

**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

**Friday 5 June 2009****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 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.
- The total number of marks for this paper is **100**.
- This document consists of **8** pages. Any blank pages are indicated.



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

- 1 On 28 February 2009 the following balances were extracted from the books of Keith Manufacturing Ltd.

Stock 1 March 2008:

|   | £         |
|---|-----------|
| Raw materials                           | 46 000    |
| Work in progress                        | 32 500    |
| Finished goods                          | 60 000    |
| Purchases of raw materials              | 720 000   |
| Direct wages                            | 180 000   |
| Indirect wages                          | 90 000    |
| Sales                                   | 1 750 000 |
| Debtors                                 | 84 000    |
| Sales returns                           | 26 000    |
| Rent and rates                          | 54 000    |
| Bad debts                               | 7 000     |
| Loan interest paid                      | 2 000     |
| Insurance                               | 5 300     |
| Office expenses                         | 27 500    |
| Office salaries                         | 110 000   |
| Premises                                | 520 000   |
| Provision for depreciation of premises  | 27 000    |
| Equipment                               | 120 000   |
| Provision for depreciation of equipment | 48 000    |
| Provision for unrealised profit         | 5 455     |
| Loan (5% interest per annum)            | 80 000    |
| Provision for doubtful debts            | 3 800     |

Additional information.

- (i) Stock as at 28 February 2009:

|                  |         |
|------------------|---------|
| Raw materials    | £53 000 |
| Work in progress | £57 250 |
| Finished goods   | £66 000 |

The business transfers finished goods from the factory to the trading account at cost plus 10% profit on manufacturing. The provision for unrealised profit on finished goods at 28 February 2009 is £6 000.

- (ii) The loan was taken out on 1 March 2008.
- (iii) The provision for doubtful debts is to be £4 500.
- (iv) Rent of £6 000 is outstanding. Rent and rates are apportioned between the factory and the office on the basis of 3:1.
- (v) Insurance which includes a prepayment of £300 is apportioned between the factory and the office on the basis of 3:1.
- (vi) Depreciation is to be provided as follows:
- equipment 20% per annum on cost apportioned between the factory and the office on the basis of 5:1;
  - premises 5% per annum on cost apportioned between the factory and the office on the basis of 3:1.
- (vii) Keith Wiggins, the majority shareholder, and managing director paid £2 800 from office expenses for his family's holiday. No adjustment has been made in the accounts for this transaction.

**REQUIRED**

- (a)\* The Manufacturing, Trading and Profit and Loss Account for the year ended 28 February 2009. **[28]**
- (b) Explain why Keith Manufacturing Ltd should maintain a provision for unrealised profit in its accounts. **[4]**
- (c) Discuss why it is important that Keith Manufacturing Ltd should have an Independent Auditors Report. **[8]**

**Total marks [40]**

- 2 North Cliff plc is planning to finance further expansion through the issue of shares and bank borrowing. It has an authorised share capital of 2 000 000 ordinary shares at £0.50 each. North Cliff plc has decided to issue 650 000 ordinary shares at a premium of £0.80 per share as follows:

|                        | £    |
|------------------------|------|
| Payable on application | 0.30 |
| Payable on allotment   | 0.70 |
| First call             | 0.10 |
| Final call             | 0.20 |

North Cliff plc received applications for 750 000 shares. All of the excess application money was offset against the amount required on allotment. The amount required on first call was received in full. All the final call money was received, except for the amount due on 70 000 shares.

### REQUIRED

- (a) Journal entries to record this issue of shares. (Narratives are not required.) [18]
- (b) Evaluate why North Cliff plc would finance its expansion through bank borrowing as well as the issue of shares. [10]

**Total marks [28]**

3 The Balance Sheets for Talbot plc as at 31 March 2008 and 2009 are shown below.

|   | 2008<br>£        | 2009<br>£        |
|---|------------------|------------------|
| <i>Fixed Assets</i>                                 |                  |                  |
| Premises  | 750 000          | 950 000          |
| Machinery   | 230 000          | 470 000          |
| Vehicles  | <u>180 000</u>   | <u>163 000</u>   |
|   | 1 160 000        | 1 583 000        |
| <i>Current Assets</i>                               |                  |                  |
| Stock   | 170 000          | 174 000          |
| Debtors   | 146 000          | 144 000          |
| Bank  | <u>123 000</u>   | <u>74 000</u>    |
|   | 439 000          | 392 000          |
| <i>Creditors: amounts due in less than one year</i> |                  |                  |
| Creditors   | 60 000           | 72 000           |
| Corporation tax                                     | 80 000           | 86 000           |
| Proposed ordinary share dividends                   | <u>120 000</u>   | <u>130 000</u>   |
|   | 260 000          | 288 000          |
| <i>Net Current Assets</i>                           | <u>179 000</u>   | <u>104 000</u>   |
| <i>Total Assets less Current Liabilities</i>        | <u>1 339 000</u> | <u>1 687 000</u> |
| <i>Capital and Reserves</i>                         |                  |                  |
| £1 Ordinary shares fully paid                       | 900 000          | 1 000 000        |
| Share premium                                       | 200 000          | 225 000          |
| Revaluation reserve                                 | –                | 200 000          |
| General reserve                                     | 180 000          | 230 000          |
| Profit and Loss                                     | <u>59 000</u>    | <u>32 000</u>    |
|   | <u>1 339 000</u> | <u>1 687 000</u> |

Additional information.

- (i) On 1 January 2009 machinery costing £285 000 had been purchased. There were no disposals of machinery.
- (ii) A vehicle with a book value of £3 200 had been sold on 1 February 2009 for £2 000. A new vehicle had been purchased on this date costing £8 000.
- (iii) The revaluation reserve represents a revaluation of premises during the year ended 31 March 2009.

## REQUIRED

- (a) The Cash Flow Statement in accordance with FRS1 for the year ended 31 March 2009. [22]
- (b)\* Discuss why a Cash Flow Statement would be important to a prospective investor in a company. [10]

**Total marks [32]**





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