

ACCOUNTING THEORY

Interpretation of Accounts.

2001

(c)

10

Causes of difference in gross profit percentage

- Cash losses ②
- Stock losses ②
- Mark downs during sales ②
- Incorrect valuation of stock ②
- Increased purchase price without increase in sales price ②
- Change in sales mix.

2005

(c) 5 x 3 marks

15

The gross profit percentage has dropped from 32% in 2003 to 22% in 2004. This could be caused by:

- Cash losses
- Stock losses
- Mark downs during sales
- Incorrect valuation of stock
- Increased cost of sales without an increase in sales price
- Change in sales mix

2006

15

(c) **Raise cash and improve liquidity by:**

1. Paying out lower dividends
2. Selling investments rather than issuing debentures.
3. Issuing more shares.
4. Improving gross profit percentage of 21.9% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

2008

15

(c)

A rising liquidity ratio is not **always** a sign of prudent management.

A rising liquidity ratio could be a sign of prudent management because it indicates that it is easier for the firm to pay its short term debts on time and thus avoid paying interest or enables it to avail of cash discounts.

However, if the liquidity ratio rises significantly above 1:1, it could mean that too much of the company's resources are tied up in liquid assets when they could be used to earn more profits. Management may be leaving cash resources idle.

2009

15

(c)

Acid Test Ratio is only 0.74 to 1. Ratio dropped from 0.98 to 1 in 2007. Company has a liquidity problem

Raise cash and improve liquidity by:

1. Paying out lower or no dividends
2. Selling investments rather than issuing debentures.
3. Issuing the remaining 50,000 shares.
4. Improving gross profit percentage of 19.9% by reducing cost of sales or by passing on the increased costs.
5. Diversifying into other areas
6. Collection of debts more quickly
7. Sale and lease back

2011

10

(c)

Limitations of ratio analysis

- It analyses past figures only and these figures are quickly out of date (historical). It merely gives us clues to the future.
- Ratios do not show seasonal fluctuations
- Firms use different accounting bases and therefore company comparisons are not accurate
- Financial Statements give limited pictures of a business. Other important aspects of a company are not revealed in the Financial Statements. Accounts alone cannot measure aspects which may be extremely significant such as monopoly position, economic climate, staff morale and management/staff relationships.

2012

(c)

15

- (i) **Gross Profit percentage** = **24.68%** [5]
- (ii) [10]
- | | |
|------------------------------|---|
| Cash losses | cash sales not recorded |
| Stock losses | pilferage of stock or obsolescent stock |
| Change in sales mix | more sales of low markup goods |
| Mark downs during sales | to get rid of out-of-date stock |
| Incorrect valuation of stock | overvalue of opening stock, undervalue of closing stock |
| Increased cost of sales | without an increase in sales price |
| Falling sales price | without corresponding drop in cost of sales |

2013

(c)

10

AB Foods

The Return on Capital Employed in AB Foods is 8%. This is better than XY Traders at 6% and also better than Dantzig plc at 5.37%.

The current ratio of AB Ltd of 3.2 to 1 is very high. This is possibly indicating excess stock. This is well above that of XY Traders of 1.9 to 1. This indicates poor stock control.

Acid Test ratio of 0.6 to 1 is low. It is well below the ratios of both XY Traders and Dantzig plc. This indicates a shortage of cash.

XY Traders

The Return on Capital Employed of 6% is lower than in AB Foods but higher than Dantzig plc at [5.37%]. Both these figures are below the cost of borrowing of 8%.

Current Ratio is good and within range of accepted norms.

Acid Test ratio at 1.3 to 1 is better than AB Foods at 0.6 to 1, but high. This high ratio indicates high debtors or excess cash. Either there is poor cash management or poor debt collection.

My advice to Dantzig plc is to purchase XY Traders

Incomplete Records.

2001

(c)

10

Quaid should keep a detailed cash book and general ledger supported by appropriate subsidiary books. This would enable Quaid to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

2003

(c)

10

O'Higgins should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O'Higgins to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

2005

(c)

8

Total sales figure
Total purchases figure
Trial balance
Bank balance
Capital
Goodwill
Bad debts

2007

(c)

8

(i) **Accounting concepts**

Accounting concepts are the accounting practices or rules that are applied in the preparation of financial statements.

(ii) **Fundamental Accounting concepts**

Accruals, Going Concern, Consistency and Prudence

- (iii) **The accruals Concept** – All expenses incurred in a particular period must be included in the accounts of that period regardless of whether they are paid or not. Similarly, all revenue income must be included in the accounts of that period whether received or not. E.g Electricity due for the current year must be included in the accounts, although the bill may not be paid until the following year as the expense refers to the current year. Insurance prepaid should not be included in the current year's accounts as the payment refers to the following year.

2009

10

Fuller should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable Fuller to prepare an accurate Trading and Profit and Loss Account and therefore avoid reliance on estimates.

2011

8

(b)

O'Hagan should keep a detailed cash book and general ledger supported by appropriate subsidiary day books. This would enable O'Hagan to prepare an accurate trading and profit and loss account and therefore would avoid reliance on estimates.

(c) **Additional information**

General/Nominal Ledger Accounts

Trial balance

Total sales figure [credit and cash]

Total purchases figure [credit and cash]

Bank balance

Capital and drawings

Bad debts, Expenses due and prepaid

Discounts allowed or received

Budgeting.

2003

- (vi) **Principal Budget Factor** - Often referred to as the limiting budget factor or the key budget factor. ⑦

This is the factor that limits output and therefore prevents continuous expansion. Usually the principal budget factor is sales demand. The principal budget factor could be some other limiting factor such as availability of materials

Why prepare a flexible budget and what does it show?

To compare budgeted costs and actual costs at the same level of activity ⑥

To compare like with like

To help in controlling costs or to plan product levels

They show whether actual costs exceeded or were less than budgeted costs.(variances) ③

2005

- (e) Market research
Trends
Last year sales
Opinion of Sales manager and sales representatives
Price to be charged
State of Economy
Competition
Luxury versus necessities

2006

- (b) An adverse variance is where actual costs exceed budgeted costs ③
An adverse variance in direct material costs may arise if the purchase price of materials is higher than expected or if the quantities of material used are higher than expected. ③

- (c) **Controllable Costs:** Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g.- all variable costs are controllable ③

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable ③

2007

(c) **8**

A cash budget is a forecast or plan of cash inflow and cash outflow over a period

Advantages:

Highlights whether enough cash will be available to meet future needs

Helps to give advance knowledge so that overdraft can be arranged if shortfall occurs

Helps to predict future surpluses so that short-term investment can be made

2008

(e) **[4]**

- (i) **Capital Budget:** This budget deals with any planned capital expenditure e.g. purchase of fixed assets and planned capital receipts such as the sale of the fixed assets.
Decisions relating to these items would be the responsibility of the board of directors. The carrying out of the capital budget is the responsibility of the financial controller.
- (ii) **Principal Budget Factor:** Apart from sales demand the principal budget factor could also be:
 - Supply of materials
 - Availability of labour
 - Capacity of the plant
 - Availability of capital

2009

(e)

Last year sales

Market research/Opinion of Sales manager and sales representatives

Trends/State of Economy

Price to be charged

Competition

Luxuries versus necessities

6

2010

(c)

6

An adverse variance is when actual costs exceed the budgeted costs. Adverse variances may arise in direct material costs because of an increase in the price of materials or an increase in quantities used.

2011

(e) [7]

A Master Budget is a summary of all the other budgets and provides an overview of the operations for the planned period.

A Master Budget for a manufacturing firm consists of:

- Budgeted manufacturing account
- Budgeted trading account and profit and loss account
- Budgeted balance sheet

2012

(c)

5

Last year sales from other stores
Market research/ opinion of sales manager and sales representatives
Trends/ State of Economy
Price to be charged/Sales price
Competition
Luxuries versus necessities

(e) [4]

(i)

Murray Ltd will be able to see in which months there will be a deficit of cash which will enable it to make arrangements for a loan or overdraft.

It will see which months will have a surplus of cash and will be able to arrange short term investments.

There was a surplus of cash in March and April.

The trend of cash shortages is getting smaller- [normal for new business].

Overdraft facilities will be required each month up to a maximum of €135,800 in any month

Closing cash shortage is €4,850.

(ii)

The Capital Budget deals with planned capital expenditure for example the purchase of a fixed asset and planned capital receipts for example the sale of a fixed asset.

Decisions regarding capital items are the responsibility of the Board of Directors.

Carrying out of the capital budget is the responsibility of the Financial Controller.

