the year is estimated at £81 250.

REQUIRED

- (a)* The Profit and Loss Account for the year ended 31 October 2009 and the Balance Sheet as at 31 October 2009 (in accordance with the minimum required for publication). **[33]**
- (b) (i) Explain **two** reasons why a company may decide to issue ordinary shares at a premium. **[4]**
- (ii) Evaluate the implications for Medley plc of using the share premium to make an issue of bonus shares to the ordinary share holders instead of paying a cash dividend. **[6]**

Total marks [43]

- 2 Grundy plc has an authorised share capital of 90 000 ordinary shares of £2 each. The directors decided to issue all the authorised capital at a premium of £0.50 per share as follows:

	£
Payable on application	0.60
Payable on allotment	1.50
First and final call	0.40

The issue was oversubscribed and applications were received for 120 000 shares. The directors decided to refund the application monies on 20 000 shares. The excess application monies received were held to reduce the sum payable on allotment. The balance of the allotment monies was paid in full.

On the first and final call, payment was received in full with the exception of one applicant who was allotted 1 000 shares for which no payment was received.

REQUIRED

- (a) The following ledger accounts to record the above transactions:

- | | |
|---------------------------------|-----|
| (i) Bank; | [4] |
| (ii) Application and Allotment; | [7] |
| (iii) Ordinary Share Capital; | [2] |
| (iv) Share Premium; | [2] |
| (v) First and Final Call. | [3] |

Balancing of the accounts is **not** required.

- (b) Explain each of the following sources of finance and recommend when the use of each source of finance would be appropriate for a company such as Grundy plc:

- long term loans
- overdraft
- factoring

[11]

Total marks [29]

3 The following are the summarised Balance Sheets for Bolt plc as at 31 October.

	2008	2009
	£	£
<i>Fixed Assets</i>		
Premises	1 875 000	2 750 000
Machinery	775 000	925 000
Motor vehicles	<u>300 000</u>	<u>268 750</u>
	2 950 000	3 943 750
<i>Current Assets</i>		
Stock	97 500	105 000
Debtors	70 000	82 500
Bank	<u>35 000</u>	<u>21 250</u>
	202 500	208 750
<i>Creditors: Amounts falling due in less than one year</i>		
Creditors	52 500	97 500
Corporation tax	47 500	—
Proposed dividend	<u>70 000</u>	<u>85 000</u>
	170 000	182 500
<i>Net current assets</i>	<u>32 500</u>	<u>26 250</u>
<i>Total assets less current liabilities</i>	<u>2 982 500</u>	<u>3 970 000</u>
<i>Capital and reserves</i>		
£1 Ordinary shares	2 250 000	2 875 000
Share premium	375 000	150 000
Revaluation reserve	—	875 000
General reserve	12 500	12 500
Profit and loss	<u>345 000</u>	<u>57 500</u>
	<u>2 982 500</u>	<u>3 970 000</u>

Additional information.

- (i) In August 2009 machinery costing £206 250 had been purchased. There were no disposals of machinery during the financial year.
- (ii) A motor vehicle with a book value of £25 000 had been sold in July 2009 for £3 750. This had been immediately replaced by a new motor vehicle costing £15 000.
- (iii) An interim dividend of £16 250 was paid in July 2009.
- (iv) Premises were revalued in June 2009.
- (v) On 1 August 2009 there was a bonus issue of one ordinary share for every ten held at this date. This was effected by using part of the share premium. Following the bonus issue, there was a new issue of ordinary shares.

REQUIRED

- (a) The Cash Flow Statement in accordance with good accounting practice for the year ended 31 October 2009. [22]
- (b) Bolt plc is considering an issue of debentures. Evaluate the implications to Bolt plc of an issue of debentures. [6]

Total marks [28]

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