

General Certificate of Education
June 2004
Advanced Level Examination

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

Friday 25 June 2004 Afternoon 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 3 is the synoptic question which assesses your understanding of the relationship between 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: 30 marks

The Financial Accountant of Adagio plc is in the process of drafting the final accounts for the year ended 30 April 2004. She has provided the following information for the preparation of a cash flow statement.

	£000
Decrease in creditors	1787
Decrease in debtors	986
Decrease in stocks	48
Depreciation	3490
Equity dividends paid	299
Loss on the disposal of fixed assets	58
Operating loss for year	2127
Payments to acquire fixed assets	1795
Receipts from the sale of fixed assets	818
Taxation paid	278

REQUIRED

- (a) Prepare a “reconciliation of operating profit/loss to the cash inflow/outflow from operating activities”. *(9 marks)*
- (b) Prepare a draft cash flow statement. Use the format given in FRS 1. *(11 marks)*
- (c) Explain to what extent a cash flow statement is essential in judging the financial performance of a company. *(10 marks)*

2

Total for this question: 20

“The objective of financial statements is to provide information about the financial performance of an enterprise that is useful to a wide range of users for making economic decisions.”

Source: Statement of Principles, Accounting Standards Board

The Accounting Standards Board also identifies the following limitations:

- financial statements do not focus on the significance of the non-financial effects of transactions or non-financial information in general;
- financial statements provide information that is largely historical and therefore do not reflect future events or transactions.

REQUIRED

- (a) Explain how a potential investor would use earnings per share (EPS), given in financial statements, in making investment decisions. *(4 marks)*
- (b) Explain **each** of the **two** limitations of financial statements given above. *(8 marks)*
- (c) Discuss the impact that **each** of the **two** limitations might have on potential investors. *(8 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

3

Total for this question: 56

On 15 March 2004, Ian inherited 50 000 ordinary shares in Fitfirst plc, a health and fitness company. He is unsure whether he should keep the shares or sell them and has asked for advice.

He has provided the latest published profit and loss account and balance sheet.

Fitfirst plc

Profit and loss account for the year ended 31 March 2004	£000	Balance sheet as at 31 March 2004	£000
Turnover	69 144	Fixed Assets	
Cost of sales	(5 253)	Tangible fixed assets	240 178
Gross profit	<u>63 891</u>	Current Assets	
Administrative expenses	(50 524)	Stock	403
Operating profit	<u>13 367</u>	Debtors	11 141
Net interest payable	(2 448)	Cash at bank and in hand	1 870
Profit on ordinary activities before taxation	<u>10 919</u>		<u>13 414</u>
Tax on profit on ordinary activities	(1 986)	Creditors: amount falling due within one year	<u>(77 981)</u>
Profit on ordinary activities after taxation	<u>8 933</u>	Net Current Liabilities	<u>(64 567)</u>
Dividends	(4 553)		
Retained profit for the financial year	<u><u>4 380</u></u>	Total Assets less Current Liabilities	175 611
		Creditors: amount falling due after more than one year	<u>(28 412)</u>
Earnings per share	5.5831p	Net Assets	<u><u>147 199</u></u>
		Capital and Reserves	
		Called-up share capital	40 000
		Share premium	73 466
		Profit and loss account	33 733
		Equity shareholders' funds	<u><u>147 199</u></u>

Additional information

- (1) The called-up share capital is 160 000 000 ordinary shares of 25p each.
- (2) Since the publication of the accounts, the directors have made a bonus issue of shares on the basis of one share for every four held. They have retained their reserves in the most distributable form.
- (3) The average market price for one ordinary share for the last year was 80p. Since the bonus issue it has fallen to 60p per share.

REQUIRED

- (a) Prepare an extract from the balance sheet to show the effect of the bonus issue on the Capital and Reserves section. *(4 marks)*
- (b) Calculate the following ratios (to two decimal places). State the formulae used.
- Gross profit margin
Net profit margin
Return on capital employed
Net current asset ratio (Current ratio)
Liquid capital ratio (Acid test ratio) *(10 marks)*
- (c) Calculate the following ratios, taking into account the bonus issue of shares (to two decimal places). State the formulae used.
- Dividend per share
Dividend yield *(6 marks)*
- (d) Assess the profitability and liquidity of the business, based on the ratios calculated in (b). *(10 marks)*
- (e) Explain **three** limitations of using ratios when making investment decisions. *(10 marks)*
- (f) Advise Ian whether or not he should sell the shares. *(10 marks)*

END OF QUESTIONS

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