Costing.

2003

To establish the selling price for the purpose of tendering ⑦

To control costs - budget versus actual ⑤

To help planning and decision making

To ascertain the value of closing stock in order to prepare final accounts

2004

(f) 2 x 6 marks

12

Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economy of scale or may increase because of increased costs

It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range

It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.

It is assumed that the selling price per unit is constant and does not allow for discounts

Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.

2005

(d)

Absorption rates ⑥

Per Labour Hour
Per Machine Hour
Per Unit
Per Percentage of Prime Cost

8

Overhead absorption rates are based on budgeted rather than actual costs because actual costs may not be known until the end of the year and the business cannot wait until then to decide the cost of the product as they need to decide on the selling price to charge.

2006

(b) (5)

There is a different profit figure because closing stock is valued differently. Marginal costing does **not** include fixed costs when costing a product whereas absorption costing does include the fixed costs. Therefore closing stock under marginal costing is valued lower than under absorption costing because a share of fixed costs is included in the value of stock under absorption costing but not included under marginal costing.

Under absorption costing, closing stock is valued at a $\frac{1}{4}$ of the production cost of 17,400
Under marginal costing, closing stock is valued at $\frac{1}{4}$ of the production cost of 14,400.

Closing stock -Absorption costing	4,350
Closing stock - Marginal costing	<u>(3,600)</u>
Difference	750

The profit difference is 22,950 – 22,200 = 750

Absorption costing should be used as it agrees with standard accounting practice and concepts and matches costs with revenues. (5)

2007

(iv) 2

Re-apportionment:

This is the term used where Service Department costs are re-apportioned between production departments because overheads can only be recovered by being included as part of the cost of production.

(v) 4

Over-absorption:

Over-absorption is when costs are over recovered – budgeted costs are greater than actual costs.
The cost of fuel/power reduced

(d)

Step Fixed Cost [6]

Step fixed costs are costs that are fixed within a certain range of activity but changes outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

Management Accounting/Financial Accounting [6]

Management Accounting	Financial Accounting
Is concerned with planning for the future and provides information for planning and budgeting	Is concerned with recording past events. Information is provided in the form of a profit and loss account, balance sheet and cash flow statement
Has an internal focus and furnishes information to aid planning and decision making	Has both internal and external focus and furnishes information to stakeholders such as managers, shareholders and creditors
Is not governed or restricted by legislation or legal requirements	Is governed and regulated by both legislation and accounting standards such as FRS's.
Reports are prepared as often as the managers require them	Reports are prepared usually once a year
Reports are prepared for cost-centres/ departments	Reports are prepared about the whole business

(f)

Limitations/assumptions: [7]

Variable costs are assumed to be completely variable at all levels of output. However variable costs may decrease due to economies of scale or may increase because of increased costs.

It is assumed that in marginal costing fixed costs remain the same although most fixed costs are step-fixed and are only fixed within a relevant range.

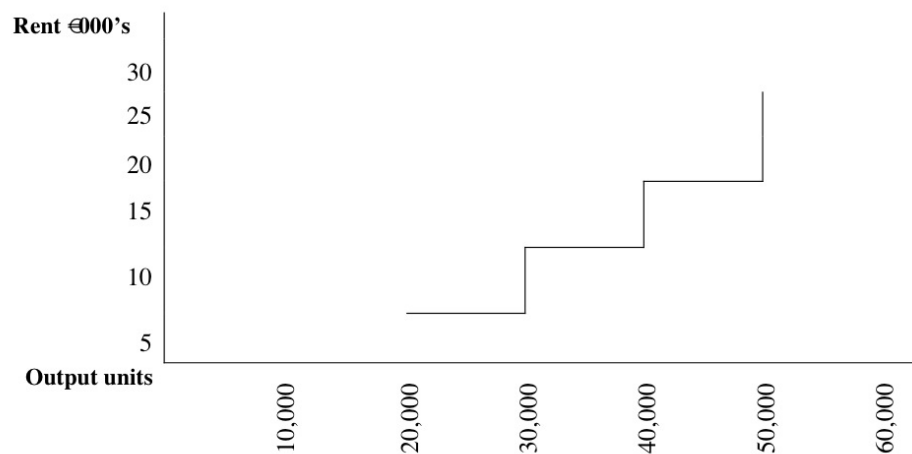
It is assumed that all mixed costs are easily separated into fixed or variable. The High Lo method can be used for this purpose but it is not always possible to do this.

It is assumed that the selling price per unit is constant and does not allow for discounts.

Production in a period usually equals sales. Fixed costs are charged in total to a period and are not carried forward to next period.

Step Fixed Cost

Step fixed costs are costs that are fixed within a certain range of activity but change outside of that range. E.g. Rent could be fixed up to a certain level of production. However, if production increases and results in the rental of more factory space, then the rent would increase to a new level. Thus the fixed costs would increase in steps.

Graph [5]

2012

(iv) [5]

Service departments can't recover costs. Service departments are secondary to production departments and as a result, service department costs must be transferred to production departments on an equitable basis e.g. machine hours. Overheads can only be recovered through production i.e. they are included as a cost of production.

2012

(iii) [6]

Controllable Costs: Are costs that can be controlled by the manager of a cost centre. She/he will make the decision about the amount of the cost or if the cost should be incurred and can be held responsible for variances in these costs. E.g.- all variable costs are controllable. Commission to sales personnel can be controlled by the sales manager.

Uncontrollable Costs: Are costs over which the manager of a cost centre has no control and therefore cannot be held responsible for variances in these costs. E.g.- rates to the local authority are uncontrollable.

Correction of Errors.

2006

(e)

10

An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. E.g Goods sold on credit to Pat O'Brien debited in error to John O'Brien's account

An Error of Principle arises when an item is posted to the incorrect class of account. E.g. An electrical shop owner purchased a vehicle and entered it in the purchases account instead of the vehicles account

2008

(e)

10

An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. Example: Goods sold on credit to Brian Brady debited in error to John Brady's account. [5]

An error of principle arises when an item is posted to the incorrect class of account. [5]
Example: A boutique owner purchased a vehicle and treated it as a purchase of stock

2010

(e)

10

Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account. [4]

Mathematical errors - figures and additions [3]

Posting only one side of the double entry [3]

(c)

6

- (i) A Trial Balance is prepared in order to test the accuracy of double entry bookkeeping before preparing Final Accounts. A Trial Balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit entry should have a corresponding credit entry.
- (ii) **Errors not revealed by a trial balance:**
- Errors of original entry – errors made in books of first entry
 - Errors of principle – incorrect class of account – entering an asset in an expense account
 - Errors of complete omission – where both debit and credit are omitted
 - Errors of commission – posting to wrong account but to the correct side of correct type of account
 - Compensating errors – where errors of equal value cancel each other out
 - Reversal of entries – where the debit entry is on the credit side and the credit entry is on the debit

Club Accounts.

2002

15

(d)

A reduction in subscriptions of 10% for 2002 would involve a reduction in club income of €6,650. ⑥

The club is capable of bearing such a decrease based on the surplus of income for the year 2001. However almost all of this surplus is provided by entrance fees of €16,000 and sponsorship of €36,000. ③

The treasurer might refer to the proposed capital expenditure on the club in the near future. ③
It should be pointed out that although the club has a healthy bank balance of €30,490 and investments of €70,000, these funds are not of a recurring nature and even the sponsorship may not be guaranteed in future years ③

It would not be prudent to reduce subscription fees at present and instead it would be advisable to retain the present level of fees and use these fees to provide improved facilities for the members and thus attract more members.

2004

15

(d)

A reduction in subscriptions of 20% for 2004 would involve a reduction in club income of €36,000. ⑥

Although the club is financially sound as it has €5,190 in the bank, €70,000 in the building society, ③ investments worth €40,000 and has paid off a loan of €30,000 these funds are set aside for future capital expenditure.

The club's surplus of income for the year 2003 of €50,015 would seem to indicate that the club is capable of bearing a reduction of 20%. However almost all of this surplus is provided by entrance fees of €17,000 and sponsorship of €33,000 and this income can not be guaranteed in future years. ③

It can be argued that a reduction in membership fees could attract more members and thus bring in entrance fees as well as increase bar profit. However it would not be prudent to reduce subscription fees at present and instead it would be advisable to retain the present level of fees and use these fees to provide improved facilities for the members and thus attract more members. ③

(i) [3]

Sometimes non profit making organisations such as a club prepare a Profit and Loss account for activities that are carried out to make a profit e.g. running a club lottery, dances, bar, restaurants etc. All expenses and revenues relating to that particular activity are entered in a special profit and loss account and the profit is then transferred to the income and expenditure account.

