General Certificate of Education
January 2004
Advanced Level Examination

ACCOUNTING **ACC6**
Unit 6: Published Accounts of Limited Companies and Accounting Standards

Monday 19 January 2004 Morning Session

In addition to this paper you will require:
an answer book for Accounting.
You may use a calculator.

Time allowed: 1 hour 15 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is ACC6.
- Answer **all** questions.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Make and state any necessary assumptions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 105. This includes up to 5 marks for the Quality of Written Communication.
- Mark allocations are shown in brackets.
- Question 4 is the synoptic question which assesses your understanding of the different aspects of Accounting.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

Answer **all** questions.

1 **Total for this question:** ***12 marks***

REQUIRED

(a) Explain **two** reasons why public limited companies publish their accounts. *(6 marks)*

(b) Discuss **two** limitations for potential investors of using published accounts. *(6 marks)*

2 **Total for this question:** ***16 marks***

"Enterprise Inns surprised the stock market by announcing the £875 million acquisition of 1860 pubs from the Laurel Pub Company. The deal is to be part funded by a £295 million rights issue. The rights issue is at 412p, a 49% discount to the share price."

Source: adapted from *Times online*, 13 April 2002

REQUIRED

(a) Define a rights issue of shares. *(4 marks)*

(b) Explain the phrase "a 49% discount to the share price". *(2 marks)*

(c) Explain why rights issues of shares are frequently offered at a discounted price. *(4 marks)*

(d) Assess the relative merits of a rights issue of shares and a public issue of shares as a means of raising finance. *(6 marks)*

3 **Total for this question:**

Shewley Begom is considering investing £25 000 in the ordinary shares of Ajit plc. You have obtained following ratios for the last 5 years.

Ratio	31 October 1999	31 October 2000	31 October 2001	31 October 2002	31 October 2003
Earnings per share	20p	20p	20p	20p	20p
Dividend per share	10p	10p	10p	10p	10p
Dividend yield	5%	5.56%	6.25%	10%	12.5%
Price earnings ratio	10	9	8	5	4

REQUIRED

(a) Calculate the market price of an ordinary share at 31 October 2003. *(4 marks)*

(b) Calculate the total annual dividend Shewley would receive if she invests in the ordinary shares, assuming the dividend per share remains constant. *(4 marks)*

(c) Advise Shewley, based on the ratios and the calculations in (a) and (b), whether she should invest in the shares. *(8 marks)*

(d) Evaluate **two** limitations of using ratios to make investment decisions. *(6 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ▶

4 **Total for this question:**

The assistant accountant of Hughes Hotels plc is in the process of preparing the draft final accounts the year ended 30 November 2003. The figures shown below have been extracted after completion of the trading account.

	£ 000
Freehold land and buildings at cost	15 000
Other fixed assets	8 085
Provision for depreciation – fixed assets	585
Intangible asset – Brand name	7 500
Debtors	550
Stock	865
Bank overdraft	200
Creditors	655
Gross profit	66 010
Administration expenses	16 850
Marketing expenses	28 580
Financial costs	2 265
Depreciation for this year	685
Ordinary shares of £1 each	10 000
Profit and loss account	2 245

In the process of checking the books, the following were discovered.

1 The intangible asset has been created this year following instructions from the Marketing Director. The company has spent £10 million establishing its brand name. The Marketing Director has commissioned a marketing company to research the brand name. Research shows that the brand name is widely recognised and it is now worth £7.5 million.

2 External valuers have valued the freehold property at a valuation of £25 million. This valuation has not been included in the books to date. In previous years no depreciation has been provided on the property as the company has always maintained it to the highest standard. Other similar companies provide depreciation at the rate of 2% per annum based on cost.

3 The closing stock contained merchandise which had cost £20 000. The merchandise is now out of fashion and cannot be sold for the expected £50 000. The estimate is that it will realise £25 000.

REQUIRED

(a) Prepare the profit and loss account and balance sheet, for internal use, after making adjustments for items 1–3, where appropriate. *(20 marks)*

(b) For **each** item, 1–3 on the previous page, state the Accounting Standard involved and explain the correct accounting treatment for each item. *(15 marks)*

The directors have been advised that despite making a profit there is no cash to pay a dividend this year.

REQUIRED

(c) Explain, giving examples, why despite making a profit a business may have a shortage of cash. *(10 marks)*

(d) Evaluate **one** source of finance that Hughes Hotels plc could use to pay the dividend. *(5 marks)*

END OF QUESTIONS