

Q2 (a) (i) [AO1] 2 [AO2] 4 [AO3] 1

AO1: One mark each for balance b/d at start of financial year 2023 and 2024

AO2: One mark each for May entry in Application and allotment account, first call, second call and third and final call.

AO3: One mark for August entry for Application and allotment account

Ordinary Share Capital Account

		£ 000			£ 000
2023			2023		
			1 April	Balance b/d	65 000 (1)AO1
			May 3	Application & Allotment	1 200 (1)AO2
			Aug 31	Application & Allotment	2 400 (1)AO3
			Nov 18	First Call	3 600 (1)AO2
2024			2024		
			Jan 31	Second Call	3 000(1)AO2
Mar 31	Balance c/d	<u>77 000</u>	Mar 15	Third + Final Call	<u>1 800</u> (1)AO2
		<u>77 000</u>			<u>77 000</u>
			April 1	Balance b/d	77 000 (1o/f)AO1
					7 marks

(ii) [AO1] 2 [AO3] 1

AO1: One mark each for balance brought down to start the year and balance brought down to start next financial year.

AO3: One mark for entry for Application and allotment account.

Share Premium Account

		£ 000			£ 000
2023			2023		
			April 1	Balance b/d	13 000 (1)AO1
2024			Aug 31	Applctn&Allotmnt	2 400(1)AO3
Mar 31	Balance c/d	<u>15</u> <u>400</u>			
		<u>15</u> <u>400</u>			<u>15 400</u>
			April 1	Balance b/d	15 400 (1o/f)AO1
					3 marks

(iii) [AO2] 2 [AO3] 4

AO2: One mark each for May entries for Ordinary share capital allotments and monies received.

AO3: One mark each for return of monies in July, balances due on allotment in August, and and transfers to ordinary share capital account and share premium account in August.

Application and Allotment Account

		£ 000			£ 000
2023			2023		
May 3	Ordinary Share Capital	1 200 (1)AO2	May 3	Bank	1 356 (1)AO2
July 24	Bank	156 (1)AO3	Aug 31	Bank	4 800 (1)AO3
Aug 31	Ordinary Share Capital	2 400 (1)AO3			
	Share Premium	<u>2 400(1)AO3</u>			
		<u>6 156</u>			<u>6 156</u>
					6 marks

(iv) [AO1] 1 [AO2] 2

AO1: One mark for balancing off account.

AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

First Call Account

		£ 000			£ 000
2023			2023		
Nov 18	Ordinary Share Capital	3 600(1)AO2	Nov 18	Bank	3 600(1)AO2
		3 600			3 600 (1o/f)AO1 both
					3 marks

(v) [AO2] 2

AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

Second Call Account

		£ 000			£ 000
2024			2024		
Jan 31	Ordinary Share Capital	3 000(1)AO2	Jan 31	Bank	3 000(1)AO2
		3 000			3 000
					2 marks

(vi) [AO1] 1 [AO2] 2

AO1: One mark for balancing off account.

AO2: One mark each for receipt of monies and transfer to Ordinary share capital account.

Third and Final Call Account

		£ 000			£ 000
2024			2024		
Mar 15	Ordinary Share Capital	1 800(1)AO2	Mar 15	Bank	1 800(1)AO2
		1 800			1 800 (1o/f)AO1 both
					3 marks

(vii) [AO2] 6

AO2: One mark each for entries concerning applications in May, rejected applications in May, balances due on allotment in August, first call, second call and third call.

Bank Account

		£ 000			£ 000
2023			2023		
May 3	Application and Allotment account	1 356 (1)AO2	July 24	Application and Allotment account	156 (1)AO2
Aug 31	Application and Allotment account	4 800 (1)AO2			
Nov 18	First Call account	3 600 (1)AO2			
2024					
Jan 31	Second Call account	3 000 (1)AO2			
Mar 15	Third + Final Call	1 800 (1)AO2			6 marks

(b) [AO1] 1

AO1: One mark for correct answer of rights issue.

The share issue was a rights issue. (1) AO1

(c) [AO1] 4

AO1: Two marks for each difference between a bonus issue and a rights issue and each development.

A bonus issue of shares does not involve shareholders paying any money for the shares to the company. (1)AO1

A rights issue of shares does involve shareholders paying money for the shares to the company. (1)AO1

A bonus issue of shares will only be made to existing shareholders. (1)AO1

If the rights issue is not fully subscribed, then the company may look to involve new shareholders from outside the company. (1)AO1

A bonus issue of shares would be made in a fixed ratio according to the number of shares held. (1)AO1

A rights issue would not be carried out in a ratio of shares held. (1)AO1

(d) [AO1] 2

AO1: Two marks for one similarity of a bonus issue and a rights issue and development.

A bonus issue and a rights issue both result in the number of ordinary shares issued increasing, (1)AO1 which will result in a reduction in the gearing ratio in both cases. (1)AO1

(e) [AO2] 6

AO1: One mark for calculation of long term liabilities.

AO2: Five marks for correct calculation of new gearing ratio.

Long term liabilities = 22% of £200 million = £44 million (1)AO1

Share issue increases equity by £12 mil (ordinary shares) (1)AO2 and £2.4 mil (share premium) (1)AO2 giving a total increase of £14.4 mil.

Equity and long term capital must = £214.4 mil

Therefore, gearing ratio must equal $\frac{£44}{£214.4} \times 100$ (1o/f)AO2 = 20.52% (1o/f)AO2

(f) [AO1] 1 [AO2] 1 [AO3] 4 [AO4] 6

Answers may include:

Case for Ordinary shares / Against a debenture

It is fairly straightforward to ask existing shareholders of Gallanna Homes plc if they would like to purchase more shares.

No "outside" parties having any influence on the running of the company eg a place on the board, which a debenture holder may request if they provide funds.

Shareholders of Gallanna Homes plc do not have to be paid dividends, which is useful if the company is short of funds.

No interest has to be paid, so the profits of Gallanna Homes plc will be higher than issuing a debenture. This will also help cash flow and liquidity. The interest paid on a debenture could be substantial, having to be paid at intervals of six months.

Gallanna Homes plc may have to offer non-current assets as security to the debenture holders. These would be forfeited if the company fails to pay the interest or to pay back the debenture. These could be property or vehicles which would seriously affect the running of the company.

Issue of shares results in lower gearing, which decreases the risk to Gallanna Homes plc.

The issue of a debenture will increase the gearing for the company.

If the share issue is not fully subscribed, the shares may be taken up by a party who have underwritten the share issue. However, the party may charge a fee for underwriting.

A debenture has to be repaid after a certain time period, but ordinary shares do not have to be repaid.

An asset may have to be offered as security if a debenture is issued. Failure to pay back the debenture may result in forfeiting the asset. No assets have to be offered as security when issuing ordinary shares.

Case against Ordinary shares / For a debenture

Administration costs involved in the issue of ordinary shares would be greater than the administration costs of issuing a debenture.

A share issue may not be fully subscribed. If the company have the share issue underwritten, then a fee will be charged. If Gallanna Homes plc then turn to a bank for funding, the bank may see the company as high risk and charge a high interest rate.

Debenture may be better if funding is required for only a limited time.

Conclusion

Should relate to points made above and conclude that the decision to issue ordinary shares was a good or bad decision.

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1- 3	Isolated elements of knowledge and understanding which are recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which may be applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and maybe non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and maybe non-financial information and makes an informed decision.

12 marks

Total for Question 2 = 55 marks