(ii) [7]

The proposed levy would raise €200,000 over 4 years [250 x 200 x 4]

Yes/No

As a member I would make the case that the club is capable of generating enough income from within as it has a surplus of income of €63,180. The club is financially sound as it has cash of €13,960, building society investment of €60,000 and 5% government investments €24,000 totalling €97,960 even after it has paid off a loan and interest of €33,600 and had purchased equipment for €45,000.

However a sizeable proportion of the surplus is provided by Entrance Fees of €15,000 and Sponsorship of €25,000. This income cannot be guaranteed in future years.

(d) (i)

Limitations of a Receipts and Payments Account. [6]

- does not show whether the club is raising enough funds to cover its running costs
- amounts due but unpaid at the end of the accounting period are not included
- only shows an increase or decrease in cash although there could be outstanding bills
- does not take into account losses such as depreciation
- does not show whether the club bar or restaurant are profitable
- does not distinguish between receipts for the current year and other years

(c) (i) [3]

Sometimes non-profit making organisations such as a club prepare a profit and loss account for activities that are carried out to make a profit e.g. running a club lotto, dances, bar, restaurant etc. All expenses and revenues relating to the particular activity are entered in a special purpose profit and loss account and the profit/loss is then transferred to the income and expenditure account.

(ii) [7]

The proposed levy would raise €150,000 over the next 5 years $[200 \times 150 \times 5]$

The club has funds amounting to:

Investments	30,000
Building society	28,000
Cash	<u>4,310</u>
	<u>62,310</u>

As a member I would make the case:

The proposed levy of €200 $[120 + 80]$ amounts to 66% of the annual subscription.

An increased levy would discourage new members and perhaps cause a drop in membership.

The club is capable of generating enough income from within as it has a surplus of income amounting to €69,099 and it is financially sound as it has a cash balance of €4,310, building society investment of €28,000 and 4% government investments €30,000 totalling €62,310.

Although a sizeable proportion of the surplus is provided by sponsorship of €73,000 and it cannot be guaranteed in future years it should be noted that this figure is well below the non-recurring capital amounts paid during the year i.e. equipment €41,000 and loan €44,800 amounting to €85,800.

The club should use the cash and investments totalling €62,310 and borrow the remainder of €90,000 approx or continue with current levy of €80 for 5 years plus use current funds and borrow €28,000 approx.

The improved facilities could:

- Increase the rent earned from the arena
- Increase membership
- Encourage increased advertising income

Cash Flow Statements.

2001

15

(b)

(i) [10]

Credit sales/purchases affect profit but do not affect cash.

Non-cash losses and gains affect profit but not cash.

Purchase and sale of fixed assets by cash affect cash but not profit.

Introduction or withdrawal of capital in cash affect cash but not profit.

(ii) [5]

The Accounting Standards Board issues new accounting standards called Financial Reporting Standards (FRS). It also amends and withdraws old accounting standards.

FRS 1, which was issued by the ASB in 1991 and revised in 1996 requires large companies to prepare a Cash Flow Statement for each activity period.

It requires that individual cash flows should be entered under standard headings according to the activity that gives rise to them.

2004

(b)

12

(i)

Danton plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €337,000 was made but the increase in cash for the year was €53,000.

Reasons:

Credit sales earn profit but do not increase cash. Debtors increased by €200,000

Non-cash gains/losses increase/decrease profit but not cash. Profit on sale of buildings/ depreciation €13,000/€72,000.

Sale/Purchase of fixed assets Increase/decrease cash but not profit. Receipts €101,000, Payments €160,000 and €119,000

Introduction/withdrawal of capital increases/decreases cash but not profit. Receipts €220,000, payments €50,000

(ii) **Responsibility of Directors**

To comply with the Companies Acts

To keep proper accounting records enabling financial statements to be prepared

Prepare annual financial statements

Select suitable accounting policies

Sign financial statements

Safeguard the assets of the company

Publish Final Accounts and Cash Flow Statement at least once a year

Present an Annual Report to shareholders at AGM to include:

Directors' report

Auditor's Report

Financial Statements

2006

(c)

8

Credit sales affects profit but does not affect cash
Non-cash losses and gains affect profit but not cash
Cash purchase and sale of fixed assets affect cash but not profit
Introduction or withdrawal of capital affect cash but not profit

4

4

2008

(b)

15

(i)

[10]

Credit sales/purchases affect profit but do not affect cash.
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2010

12

(b)

[6]

It shows the cash inflows and outflows during the past year
It shows that profits do not always equal cash
It aids financial planning/ it is used to predict future cash flows
It provides information to assess current liquidity

[6]

Cash expense – reduces both profit and cash e.g. wages
Non-cash expense – reduces profit but not cash e.g. depreciation, provision for bad debts

(b)

(i)

Danton plc's Profit and Loss a/c and Cash Flow Statement show that an operating profit of €337,000 was made but the increase in cash for the year was €53,000.

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Present an Annual Report to shareholders at AGM to include:

Directors' report

Auditor's Report

Financial Statements

Published Accounts.

2002

18

Notes to the Accounts

1. Accounting policy notes ⑤

Tangible Fixed Assets

Buildings were re-valued at the end of 2001 and have been included in the accounts at their re-valued amount. Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life, as follows:

Buildings	2% per annum -straight line basis.
Stocks	Stocks are valued on a First in First out basis at the lower of cost and net realisable value.

2. Operating profit ③

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	14,000
Patent amortised	24,000
Directors remuneration	80,000
Auditors remuneration	9,000

3. Contingent Liability ②

The company is being sued by a former employee for unlawful dismissal. The company's legal advisers have advised that the company will probably not be liable under the terms of the employment contract. They have estimated the maximum amount of liability at €25,000

4. Dividends: ④

Ordinary dividends		
Interim paid 2.625c per share	10,500	
Final proposed 6.0c per share	<u>24,000</u>	34,500
Preference dividends		
Interim paid 4.5c per share	13,500	
Final proposed 2.5c per share	<u>7,500</u>	21,000

5 Tangible Fixed Assets ④

	Land & Buildings	Total
Cost/valuation at 1/1/2001	755,000	755,000
Disposal	55,000	55,000
Revaluation surplus at 31/12/2001	50,000	50,000
	750,000	750,000
Depreciation at 1/1/2001	48,000	48,000
Charge for year	14,000	14,000
Transfer on revaluation	(62,000)	(62,000)
Net Book Values at 31/12/2000	707,000	707,000
Net Book Values at 31/12/2001	750,000	750,000

(b)



Unqualified Auditor's Report

An unqualified auditor's report is often referred to as a clean report. ⑤ This is when the auditor's report states that in his/her opinion the following apply:

- the financial statements give a true and fair view ③ of the state of affairs of the company at the end of the year and of its profit and loss account for the year.
- the financial statements are prepared in accordance with the Companies Acts. ⑤
- all the information necessary for the audit was available
- the information given by the directors is consistent with the financial statements
- the net assets are more than 50% of the called up capital

Qualified Auditor's Report

A qualified auditor's report is when an auditor in his/her opinion is not satisfied or is unable to conclude that all or any of the following apply: ②

- the financial statements give a true and fair view of the state of affairs of the company at the end of the year and of its profit and loss account for the year.
- the financial statements are prepared in accordance with the Companies Acts
- all the information necessary for the audit was available
- the information given by the directors is consistent with the financial statements
- the net assets are more than 50% of the called up capital

The report will state the elements of the accounts or of the director's report that are unsatisfactory.

Notes to the Accounts**1. Accounting policy notes ③****Tangible Fixed Assets**

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life, as follows:

Buildings - 2% per annum -straight line basis.

Delivery vans - 20% of cost

Stocks - Stocks are valued on a First in first out basis at the lower of cost and net realisable value.

