

OCR

Oxford Cambridge and RSA

Friday 10 June 2016 – Afternoon

A2 GCE ACCOUNTING

F013/01/RB Company Accounts and Interpretation

RESOURCE BOOKLET

To be given to candidates 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.
- There will be adequate space to show your workings.
- This document consists of **8** pages. Any blank pages are indicated.

INSTRUCTION TO EXAMS OFFICER/INVIGILATOR

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1 The following balances were extracted from the books of Ridley plc on 31 May 2016.

	Dr	Cr
	£	£
Stocks at 1 June 2015:		
Raw materials	52 000	
Work in progress	63 000	
Finished goods	71 500	
Purchase of raw materials	970 000	
Carriage inwards on raw materials	18 000	
Direct wages	165 000	
Direct expenses	40 000	
Indirect wages	85 600	
Debtors	80 000	
Creditors		172 225
Sales		2 187 550
Plant and machinery at cost	240 000	
Provision for depreciation of plant and machinery		68 000
General administrative expenses	480 000	
Carriage outwards	18 000	
Provision for doubtful debts		2 800
General reserve		65 000
£1 Ordinary shares		250 000
Ordinary dividend paid	50 000	
Rates and insurance	30 000	
Rent received		28 000
Provision for unrealised profit		6 500
Loan interest	3 750	
5% Loan (2012 – 2020)		150 000
Bank		25 000
Factory overheads	88 225	
Premises	500 000	
	<u>2 955 075</u>	<u>2 955 075</u>

Additional information:

(i) Stocks as at 31 May 2016:	£
Raw materials	28 000
Work in progress	33 500
Finished goods	88 000

The company transfers finished goods from the factory to the Trading Account at cost plus 10% manufacturing profit. Provision is to be made for unrealised profit on the stock of finished goods at 31 May 2016 (to be maintained to the nearest £).

- (ii) Plant and machinery is used only in the factory. Plant and machinery with a value of £60 000 had been purchased on 1 March 2016. Depreciation is to be provided for using the reducing balance method at a rate of 20% per annum. Depreciation is charged for each month of use. No depreciation is charged on premises.
- (iii) Rent received of £5200 is paid in advance at 31 May 2016.
- (iv) Rates of £6500 are owing at 31 May 2016. Rates and insurance are apportioned between factory and administration on the basis of 75:25.
- (v) Indirect wages of £7400 are owing at 31 May 2016.
- (vi) The directors have decided to allocate a specific provision for doubtful debts of £1800 and a 5% provision on the remainder of the debtors.
- (vii) Corporation tax is estimated at £125 000.
- (viii) The directors have recommended a transfer to general reserve of £40 000.

REQUIRED

*The Manufacturing, Trading and Profit and Loss Account for Ridley plc for the year ended 31 May 2016 (for internal use). **[28]**

- 2 The following is a summary of the final accounts for Cooper plc for the year ended 31 March 2016.

Profit and Loss Account for year ended 31 March 2016

	£	£
Turnover		820 000
Cost of sales		<u>370 000</u>
Gross profit		450 000
Distribution costs	85 000	
Administrative expenses	<u>111 000</u>	<u>196 000</u>
Operating profit		254 000
Interest payable		<u>20 000</u>
Profit before tax		234 000
Corporation tax		<u>45 000</u>
Profit after tax		189 000
Ordinary dividends paid	60 000	
Transfer to reserves	<u>50 000</u>	<u>110 000</u>
Retained profit		<u><u>79 000</u></u>

Balance Sheet as 31 March 2016

	£	£
<i>Fixed Assets</i>		900 000
<i>Current Assets</i>		
Stock	150 000	
Debtors	40 000	
Bank	<u>50 000</u>	
	240 000	
<i>Creditors: Amounts due in less than 1 year</i>		
Creditors	125 000	
Taxation	<u>45 000</u>	
	170 000	
<i>Net Current Assets</i>		70 000
<i>Creditors: Amounts due in more than 1 year</i>		
5% Bank loan		400 000
		<u>570 000</u>
<i>Capital and Reserves</i>		
£1 Ordinary Shares		300 000
Share Premium		150 000
General Reserve		41 000
Retained Profit		<u>79 000</u>
		<u><u>570 000</u></u>

The current market price is £2.50 per ordinary share.

REQUIRED

- (a) Calculate **each** of the following. (Where appropriate, calculations should be to **two** decimal places.)
- (i) Return on capital employed [2]
 - (ii) Sales to capital employed [2]
 - (iii) Liquid ratio [2]
 - (iv) Interest cover [2]
 - (v) Dividend cover [2]
 - (vi) Gearing ratio [2]
 - (vii) Dividend yield [3]
- (b)* Explain the significance of the liquid ratio to Cooper plc. Discuss how Cooper plc could improve its liquidity position. [10]

- 3 Clayton plc has an authorised share capital of 5 000 000 ordinary shares at £0.50 each. As at 1 March 2016 it had already issued 3 000 000 fully paid ordinary shares at par.

Clayton plc had decided to offer to the public a further 1 000 000 ordinary shares at £1.25 each. The terms of the issue are £0.80 payable on application, £0.30 on allotment and £0.15 on the first and final call.

On 1 April 2016 applications had been received for 1 500 000 shares, and on 20 April 2016 applications for 200 000 shares were rejected. The money was returned to the unsuccessful applicants. The remainder of the excess application money was retained and set off on a pro-rata basis against the amount due on allotment. The remainder of the allotment money was received on 29 April 2016.

On 16 May 2016 all the call money was received, except for the amount owing on 5000 shares.

REQUIRED

- (a) Prepare journal entries to record the new share issue (dates and narratives not required). **[16]**
- (b) Explain the term 'authorised share capital'. **[3]**
- (c) Clayton plc is considering the possibility of an issue of preference shares. Discuss **two** advantages and **two** disadvantages of this option for a plc. **[8]**

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