General Certificate of Education
June 2007
Advanced Level Examination

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

Friday 15 June 2007 9.00 am to 10.15 am

For this paper you must have:
• 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 to be marked.

Information

- The maximum mark for this paper is 105.
  Five of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Question 3 is the synoptic question which assesses your understanding of the relationship between the different aspects of Accounting.

Answer **all** questions.

Total for this question: 20 marks

1 The share capital and reserves sections from the balance sheets of two companies are shown below.

	Rites plc	Bonus plc
Share capital and reserves	**£000**	**£000**
Issued ordinary shares of 25p each	4 000	2 000
Share premium account	5 000	5 000
Revaluation reserve	3 000	3 000
Profit and loss account	256	256
	12 256	10 256

Immediately after these balance sheet extracts were prepared, the following occurred.

(1) The directors of Rites plc declared a rights issue of ordinary shares on the basis of one share for every two held at a premium of 10p per share. The rights issue was fully subscribed.

(2) The directors of Bonus plc restructured the balance sheet by making a bonus issue on the basis of four shares for every one held. The directors maintained the reserves in their most distributable form.

REQUIRED

(a) Prepare the share capital and reserves section of the balance sheet of Rites plc to show the effect of the rights issue. *(10 marks)*

(b) Prepare the share capital and reserves section of the balance sheet of Bonus plc to show the effect of the bonus issue. *(10 marks)*

Total for this question:

2

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REQUIRED

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

(b) Explain, with reference to FRS 10, the general accounting treatment of intangible assets and also the specific treatment of the Kronenbourg brand in **Extract 1**. *(8 marks)*

(c) Explain why, in **Extract 2**, a company can declare a dividend payment despite incurring a loss. *(4 marks)*

(d) Outline, with reference to FRS 15, the accounting treatment of fixed assets and explain the depreciation policies of UK COAL PLC given in **Extract 2**. *(12 marks)*

Turn over ▶

Total for this question:

3 Harry and Jim are the only shareholders of Ston Ltd. The business is run by the manager, Mr Woodward.

Harry and Jim have just received the final accounts of Ston Ltd for the year ended 31 December 2006. They are concerned about the performance of the business. Despite the company making a profit, and Harry and Jim investing more capital in the business, the balance sheet shows that the company's bank balance has fallen from £16 700 at 31 December 2005 to an overdraft of £20 at 31 December 2006.

The following information is available.

Liquidity ratios at 31 December 2005

Current ratio	1.57:1
Acid test ratio	1.36:1
Debtors' collection period	45 days
Stock turnover	7.5 times

Summarised profit and loss account
for the year ended 31 December 2006

	£
Turnover	120 000
Cost of sales	40 000
Gross profit	80 000
Operating expenses	60 482
Net profit	19 518

The information continues on the next page

Balance sheets	at 31 December 2006	at 31 December 2005
	£	£
Fixed assets	188 250	186 500
Current assets		
Stock	8 760	5 600
Debtors	24 528	18 780
Bank		16 700
	33 288	41 080
Creditors: amounts falling due within one year		
Creditors	13 500	18 080
Proposed dividends	2 000	4 000
Taxation	2 000	4 000
Bank	20	
	17 520	26 080
Net current assets	15 768	15 000
Total assets less current liabilities	204 018	201 500
Creditors: amounts falling due after more than one year		
Bank loans	31 000	69 000
Net assets	173 018	132 500
Share capital and reserves		
Ordinary shares of £1 each fully paid	120 000	100 000
Share premium	20 000	15 000
Profit and loss account	33 018	17 500
	173 018	132 500

REQUIRED

(a) Calculate the following ratios for the year ended 31 December 2006. State the formulae used.

(i) Gross profit margin
(ii) Net profit margin
(iii) Return on capital employed
(iv) Current ratio
(v) Acid test ratio
(vi) Debtors' collection period
(vii) Stock turnover.

(16 marks)

(b) Calculate the gearing ratios at 31 December 2005 and at 31 December 2006. State the formula used. *(3 marks)*

Turn over ▶

Cash flow statement for the year ended 31 December 2006

	£	£
Net cash flow from operating activities		21 780
Returns on investment and servicing of finance		
Interest paid		(3 500)
Taxation		(4 000)
Capital expenditure and financial investment		
Payment to acquire fixed assets		(14 000)
Equity dividends paid		(4 000)
Cash flow before the use of liquid resources		(3 720)
Financing		
Issue of share capital	25 000	
Repayment of loans	(38 000)	(13 000)
Decrease in cash		(16 720)

REQUIRED

(c) Write a report to Harry and Jim: *(Report format: 2 marks)*

(i) analysing the cash flow statement for the year ended 31 December 2006; *(9 marks)*

(ii) assessing the financial performance of the business, using the ratios given and those calculated in (a) and (b). *(20 marks)*

END OF QUESTIONS

There are no questions printed on this page

There are no questions printed on this page

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