2. Dividends ④**Ordinary dividends**

Interim paid 6.0c per share	21,000	
Final proposed 10.0c per share	<u>35,000</u>	56,000

Preference dividends

Interim paid 4.0c per share	6,000	
Final proposed 4.0c per share	<u>6,000</u>	12,000

3. Interest payable: ①

Interest payable on debentures repayable during years 2008/2009		16,000
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QUESTION 2 (continued)

4. **Operating profit**

③

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	41,500
Patent amortised	8,000
Directors remuneration	84,000
Auditors Fees	7,700

5. **Profit on sale of property**

①

The company sold land for €85,000 greater than its cost. Cost was €90,000

Workings

1. **Distribution costs**

Advertising	21,000	
Depreciation - delivery vans	<u>29,000</u>	50,000

2. **Administrative expenses**

Directors fees	84,000	
Salaries and general expenses	177,000	
Rent	32,000	
Auditors fees	7,700	
Depreciation - buildings	<u>12,500</u>	313,200

(b)

10

Agencies

The Government – Legislation

The European Union – directives

The Accountancy profession – FRS's and SSAP's

The Stock Exchange – Listing Rules

Notes to the Accounts**Accounting policy notes****1. Tangible Fixed Assets ⑥**

Buildings were revalued at the end of 2004 and have been included in the accounts at their revalued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value of the tangible assets over their estimated useful economic life, as follows:

Buildings	2% per annum – straight line basis.
Delivery vans	20% of cost.
Stocks	Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit ③

Operating profit is arrived at after charging;

Depreciation on Tangible Assets	58,000
Patent amortised	10,000

3. Interest payable	②	
Interest payable on debentures (Repayable by 2008/2009)		16,000

4. Dividends **④**

Ordinary dividends

Interim/ Paid 3.75c per share	15,000	
Final proposed 3.25c per share	<u>13,000</u>	28,000

Preference dividends

Interim/ Paid 4.5c per share	9,000	
Final proposed 4.5c per share	<u>9,000</u>	18,000

5. Tangible Fixed Assets **⑥**

	Land&Buildings	Vehicles	Total
1/1/2004	780,000	220,000	1,000,000
Disposal	(80,000)		(80,000)
Revaluation surplus 31/12/2004	<u>200,000</u>		<u>200,000</u>
Value at 31/12/2004	<u>900,000</u>	<u>220,000</u>	<u>1,120,000</u>
Depreciation 1/1/2004	42,000	33,000	75,000
Depreciation charge for year	<u>14,000</u>	<u>44,000</u>	<u>58,000</u>
	56,000	77,000	133,000
Transfer on Revaluation	<u>(56,000)</u>		<u>(56,000)</u>
Depreciation 31/12/2004	Nil	<u>77,000</u>	<u>77,000</u>
Net Book Value 1/1/2004	738,000	187,000	925,000
Net Book Value 31/12/2004	900,000	143,000	1,043,000

(b) Directors Report **3 x 3 marks**

9

A Directors Report must contain the following:

- The dividends recommended for payment.
- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company's business during the year
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company's subsidiaries and affiliates.
- Evaluation of company's compliance with its safety statement
- Details of directors' share holdings and dealings during the year

(c) Exceptional Item

7

This is a material item of significant size. It is a profit or loss that must be shown separately in the Profit and Loss Account because of size. **④**

Notes to the Accounts

1. Tangible Fixed Assets

(5)

	Land	Buildings	Vehicles	Total
Cost or valuation 1/1/2005	150,000	530,000	140,000	820,000
Disposal	(100,000)	-	-	(100,000)
Revaluation surplus	<u>110,000</u>	<u>170,000</u>	-	<u>280,000</u>
Value at 31/12/2005	<u>160,000</u>	<u>700,000</u>	<u>140,000</u>	<u>1,000,000</u>
Depreciation at 1/1/2005	-	-	64,000	64,000
Depreciation charge for year	-	<u>12,300</u>	<u>28,000</u>	<u>40,300</u>
		<u>12,300</u>	<u>92,000</u>	<u>104,300</u>
Net book value 1/1/2005	150,000	530,000	76,000	756,000
Net book value 31/12/2005	160,000	687,700	48,000	895,700

2. Stock

(1)

Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

3. Dividends

(3)

Ordinary dividends		
Interim paid 7.0c per share	21,000	
Final proposed 8.0c per share	<u>24,000</u>	45,000
Preference dividends		
Interim paid 5.0c per share	8,000	
Final proposed 5.0c per share	<u>8,000</u>	16,000

4. Operating Profit (2)

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	40,300
Patent amortised	8,000
Directors remuneration	89,000
Auditors fees	8,400

5. Profit on sale of property (2)

The company sold land for €80,000 greater than its cost. Cost was €100,000.

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(b) Audit (4)

An audit is the independent examination of, and the expression of opinion on the financial statements of an enterprise by an appointed auditor.

The main objective of an audit is to enable the auditor, in keeping with the requirements of the Companies Acts, to report on the truth and fairness shown by:

- the balance sheet, the profit or loss shown by the profit and loss account and
- any other information required to be disclosed in the financial accounts.

The Companies Acts do not require the auditor to certify that the company records are correct or accurate but that the accounts give a *true and fair view* of the financial position of the business.

Qualified Auditor's Report (8)

A qualified auditor's report is when an auditor in his/her opinion is **not satisfied** or is unable to conclude that all or any of the following apply:

- the financial statements give a true and fair view of the state of affairs of the company at the end of the year and of its profit and loss account for the year.
- the financial statements are prepared in accordance with the Companies Acts
- all the information necessary for the audit was available
- the information given by the directors is consistent with the financial statements
- the net assets are more than 50% of the called up capital

The report will state the elements of the accounts or of the director's report that are unsatisfactory.

Workings

1	Cost of sales		
	Stock 1/1/2005	70,000	
	Purchases	700,000	
	Patents written off	8,000	
	Stock 31/12/2005	<u>(72,000)</u>	706,000
2.	Distribution costs		
	Advertising	23,000	
	Depreciation – delivery vans	<u>28,000</u>	51,000
3.	Administrative expenses		
	Directors fees	89,000	
	Salaries and general expenses	175,000	
	Rent	30,000	
	Auditors fees	8,400	
	Depreciation – Buildings	<u>12,300</u>	314,700

Notes to the Accounts**1. Accounting policy notes.****[4]****Tangible Fixed Assets**

Buildings were re-valued at the end of 2007 and have been included in the accounts at their re-valued amount.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings 2% per annum straight line

Delivery vans 20% of cost

Stocks - Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit**[2.5]**

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	53,000
Patent amortised	10,000
Directors remuneration	50,000
Auditors fees	8,000

3. Financial Fixed Assets**[2]****1/1/2007****31/12/2007**

Quoted investments	200,000	200,000
Unquoted Investments	<u>60,000</u>	<u>60,000</u>
	<u>260,000</u>	<u>260,000</u>

The market value of the quoted investments on 31/12/2007 was €220,000.

The directors valuation of the unquoted investments on 31/12/2007 was €70,500

4	Dividends	[1]		
	Ordinary dividends			
	Paid 10.0c per share	35,000		
	Preference dividends			
	Paid 8.0c per share	8,000	43,000	
5	Tangible Fixed Assets	[3.5]		
		Land & Buildings	Vehicles	Total
	1/1/2007	740,000	200,000	940,000
	Disposal	(90,000)		(90,000)
	Revaluation surplus	150,000		150,000
	Value at 31/12/2007	<u>800,000</u>	<u>200,000</u>	<u>1,000,000</u>
	Depreciation 1/1/2007	41,000	38,000	79,000
	Depreciation charge for the year	<u>13,000</u>	<u>40,000</u>	<u>53,000</u>
		54,000	78,000	132,000
	Transfer on revaluation	(54,000)		(54,000)
	Depreciation	<u>Nil</u>	<u>78,000</u>	<u>78,000</u>
	Net book value 1/1/2007	699,000	162,000	861,000
	Net book value 31/12/2007	800,000	122,000	922,000

Workings

Cost of sales

Opening stock	65,000	
Purchases	1,250,000	
Closing stock	(222,000)	
Patents amortisation	<u>10,000</u>	1,103,000

Distribution costs

As per Trial balance	260,000	
Depreciation Buildings	2,600	
Vehicles	<u>40,000</u>	302,600

Administrative Expenses

As per Trial balance	160,000	
Directors fees	50,000	
Auditors fees	8,000	
Patent Royalties	8,000	
Depreciation Buildings 80%	<u>10,400</u>	236,400

Other Operating Income

Rental	50,000	
Discount	13,000	
Royalties	<u>8,000</u>	71,000

Investment Income 10,000 + 3,000	13,000	
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(b)

- (i) When a Contingent Liability is possible but unlikely, it is not necessary to make provision in the accounts. However, a note should show the nature of the liability, an estimate of the amount and an opinion regarding the outcome. **[5]**
- (ii) Accountants must observe regulations laid down by: **[5]**
 - The Companies Acts
 - The Financial Reporting council/Accounting Standards Board
 - The Stock Exchange

1. Accounting policy notes on Tangible Fixed Assets and Stock [5]

Buildings were revalued at the end of 2008 and have been included in the accounts at their revalued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value of the tangible assets over their estimated useful economic life, as follows:

Buildings	2% per annum – straight line basis.
Delivery vans	20% of cost.
Stocks	Stocks are valued on a first in first out basis at the lower of cost and net realisable value.

