OXFORD CAMBRIDGE AND RSA EXAMINATIONS
A2 GCE

F013/01/RB

ACCOUNTING

Company Accounts and Interpretation

MONDAY 8 JUNE 2015: Morning

RESOURCE BOOKLET

To be given to candidates at the start of the examination

DURATION: 1 hour 30 minutes plus your additional time allowance

MODIFIED ENLARGED

READ INSTRUCTIONS OVERLEAF

DC (SLM) 6103626919 113501/1

INSTRUCTIONS TO CANDIDATES

The information required to answer questions 1–3 is contained within this Resource Booklet.

INFORMATION FOR CANDIDATES

The quality of your written communication will be taken into account in marking your answers to the two questions/sub-questions marked with an asterisk (*).

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.

There will be adequate space to show your workings.

Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER / INVIGILATOR

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1 The following balances were extracted from the books of Andrew plc on 31 December 2014.

	£
Purchases	520 000
Sales	1 000 500
Stock 1 January 2014	92 000
Purchase returns	12 000
Sales returns	18 400
Discounts allowed	9 000
Discounts received	5 000
Commission received	15 000
General distribution costs	114 500
General administrative expenses	89 000
Rent receivable	8 700
Interest payable	13 000
Bad debts	17 000
Equipment at cost	650 000
Provision for depreciation – Equipment	290 000
Motor vehicles at cost	170 000
Provision for depreciation – Motor vehicles	58 000
Premises	450 000
£1.50 ordinary shares	300 000
Provision for doubtful debts	4 800
Debtors	185 000
Ordinary dividends paid	40 000

Additional information:

(i) The closing stock at 31 December 2014 was valued at £86 000.

(ii) Rent receivable owing £3500.

(iii) General distribution costs owing £2800. General administrative expenses prepaid £1200.

(iv) The provision for doubtful debts is to be provided as £1500 for a specific debt, plus 2% on the remaining debtors.

(v) On 1 July 2014 Andrew plc sold a motor vehicle, with a book value of £6000, for £4500. The original cost of the motor vehicle was £15 000. No entries have been made in the books of Andrew plc regarding this transaction.

(vi) On 1 April 2014 Andrew plc purchased equipment costing £20 000. This transaction was entered in the accounts on 1 April 2014.

(vii) Depreciation is to be provided as follows:

Equipment 20% per annum on cost

Motor vehicles 20% per annum reducing balance

Depreciation on equipment is apportioned 20% to administrative expenses and 80% to general distribution costs. Depreciation of motor vehicles is treated as a distribution cost. Depreciation is charged for each month of use, other than in the year of sale when no depreciation is charged.

(viii) Corporation tax for the year is estimated at £42 500.

REQUIRED

(a)* The Profit and Loss Account for the year ended 31 December 2014 (in accordance with the minimum required for publication). [21]

(b) The directors of Andrew plc are considering the possibility of either a rights issue of ordinary shares or a bonus issue of ordinary shares.

Assess the relative merits of a rights issue and a bonus issue. [8]

2 The following is an extract from the Balance Sheet of Ceri plc as at 31 December 2014.

	£
£0.25 Ordinary shares	300 000
5% £1 Preference shares	400 000
6% Long term loan	800 000

The above represent the capital employed of Ceri plc. Profit for the year ended 31 December 2014 before charging interest on the long term loan was £500 000. The preference share dividends will be paid in full.

Additional information:

Market price per ordinary share	£0.75
Ordinary dividend paid	15 pence per share

REQUIRED

(a) Calculate each of the following. (Where appropriate, calculations should be shown to two decimal places.)

(i) Earnings per share. [3]

(ii) Price earnings ratio. [3]

(iii) Dividend cover. [3]

(iv) Interest cover. [3]

(v) Return on capital employed. [3]

(b)* The directors of Ceri plc are considering increasing the long term loan from the bank by a further £700 000.

Discuss the implications of this proposal for the ordinary shareholders of Ceri plc. [12]

3 **The following details were taken from the records of Lisvane Ltd for the year ended 31 December 2014.**

(i) Tangible fixed assets at cost 1 January 2014 were:

	£
Land and buildings (Land £300 000)	**600 000**
Motor vehicles	**340 000**
Machinery	**220 000**

(ii) Depreciation as at 1 January 2014:

Land and buildings	**80 000**
Motor vehicles	**150 000**
Machinery	**75 000**

Lisvane Ltd depreciates fixed assets as follows:

Land is not depreciated

Buildings – 5% on cost

Motor vehicles – 20% per annum reducing balance

Machinery – 10% per annum on cost

Depreciation is charged for each month of ownership.

(iii) On 1 July 2014, land was revalued at £410 000.

(iv) A motor vehicle purchased on 1 January 2012 for £18 000 was sold for £5000 on 1 April 2014.

(v) Machinery purchased on 1 July 2012 for £50 000 was sold on 1 January 2014 for £12 000.

(vi) During the year the following assets were bought:

Machinery £15 000 on 1 July 2014

Motor vehicles £30 000 on 1 October 2014

REQUIRED

(a) The Schedule of Fixed Assets for the year ended 31 December 2014. [18]

(b) In the next five years Lisvane Ltd expects to make a substantial investment in developing a new product.

Discuss how development costs should be treated in final accounts. [6]

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