

Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										



General Certificate of Education
Advanced Subsidiary Examination
January 2012

Accounting

ACCN2

Unit 2 Financial and Management Accounting

Monday 16 January 2012 9.00 am to 10.30 am

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- 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 this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
Four of these marks will be awarded for:
 - using good English
 - organising information clearly
 - using specialist vocabulary where appropriate.

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
4	
TOTAL	



J A N 1 2 A C C N 2 0 1

Answer **all** questions in the spaces provided

1

Total for this question: 8 marks

Techserv sells computers and also offers a repair and maintenance service.

The owner of *Techserv* has recently invested in a new computerised payroll and budgeting system to improve the business's own financial systems.

During the financial year ended 31 December 2011, the following transactions took place.

- (1) Computers costing £120 000 were purchased for resale. However, some of these computers, costing £20 000 in total, were used for the new payroll and budgeting system.
- (2) The maintenance and repair engineers were paid a total of £84 860 for the year. This included time spent setting up and installing the new payroll and budgeting system. Their wages for this work amounted to £8400.
- (3) Training costs for the staff who operate the new payroll and budgeting system amounted to £6840.
- (4) An insurance policy to minimise any losses caused by a failure of the new payroll and budgeting system was taken out on 1 November 2011. The policy cost £2400 for the year to 31 October 2012.

1 (a) Define the term 'capital expenditure'.

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(2 marks)



This image shows a full page of white paper with ten horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and extend across the entire width of the page. There is no text or other markings on the paper.

Workings

Turn over ►



2

Total for this question: 29 marks

Harry Knight opened his business on 1 October 2010 with capital of £21 000. He has drafted an income statement (trading and profit and loss account) for his first year of trading, which contains errors.

**Income statement (trading and profit and loss account)
at 30 September 2011**

	£	£
Revenue (sales)		104 896
Purchases	72 468	
Closing inventory (stock)	14 682	
		87 150
Gross profit		17 746
Less expenses		
Wages	20 748	
Drawings	22 560	
Rent	5 200	
Insurance	3 481	
General expenses	2 786	
Fixtures at cost at 1 October 2010	12 500	
		67 275
Net Loss		(49 529)

The following additional information was overlooked when preparing the draft income statement (trading and profit and loss account).

- (1) The purchase of fixtures costing £8500 had been included in the purchases figure.
- (2) Goods to the value of £3895 were taken for Harry Knight's own use.
- (3) On 30 September 2011, Harry carried out a physical stocktake. Some goods which had originally cost £2800 had been damaged. These goods could be repaired at a cost of £580 and could then be sold for £3200.
- (4) Wages of £399 were owing at 30 September 2011.
- (5) Insurance of £489 was paid in advance at 30 September 2011.
- (6) Harry has been advised that depreciation on fixtures should be provided. He will use the reducing balance method at a rate of $33\frac{1}{3}\%$ per annum. A full year's depreciation should be provided in the year of acquisition.
- (7) Harry has also been advised to make a provision for doubtful debts of 5% of trade receivables (debtors). Trade receivables (debtors) at 30 September 2011 were £18 760.



Prepare a corrected income statement (trading and profit and loss account) for the year ended 30 September 2011. Take into account the additional information. Space for workings is provided on page 6.

[illegible]

Turn over ►



[illegible]

2 (b) Calculate the business's capital at 30 September 2011.

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(4 marks)

Workings

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29

Turn over for the next question

Turn over ►



3

Total for this question: 32 marks

The directors of *Cranston plc* intend to raise £20 million to improve the liquidity of the company and to finance expansion. They are considering two options:

Option (1) Issue £20 million of 7.5% debentures repayable between the years 2032 and 2034

Option (2) Issue 40 million ordinary shares at an issue price of 50p per share.

The equity (capital and reserves) section of the balance sheet at 30 November 2011 is shown below.

Equity (capital and reserves)	£
Ordinary shares	10 000 000
Share premium	2 500 000
Revaluation reserve	585 000
Retained earnings	2 002 595
	<u>15 087 595</u>

Additional information

- (1) The ordinary shares have a nominal value of 20p each.
- (2) At present, the company does not have any non-current (long-term) liabilities.
- (3) Profit after tax for the year ended 30 November 2011 was £2 000 000.

3 (a) Calculate the interest to be paid each year if the debentures are issued.

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(2 marks)



- 3 (b)** Calculate the gearing ratio if the debentures are issued. State the formula used.

Formula

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Calculation

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(4 marks)

- 3 (c)** Prepare the equity section of the balance sheet if the directors choose to issue ordinary shares. Assume that the share issue is fully subscribed.

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(6 marks)

Extra space

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The company has paid an annual dividend of 3p per share for the past five years.

- 3 (d)** Calculate the annual dividend to be paid if the directors issue the shares and maintain the dividend at 3p per share.

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(4 marks)

- 3 (e)** Analyse the impact on the liquidity and profitability of *Cranston plc* if the directors choose:

- (i) Option 1 Issue £20 million of 7.5% debentures repayable between the years 2032 and 2034
- (ii) Option 2 Issue 40 million ordinary shares at an issue price of 50p per share.

(i) Option 1

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(ii) Option 2

(16 marks)

(includes 2 marks for quality of written communication)

32

Turn over ►



4**Total for this question: 11 marks**

The following information has been taken from the books of account of *Singara Ltd.*

At 31 December 2011:

	£
Trade receivables (debtors)	265 090
Trade payables (creditors)	82 067

For the year ended 31 December 2011:

	£
Credit sales	2 150 175
Cash sales	85 621
Credit purchases	998 500
Cash purchases	75 685

4 (a) Calculate the receivable days ratio (debtor collection period). State the formula used.

Formula

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Calculation

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(2 marks)



4 (b) Calculate the payable days ratio (creditor payment period). State the formula used.

Formula

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Calculation

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(2 marks)

Ratios for the year ended 31 December 2010 were:

Receivable days (debtor collection period): 52 days

Payable days (creditor payment period): 21 days.

4 (c) Compare the ratios you calculated in **4 (a)** and **4 (b)** with those for the year ended 31 December 2010 and explain what impact this will have on the business.

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(7 marks)

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11

END OF QUESTIONS



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