2. Operating Profit [5]

Operating profit is arrived at after charging;

Depreciation on Tangible Assets	73,200
Patent amortised	14,000
Directors remuneration	40,000
Auditors fees	7,400

3. Interest payable [2]Interest payable on debentures (Repayable by **2013/2014**)

18,000

4. Tangible Fixed Assets [7]

	Land & Buildings	Vehicles Cost	Total
1/1/2008	920,000	280,000	1,200,000
Disposal	(60,000)		(60,000)
Revaluation surplus 31/12/2008	90,000		90,000
Value at 31/12/2008	<u>950,000</u>	<u>280,000</u>	<u>1,230,000</u>
Depreciation 1/1/2008	52,800	112,000	164,800
Depreciation charge for year	17,200	56,000	73,200
	70,000	168,000	238,000
Transfer on Revaluation	(70,000)		(70,000)
Depreciation 31/12/2008	Nil	<u>168,000</u>	<u>168,000</u>
Net Book Value 1/1/2008	867,200	168,000	1,035,200
Net Book Value 31/12/2008	950,000	112,000	1,062,000

(b)**15****(i) Directors Report [9]**

A Directors Report must contain the following:

- The amount to be transferred to Reserves.
- A report of any changes in the nature of the company's business during the year.
- A fair review of the development of the business of the company during the year and of the position at the end of the year.
- The principal activities of the company and any changes therein.
- Details of any important events affecting the company since the end of the year.
- Any likely future developments in the business.
- An indication of activities in the field of research and development.
- Significant changes in fixed assets.
- Details of own shares purchased.
- A list of the company's subsidiaries and affiliates.
- Evaluation of the company's compliance with its safety statement.
- Details of directors' share holdings and dealings during the year.

(ii) Exceptional Item [6]

This is a material item of significant size. It is a profit or loss that must be shown separately in the Profit and Loss Account because of size.

Example - Profit or loss on sale of a fixed asset or large bad debt.

Notes to the Accounts**1. Accounting policy notes. [4]****Tangible Fixed Assets**

Buildings were re-valued at the end of 2010 and have been included in the accounts at their re-valued amount. Vehicles are shown at cost.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings 2% per annum straight line

Vehicles 20% of cost

Stocks - Stocks are valued on a first in first out basis at the lower of cost or net realisable value.

2 **Operating Profit** [2]

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	58,000
Patent amortised	10,000
Directors remuneration	60,000
Auditors fees	10,000

3 **Financial Fixed Assets** [2]

	01/01/2010	31/12/2010
Quoted investments	300,000	300,000
Unquoted Investments	<u>80,000</u>	<u>80,000</u>
	<u>380,000</u>	<u>380,000</u>

The market value of the quoted investments on 31/12/2010 was €160,000.

The director's valuation of the unquoted investments on 31/12/2010 was €50,000

4 **Dividends** [2]

Ordinary dividends	
Paid 2.89c per share	13,000
Preference dividends	
Paid 5.0c per share	10,000

5 **Tangible Fixed Assets** [4]

	Land & Buildings €	Vehicles cost €	Total €
01/01/2010	820,000	220,000	1,040,000
Disposal	(120,000)		(120,000)
Revaluation surplus	<u>150,000</u>		<u>150,000</u>
Value at 31/12/2010	<u>850,000</u>	<u>220,000</u>	<u>1,070,000</u>
Depreciation 01/01/2010	91,000	8,000	99,000
Depreciation charge for the year	<u>14,000</u>	<u>44,000</u>	<u>58,000</u>
	105,000	52,000	157,000
Transfer on revaluation	<u>(105,000)</u>		<u>(105,000)</u>
Depreciation 31/12/2010	Nil	<u>52,000</u>	<u>52,000</u>
Net book value 01/01/2010	729,000	212,000	941,000
Net book value 31/12/2010	<u>850,000</u>	<u>168,000</u>	<u>1,018,000</u>

(b)

12

- (i) When a Contingent Liability is probable, the estimated amount should be provided for in the accounts and a note should show the nature of the loss. [4]

(ii) **Unqualified and Qualified Auditor's Report** [8]

An unqualified auditor's report is often referred to as a clean report. A report is unqualified when the auditor in his/her opinion **is satisfied** that the following apply:

- the financial statements give a true and fair view of the state of affairs of the company at the end of the year and of its profit and loss account for the year.
- the financial statements are prepared in accordance with the Companies Acts.
- all the information necessary for the audit was available
- the information given by the directors is consistent with the financial statements
- the net assets are more than 50% of the called up capital

A qualified auditor's report is when an auditor in his/her opinion is **not satisfied** or is unable to conclude that all or any of the above apply:

The report will state the elements of the accounts or of the director's report that are unsatisfactory.

Notes to the Accounts

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1. **Accounting policy notes for tangible fixed assets and stocks** [5]

Tangible fixed assets

Buildings were revalued at the end of 2012 and have been included in the accounts at their revalued amount. Vehicles are shown at cost.

Depreciation is calculated in order to write off the value or cost of tangible fixed assets over their estimated useful economic life as follows:

Buildings	2% per annum straight line
Delivery vans	15% of cost

Stocks - Stocks are valued on a First in First out basis (FIFO) at the lower of cost and net realisable value.

2. **Operating Profit** [5]

The operating profit is arrived at after charging:

Depreciation on tangible fixed assets	56,600
Patent amortised	6,000
Directors remuneration	35,000
Auditors fees	6,500

3. **Interest payable** [2]

Interest payable on Debentures [Repayable during years 2017/2018] 10,000

4. **Tangible fixed Assets** [7]

Assets	Land & Buildings	Vehicles	Total
Value 1/1/2012	950,000	260,000	1,210,000
Disposal	(70,000)		(70,000)
Revaluation surplus	90,000		90,000
Value 31/12/2012	970,000	260,000	1,230,000
Depreciation:			
Balance 1/1/2012	50,500	105,000	155,500
Depreciation charge for year	17,600	39,000	56,600
	68,100	144,000	212,100
Transfer on revaluation	(68,100)		(68,100)
Depreciation 31/12/2012	Nil	144,000	144,000
Net Book Value 1/1/2012	899,500	155,000	1,054,500
Net Book Value 31/12/2012	970,000	116,000	1,086,000

(b)

15

Bodies/Institutions [4]

- The Government – Legislation
- The European Union – Directives
- Accounting Standards Board – FRS's and SSAP's
- The Stock Exchange – Listing Rules

What is an Audit? [4]

An audit is an examination of the financial statements of an enterprise by an appointed auditor. The Audit is conducted by an auditor who is independent. The auditor expresses an opinion and certifies whether the accounts give a true and fair view of the financial position of the business.

The Companies Acts require the auditor to certify that the accounts give a *true and fair view* of the financial position of the business.

A qualified Auditor's Report [7]

A qualified auditor's report is when an auditor in his/her opinion is not satisfied or is unable to conclude that all or any of the following apply:

- The financial statements give a true and fair view of the state of affairs of the company at the end of the year.
- The financial statements are prepared in accordance with the Companies Acts.
- All the information necessary for the audit was available.
- The information given by the directors is consistent with the financial statements.
- The net assets are more than 50% of the called up capital.

The report will state the elements of the accounts that are unsatisfactory.

Full Q.5 Part 'B' Answers.

2001

(b)

45

The debenture holders would be interested in the following:

- **Interest Cover:** The net profit figure only covers the interest 4.33 times and not enough funds are being generated to provide for the repayment of the loan in 4 years time. It has dropped below last years figure of 6 times. ③
- **Dividend policy.** Based on this year's earnings the dividends proposed are excessive and instead some of these profits should be retained or put aside for repayment of debentures. The dividend cover is only 1.08 times ③
- **Liquidity:** It is serious as indicated by the current ratio and acid test ratio of 1.2 to 1 and 0.61 to 1 respectively. This indicates a difficulty in paying debts including future interest. The acid test ratio has dropped from a satisfactory figure of 1.3 to 1 last year. ③

- **Profitability:** The return on capital employed of 11% must be compared with return From risk free investments. This return must be improved in order to repay debentures without having to resort to sale of fixed assets. The return is slightly down on last years figure of 11.8%, and is only just above the debenture interest rate of 10%. The Gross Profit Percentage has dropped from 25% to 22%. This is a major concern. ⑧
- **Real value of fixed assets:** The real value of fixed assets and intangible assets should be questioned. There are no write offs. The debenture holders' would be interested in the assets to ensure that there is adequate security for their loan. ⑧
- **Value of Share:** The earnings per share is down from 15p to 13.14p per share and the market value of each share is down from £2.15 to £2. This indicates a lack of confidence in the future. ⑤
- **Sector:** Many companies in this sector are currently having difficulties.
- **Gearing:** The company is low geared. Its gearing at 31/12/2000 is 33.8%

2002

(b)

55

I would advise my friend to buy shares in Twomey Ltd for the following reasons:

Gearing ⑩

Gearing is 34.4% or 0.66 to 1

The company is low geared at 34.4% and interest cover is 14 times. Therefore there is little risk from outside investors and the prospects of dividends are good. Last years gearing and interest cover were 36% and 11 times respectively. These indicate improved situations.

