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Friday 9 June 2017 – Afternoon

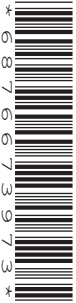
A2 GCE ACCOUNTING

F013/01/RB Company Accounts and Interpretation

RESOURCE BOOKLET

To be given to candidate at the start of the examination

Duration: 1 hour 30 minutes



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.
- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

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- 1 On 31 December 2016 the following balances were extracted from the books of Paver Ltd.

	£
Stocks at 1 January 2016:	
Raw materials	92 000
Work in progress	117 500
Finished goods	118 400
Purchases of raw materials	930 000
Direct wages	498 000
Carriage on raw materials	5 400
Purchase returns on raw materials	26 900
Indirect wages	129 400
Sales	3 320 000
Commission received	36 000
Debtors	162 000
Sales returns	41 200
Rates and insurance	63 000
General factory overheads	174 300
Loan interest	7 500
Office salaries	193 000
General office expenses	124 500
Factory machinery	370 000
Motor vehicles	150 000
Provision for depreciation – factory machinery	75 000
Provision for depreciation – motor vehicles	45 000
Land and buildings	1 700 000
Revaluation reserve	400 000
Long term 5% loan	300 000
Provision for doubtful debts	8 100

Additional information:

- (i) Stocks at 31 December 2016:

Raw materials	£66 000
Work in progress	£146 000
Finished goods	£83 600

- (ii) Rates and insurance owing £5000.
Rates and insurance are apportioned 4/5 factory and 1/5 general office.

- (iii) On 1 October 2016, machinery costing £30 000 was purchased.

- (iv) Provision is to be made for depreciation as follows:

Machinery 20% reducing balance method. All machinery is used for manufacturing. Machinery is depreciated for each month of use.

Motor vehicles 20% reducing balance method, apportioned 3/4 factory and 1/4 general office.

Land and buildings are not depreciated.

- (v) Loan interest is owing from 1 July 2016.
- (vi) A customer owing £11 000 has now been declared bankrupt and this debt must be written off in the accounts for the year ended 31 December 2016. A provision for doubtful debts of 2.5% is to be provided on the remaining debtors.

REQUIRED

- (a)* The Manufacturing and Trading and Profit and Loss Account for the year ended 31 December 2016 (internal use). **[24]**
- (b) Explain **two** reasons why Paver Ltd has created a revaluation reserve. **[4]**

2 The following are the summarised Balance Sheets of Taylor plc as at 31 December.

	2015		2016	
	£	£	£	£
<i>Fixed Assets</i>				
Buildings		810 000		1 012 500
Machinery		270 000		607 500
Motor vehicles		<u>67 500</u>		<u>144 450</u>
		1 147 500		1 764 450
<i>Current Assets</i>				
Stock	36 000		44 100	
Debtors	27 900		29 250	
Bank	<u>9 900</u>		<u>25 650</u>	
	73 800		99 000	
<i>Creditors: amounts falling due in less than 1 year</i>				
Creditors	31 500		26 100	
Corporation tax	<u>36 450</u>		<u>50 850</u>	
	67 950		76 950	
<i>Net current assets</i>		<u>5 850</u>		<u>22 050</u>
<i>Total assets less current liabilities</i>		<u>1 153 350</u>		<u>1 786 500</u>
<i>Capital and Reserves</i>				
£0.50 Ordinary shares		900 000		1 125 000
Share premium		90 000		292 500
Revaluation reserve		99 000		301 500
General reserve		27 000		27 000
Profit and loss		<u>37 350</u>		<u>40 500</u>
		<u>1 153 350</u>		<u>1 786 500</u>

Additional information:

- (i) Taylor plc re-valued the buildings on 1 March 2016.
- (ii) The total depreciation provision incorporated in the Balance Sheets for machinery was £60 750 at 31 December 2015 and £72 000 at 31 December 2016. There were no disposals of machinery during the year ended 31 December 2016.
- (iii) A motor vehicle with a book value of £23 850 had been sold during April 2016 for £26 100. Taylor plc purchased new motor vehicles for £112 500 on 1 April 2016.

REQUIRED

- (a) For Taylor plc the Cash Flow Statement for the year ended 31 December 2016. [18]
- (b)* It is a requirement of FRS 18 that a company should disclose the accounting policies which it had used for the financial year. Discuss why according to FRS 18 this is important for the shareholders of Taylor plc. [14]

- 3 The following is a summary of the final accounts of Dunbar plc for the year ended 31 December 2016.

Profit and Loss Account

	£	£
Turnover		600 000
Cost of sales		<u>360 000</u>
Gross Profit		240 000
Distribution costs	32 000	
Administrative expenses	<u>48 000</u>	<u>80 000</u>
Operating Profit		160 000
Interest payable		<u>10 000</u>
Profit before tax		150 000
Corporation tax		<u>30 000</u>
Profit after tax		120 000
Profit and loss brought forward		<u>20 000</u>
		140 000
Ordinary dividend paid	90 000	
Transfer to reserves	<u>27 500</u>	<u>117 500</u>
Retained Profit		<u><u>22 500</u></u>

Balance Sheet

	£	£
<i>Fixed Assets (net)</i>		540 000
<i>Current Assets</i>		
Stock	90 000	
Debtors	54 000	
Bank	<u>36 000</u>	
	180 000	
<i>Creditors: Amounts due in less than one year</i>		
Creditors	123 750	
Taxation	<u>30 000</u>	
	153 750	
<i>Net Current Assets</i>		<u>26 250</u>
		566 250
<i>Creditors: Amounts due in more than one year</i>		
Long term loans 5%		<u>225 000</u>
		<u>341 250</u>
<i>Capital and Reserves</i>		
£1 Ordinary shares		225 000
General reserve		93 750
Retained profit		<u>22 500</u>
		<u><u>341 250</u></u>

The current market value of an ordinary share is £2.50 per share.

REQUIRED

(a) Calculate **each** of the following ratios (where appropriate calculations should be to **two** decimal places).

(i) Sales to capital employed [2]

(ii) Interest cover [3]

(iii) Dividend cover [3]

(iv) Gearing ratio [3]

(v) Dividend yield [3]

(b) Discuss **two** ways in which Dunbar plc could improve its liquidity. [6]



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