Dividends ⑩

Dividend per share is 14.2c. The company's dividend cover is 2.1. The dividend policy is such that a shareholder can expect a decent amount of profits will be paid out each year and at the same time the long term prospects of capital gain is good. The dividend per share has increased five fold since 2000.

Profitability ⑩

The return in capital employed of 19.5% and on equity funds of 23.5% indicates that the firm is profitable and earning much more than the return from risk free investments of about 4%. Big increase from 2000. The earnings per share has increased by 3.8c

Liquidity ⑩

Twomey Ltd is able to pay its immediate debts. The liquidity ratios of 1.4 to 1 and 1.07 to 1 indicate that Twomey Ltd has €1.07c available to pay each €1 owed. This is an improved acid test ratio from 2000

Reserves ⑤

The firm is retaining profits and building up reserves which augers well in the long-term should bring about an increase in share market price.

Market Price ⑤

The share value has gone up by 9c to €2.04 since 2000 and is likely to continue in its upward movement based on current year performance.

Security ⑤

Although there are intangible assets valued at €120,000 there is little risk to the company

Sector

The sector has good prospects.

Price Earnings Ratio

The price earnings ratio is 6.8. This is a relatively short period in which to earn back the price of a share. It indicates when taken with other ratios that the company's performance is not yet reflected in the market price.

Interest Cover

Interest Cover is 14.2 times and has improved since 2000. There should not be any difficulty in paying out dividends

(b)

I would advise my friend to buy shares in O'Gara PLC Ltd for the following reasons:

Gearing ⑩

Gearing is 20.6% or 0.26 to 1. The company is low geared at 20.6% and interest cover is 15.3 times. Therefore there is little risk from outside investors. Last years gearing and interest cover were 35% and 9 times respectively. These figures indicate improved situations and that the company is less at risk and is better able to pay interest in 2002 than in 2001. The prospects of being able to pay dividends are good.

Dividends ⑩

Dividend per share is 8.46c. The dividend per share has increased from 6.5c since 2001. The company's dividend cover is 2.4 times and dividend yield is 3.85%. The dividend policy is such that a shareholder can expect a decent amount of profits will be paid out each year and at the same time the long term prospects of capital gain is good. The real return to ordinary shareholders would be 9.1% based on available profits

Profitability ⑩

O'Gara PLC is a profitable firm because its return on capital employed of 15.8% and on equity funds of 16.9% indicate that the firm is earning much more (three times) than the return from risk free investments of about 4% to 6%. These are big increase from 14% and 7.6% respectively in 2001. The earnings per share has increased by 2c from 18c in 2001 to 20c in 2002.

Liquidity ⑩

O'Gara PLC has a liquidity problem. It would have difficulty paying its immediate debts. This difficulty has worsened since 2001 and is less able to pay its immediate debts in 2002 as indicated by the acid test ratio. This ratio has worsened from 0.75 in 2001 to 0.67 in 2002. This ratio indicate that O'Gara PLC has only 67c available to pay each €1 owed immediately. The company had 75c available in 2001.

Reserves ⑤

The firm is retaining profits and building up reserves which augers well in the long-term and should bring about an increase in the market price of the share. Reserves have risen by €75,000 to €119,000 since 2001.

Market Price ⑤

The share value has gone up by 30c to €2.20 since 2001 and is likely to continue in its upward movement based on current year performance.

Real value of fixed assets/ Security: The real value of fixed assets and intangible assets should be questioned. There are no write offs. Although there are intangible assets valued at €160,000 there is little risk to the company as this is only 20% of the tangible fixed and this ensures that there is adequate security for the loan.

Sector

The healthcare industry is a growth area and the sector has good prospects.

Price Earnings Ratio

The price earnings ratio is 11. This means that at the present rate of earnings it would take 11 years to earn back the price of a share.

Interest Cover

Interest Cover is 15.3 times and has improved from 9 times in 2001. There should be more profits available to the shareholders.

(b)

Dividends ⑩

	2003	2002
Dividend per share	9.2c	2.9c
Dividend Yield	4.37%	1.66%
Dividend Cover in 2002 was	2.5 times	7.6 times
Real return— Div Yield x Div Cover	10.9%	12.6%

The dividend policy of company has eased over the two years as the percentage of profits paid out has increased from 13.15% to 40%

The real return of 10.9% and 12.6% are well above the return from risk free investments of less than 5%

Market Value of Share: ⑧

The market value of each share increased from €1.75 in 2002 to €2.11 in 2003.

The shares are now being offered at €2.00. This is 11c above 2003 value

The price earnings ratio 2003 is 9 and 8 in 2002

Profitability ⑧

The Return on Shareholders equity increased from 19% in 2002 to 19.2% in 2003.

The Return on Capital Employed increased from 14% in 2002 to 15.7% in 2003.

This indicates a healthy trend and the value of share would further increase if this trend continues.

The return is better than the return from risk free investments of less than 5%

Proportion of shares owned ⑥

The remaining 150,000 shares would give the purchaser 23% ownership of the company. This amount added to shares already owned would bring the owner's shareholding close to the point of having to bid for the remainder of the shares.

Liquidity ⑥

The Acid test ratio improved from 0.9 to 0.95. This is a satisfactory position as the company now has 95c available to pay each €1 owed in the short term.

The company does not have a liquidity problem

Gearing ⑥

The firm is low geared. The gearing has improved from 40% in 2002 to 37% of total capital in 2003.

Interest Cover in 2002 was 9 times and this cover has increased to 10 times in 2003.

This indicates that there is little risk from creditors and a better prospect of higher dividends

Sector: ⑥

The Leisure industry is a growth industry. People are prepared to spend more of their disposable income on leisure.

(b)

Performance

Profitability:

⑧

Equip Ltd is a profitable business as its return on capital employed of 10.68% in 2004 and 9.5% in 2003. Its return on equity funds is 12.12% in 2004 and 12% in 2003. This indicates that the firm is earning nearly 3 times the return from risk free investments of about 3%. The profitability has improved by 1.18% since 2003.

Dividend policy:

⑧

Dividend per share in 2004 is 9c and 7.5c in 2003. This has improved by 1.5c since 2003. The company's dividend cover is 1.55 times in 2004 but was 1.73 times in 2003. More profits are retained in 2004. The dividend yield is 4.3% in 2004 and 3.75% in 2003. This has improved by 0.55% since last year. This yield is above the return on a risk free investment of 3%. The shareholders would be happy with the increase in dividend but would prefer a higher dividend yield. The real return to ordinary shareholders would be 6.7% based on available profits.

State of Affairs

Liquidity:

⑧

Equip Ltd does not have liquidity problem and is well able to pay their debts as they fall due. The company has €1.34 in liquid assets to pay each €1 in debts. This has improved from 2003 when the company had €1.20 to pay each €1 owed. The current ratio has also improved since 2003 when the company had €1.80 in assets to cover each €1 of debt. They now have €1.95 to cover each €1 owed. This is slightly below the ideal of 2:1 but is not a cause of worry to shareholders.

Gearing:

④

The gearing of the company is 45%. This is a low geared company. This would please the shareholders as it increases their chance of getting a dividend and there is little risk from outside. The interest cover is 5 times and shows the ability of the company to meet their interest charges is good. This would please the shareholders.

Investment Policy:

④

The investments made by the company cost €100,000. These investments now have a market value of €90,000, a drop in value of 10%. This indicates poor management of resources and would not please the shareholders.

Prospects

Value of shares:

④

Last year a share in Equip Ltd cost €2. The share price has now increased to €2.08. The price has increased by 4%. This would please the shareholders as it shows confidence in the company by the market.

Sector:

④

Equip Ltd is a manufacturer of sports equipment. This is a good sector to be in as people are always interested in sport and with the heightened awareness of the need to exercise and avoid obesity it should also be a growing sector. There is also an increase in disposable income.

(b) The debenture holders would be dissatisfied with the following:**Dividend Policy**

(7)

Based on this years earnings the dividends proposed €48,000 are excessive. The dividend cover is 1.15 Times. More of the profits should be retained or put aside for the repayment of the debentures.

Security - Real value of Fixed assets

(7)

The debentures are secured on the fixed assets. The debenture holders would be interested in the size of the assets to make sure that there is enough security for the loan. There are fixed assets of €575,000 of which, intangible assets are €150,000 leaving net assets excluding intangibles of €425,000. It would be prudent to ascertain the real value of fixed assets. However the debenture holders would feel secure because of the excess in value of fixed assets over loan, particularly because of the investments of €90,000.

Profitability

(7)

The return on capital employed for 2005 is 12.56%. Last year the return was 14.2%. This fall indicates an unhealthy trend. The company is in a profitable position as the return of 12.56% is better than the return from risk free investments of less than 5% and is above the debenture interest rate of 10%. If the downward trend continues there is a risk of having to sell the fixed assets in order to repay debentures.

Liquidity

(7)

The company has a serious liquidity problem. Last year, the quick ratio was 1.2:1. This year the quick ratio has fallen to 0.7:1. The company now has only 70c available for every euro owed in the short term. The worsening of the ratio indicates a difficulty paying debts including future interest. If this trend continues ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying loan.

Gearing - Interest Cover

(7)

The company is lowly geared. In 2005, the gearing was at 41.8%. The gearing has slipped from 35% of total capital in 2004. Interest cover was 5 times but is now down to 3.75 times. This worsening trend could jeopardise interest payment

Sector

(5)

The long-term prospects are not encouraging in the dairy industry. There is a risk of over production and low cost competition.

Market Value

The market value of one share in 2004 was €2.10 while in 2005 it has dropped to €2. The earnings per share has dropped from 19c to 17.33c. The share may be overpriced as it takes 11.54 years to recover its market price. These would indicate a lack of public confidence in the company and may discourage investment.

Performance [15]

The ROCE and ROEF of 6.5% and 4.8% respectively are both disappointing. [8]
 The ROCE of 6.5% is only marginally better than the return from risk free investments of around 5%. This indicates an inefficient use of funds and shareholders would be unhappy.
 The Return on Equity Funds of 4.8% is less than the Return from risk free investments.

The dividend per share is 4.92c and the dividend Yield is 4.1%. This yield is less than the Return [7]
 from risk free investments of about 5%.
 Dividend Cover is 1.125 times indicating that a very small percentage of the profits is being retained.
 The Dividend Cover is low to maintain the yield at 4.1%.

State of Affairs [10]

Liquidity: The Acid Test ratio of 0.99 to 1 shows that the company is liquid. [5]
 For every €1 of short-term debt, the company has 99c available in liquid assets .

Gearing: The company is highly geared at 59.6%. This indicates that the company is dependent on [5]
 outside borrowings and therefore at risk from outside investors. The Interest Cover is 2.2 times.

Prospects [10]

1 point @ 4 marks is compulsory and
 3 others at 2 marks each

Market Value: The Market value of Ordinary Share was 1.20 and is projected to fall [4]
 to €1.12 - a **fall** of 6.6% in value.
 The shareholders would be unhappy with this as it indicates a lack of market confidence in the company.

ROCE: The ROCE of 6.5% is expected to rise to 8.5%. [2]
 This represents an improving prospect.

Liquidity: The Acid Test figure of 0.99 to 1 is expected to rise to 1.1 to 1 [2]
 a slight improvement.

Gearing: The company is highly geared at 59.6% indicating that it is dependent on outside [2]
 borrowing and therefore at risk. The gearing will improve in 2007, the projected figure being 58% which is still high but the trend is good.

Sector: The company is in the pharmaceutical sector. With an aging and increasingly
 health conscious population, prospects are good

(c)

Bank Loan Application**Yes/No [2]**

2 points at 5 marks each (Gearing and ROCE)
2 points at 4 marks each

Gearing [5]

The company is highly geared
The gearing will get worse with a further loan of 150,000.
The gearing with the loan will be 65%.
The Interest Cover will get worse

Return on Capital Employed [5]

The ROCE will be 8.5% next year
which is less than the 10% interest to be charged on the loan.

Dividend Cover/policy [4]

The Dividend Cover is 1.1 times and is projected to increase to 1.31 times.
The Dividend Cover is low
Not enough of earnings are retained for repayment of the loan.

Purpose for which loan is required [4]

The loan is required for future expansion
and should generate extra income to service the loan.

Security

The Fixed Assets are valued at 680,000
but one should question depreciation policy to ascertain the real value of the assets.
The Investments alone have a market value of 210,000
which would provide security for the loan of 150,000.
The security is adequate.

Liquidity

The liquidity ratio of 0.99 to 1
It is expected to improve to 1.1 to 1 in 2007.
However the extra interest payment will cause this to be less favourable

(b)

Profitability**[8]**

Whelan Ltd is a profitable business. The return on capital employed was 10.94% in 2007 and 9% in 2006. This indicates that the firm is earning over twice the return available from risk free investments of about 5%. The profitability has improved by 1.94%.

Dividend policy**[7]**

The Dividend Per Share in 2007 is 6.25c and was 5c in 2006. This has improved by 1.25c since 2006. The company's dividend cover in 2007 is 2.56 times but was 3 times in 2006. A smaller percentage of the profits is retained in 2007 than in 2006. The company is re investing ample profits for expansion purposes. The dividend yield is 4.81% in 2007 and 6% in 2006. This yield has declined since last year but is still above the return from risk free investments of about 5%. The real return to ordinary shareholders would be 12.30% based on available profits. The shareholders would prefer a high dividend yield.

Liquidity**[7]**

The company has a liquidity problem. The quick ratio in 2006 was 1.1 to 1 but this deteriorated to 0.7 to 1 in 2007. The company has only 70c available to pay every €1 owed in the short term. The deterioration of the ratio indicates a difficulty in paying debts and possible future interest. If this trend continues, ability to pay interest would come under pressure and funds would not be available for the purpose of repaying the loan.

Gearing**[8]**

The gearing of the company is 44.86%. [81.34%]. This is a lowly geared company and this means that the company is not dependant on outside borrowing. This would please the shareholders as it increases their chance of getting a dividend and there is little risk from outside investors. However, the gearing has slipped from 40% of total capital in 2006. Interest cover was 8 times but it is now down to 6.25 times. If this trend continues it could jeopardise interest payment.

Market value of shares**[5]**

The market value of the share in 2006 was €1.35 while in 2007 it has dropped to €1.30. The EPS has dropped from 18c to 16c. The share may be overpriced as it takes 8.125 years to recover its market price. This would indicate a lack of public confidence in the company. Shareholders would be unhappy.

Sector**[5]**

The long term prospects in the building materials industry are not encouraging. There has been a slow down in the construction industry which has led to unemployment and lower profits in the sector. Forecasts for the future indicate a slowing down in the sector.

Investment Policy

The investments made by the company cost €170,000. These investments now have a market value of €160,000 - a drop in value of 5.88%. or €10,000. This indicates poor management of resources and would not please the shareholders.

Performance [15]

Profitability. Watson plc is a profitable business as its ROCE in 2008 is 8.25% and 10.6% in 2007. This indicates that the firm is earning nearly 4 times the return from risk free investments of about 2%. However, the profitability has disimproved by 2.35% since 2007 which shows a less efficient use of resources.

Dividend Policy

The Dividend per Share in 2008 is 6.89c and was 12.7c in 2007. This has disimproved by 5.81c since 2007. The company's dividend cover is 1.2 times but was 1.5 times in 2007. Less profits are retained in 2008. The dividend yield is 5.74% in 2008 and was 9.77% in 2007. This has declined by 4.03% since last year. This is a worrying trend and the shareholders would prefer a higher dividend yield. The yield is above the return on a risk free investment of about 2%. The real return to ordinary shareholders would be 6.89% based on available profits as percentage of market value. In 2007 it was 14.65%

State of Affairs [15]

Liquidity. Watson plc has a liquidity problem and would have great difficulty paying its debts as they fall due. The company only has 74c available in liquid assets to pay each €1 of short term debts. This has disimproved from 2007 when the company had 98c available to cover each €1 owed. In both years the ratio has been below the ideal of 1:1 and is a cause of worry to shareholders.

Gearing. This is a low geared company. The Gearing of the company is 41.27%. This would please the shareholders as it increases their chances of getting a dividend and there is little risk from outside investors. However the gearing was 34% in 2007. This trend would worry the shareholders. The interest cover is 2.8 times and shows that the ability of the company to meet their interest charges is satisfactory though not exceptionally good. It has fallen from 4 times in 2008.

Investment Policy. The investments made by the company cost €190,000. These investments now have a market value of €140,000, a drop in value of 26.3%. This shows poor management of resources although one must take into account the economic downturn globally in 2008. This would not please the shareholders.

Prospects [10]

Value of shares. The market value is €1.20 in 2008. In 2007, it was €1.30. The price has dropped by 7.7%. This would not please the shareholders as it shows a lack of public confidence in the company by the market.

Sector. Watson plc is a manufacturer in the construction industry. This is not a good sector to be in at the moment as the construction industry has declined significantly in the past year due to the slow down in economic growth. Property developers are finding it hard to sell properties and this in turn has a knock on effect for companies in the building industry as building has almost come to a standstill.

The debenture holders would be **concerned** with the following:

Dividend Policy

[7]

The dividend cover is 1.33 times. Last year's dividend cover was 1.4 times. This is a worsening trend. The DPS last year was 15c while this year it is 11.25c. Based on this year's profit of €65,000, the dividends proposed of €50,000 are excessive. More of the profits should be retained for the repayment of debentures. The % of profits given out is 75%. In 2008, the % given out was 71%.

Security - Real Value of the Assets

[7]

The debentures are secured on the fixed assets. The debenture holders would be interested in the size of the assets to make sure that there is enough security for the loan. There are fixed assets of €820,000 of which, intangible assets are €180,000 leaving net assets excluding intangibles of €640,000. It would be prudent to ascertain the real value of fixed assets as there are no write-offs like depreciation. However, the debenture holders would feel secure because of the excess in value of fixed assets over the loan of €300,000. There are investments of €95,000 but the debenture holders would be disappointed at the fact that the investments have dropped from their value of €120,000.

Profitability

[7]

The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend. If this downward trend continues, there is a risk of having to sell the fixed assets in order to repay debentures. The company is in a profitable position as the return of 11.80% is better than the return from risk free investments of less than 5% and is above the debenture interest rate of 8%. The company is making less efficient use of resources this year.

Liquidity

[7]

The company has a very serious liquidity problem. Last year the quick ratio was 1:1 but this year the quick ratio has fallen to 0.36:1. The company now has only 36c available to pay every €1 owed in the short term. The worsening of the ratio indicates a difficulty in paying debts including future interest. If this trend continues, the ability to pay interest would come under pressure and funds would not be available to invest for the purpose of repaying the loan.

Gearing

[7]

The company is lowly geared. In 2009, the gearing was at 43.48%. The gearing has worsened from 37% of total capital in 2008. Interest cover was 4.7 times but is now down to 3.2 times. This worsening trend could make interest payments more difficult.

Sector

[5]

The overall worsening state of the economy is having a very negative effect on the dairy industry and there are also risks of over production and low cost competition. The long term prospects are not encouraging in the dairy industry due to outside influences.

I would advise my friend **not** to buy shares in Hebe plc for the following reasons: [3]

Share Price [4]

The share value has fallen from €1.80 to €1.50 [30c] since 2009 and is likely to continue in its downward movement based on current year performance. There is a lack of stock market confidence and may discourage investment.

Dividends [4]

Dividend per share is 11.25c. The dividend per share has dropped from 15c
The dividend yield has dropped from 8.3% to 7.5%. Whilst the rate is good the trend is not.

Reserves [2]

The dividend cover is low and dropping. The firm is not retaining enough profits to build up reserves.
The company's dividend cover has dropped from 1.4 times to 1.33 times.

Sector [2]

Dairy industry is not performing well and future is unsure.

Liquidity

Company has a serious liquidity problem. The company now has only 36c available to pay every €1 owed in the short term.

Profitability

Profitability is worsening. The return on capital employed for 2009 is 11.80%. Last year the return was 13%. It has disimproved by 1.20% and this fall indicates an unhealthy trend.

Price Earnings Ratio

Ratio is ten. It would take 10 years to earn back current price at current earnings.

Bank Loan Application**Return on Capital Employed [7]**

The company is profitable but less profitable in 2010 than in 2009. The ROCE has disimproved from 8.1% to 7.0%. This is less than the 8% interest to be charged on the loan. Why borrow/ loan at 8% if the return is only 7%.

Liquidity [7]

The acid test ratio of 0.43 to 1 is very poor. It has worsened from 0.7 to 1 since 2009. Sully plc has a serious liquidity problem. It has only 43c of liquid assets available for each € owed. The Liquidity problem will worsen if loan is granted. The company will/may not be able to pay extra interest

Gearing [6]

The company is lowly geared but gearing has become less favourable after rising from 32% to 36.45%. The gearing will get worse with a further loan of €400,000. The gearing with the loan will be 56%. The Interest Cover has disimproved from 5 times in 2009 to 3.3 times in 2010. This cover will get much worse if a loan of €400,000 is granted

Security [6]

The Fixed Assets are valued at cost at €942,800 but one should question the depreciation policy to ascertain the real value of the tangible assets. One should also question the value of intangible assets. The Investments have a market value of €90,000 but cost €150,800. Already €240,000 is committed to securing debenture. The balance sheet value of tangible fixed assets is €642,000 leaving €402,000 after security committed to debentures. The security is not adequate.

Dividend Cover/policy [5]

The Dividend Cover is 1.6 times. This has worsened from 1.9 times in 2009. The Dividend Cover is low. Not enough of earnings are retained. This would jeopardise the repayment of the loan.

Sector [5]

Sully plc is involved in the construction industry. There is grave concern about the industry in the current climate and prospects in not encouraging in medium term. Further questions about current value of fixed assets and serious question about the ability of Sully plc to generate any/enough profits to pay back/service loan as the construction industry has declined significantly in recent times due to the slow down in economic growth. Property developers are finding it hard to sell properties and this in turn has a knock on effect for companies in the construction industry as building has almost come to a standstill. The overall worsening state of the economy is having a very negative effect on the construction industry.

OR**Purpose for which loan is required**

The loan is required for future expansion. Future expansion should be more specific. It is questionable whether Sully plc could generate extra income to service the loan.

Conclusion [4]

(b)

5 points at 6 marks each
1 point at 5 marks

Profitability 6

The ROCE was 7.35% in 2011. The ROCE is expected to rise to 8.1% in 2012
Glass plc is a profitable company. This return is above the return from risk free investments of 3% to 5%. This is satisfactory in the current economic climate and next year is expected to be better. However the ROCE of 7.35% is lower than the company's cost of borrowing of 8%. Why borrow at 8% to finance a return of 7.35%. The company did not make efficient use of resources in 2011.

Dividend Policy 6

The Dividend Cover is 2.8 times. The expected cover will be down in 2012 to 1.67 times
Not enough of earnings are retained particularly in 2012
Dividend per share in 2011 is 3.33 cent and expected to be 4.2 cent in 2012. Shareholders would be happy with this trend.
The dividend yield is 2.90%. The dividend yield in 2012 will be 3.75%.
Not enough return for taking a risk – only around the same as risk free investments of 3 to 5%

Period to recoup price at current dividend per share is 34.50 years
Price earnings ratio is 12.3 to 1 and expected to rise to 16 to 1 in 2012

Liquidity 6

The Quick Ratio is 0.56 to 1 in 2011. Glas plc has a liquidity problem. There is only 56c available for every €1 owed in the short term. This would be a cause for concern.
Liquidity is expected to improve in 2012 to 0.85 to 1. This will make 85c available for every €1 owed in the short term. The improving of this ratio indicates an ability to pay dividends, if declared in 2012.

Market Price of Share 6

Market price of share in 2011 was 115c. Market price of share in 2012 is expected to fall to 112c.
This indicates a reduced value over the next year. Shareholders would be concerned by this trend as it indicates a lack of market confidence in the company.
Price earnings ratio in 2011 was 12.3 years. However PER in 2012 is expected to be 16 to 1.
Based on Div Pay Out rate the price recoup period is 34.5 years and 26.7 years in 2011 and 2012 respectively

Gearing 6

The company is highly geared. Gearing in 2011 is 58.34% and is expected to improve to 51% in 2012.
This is still high but the trend is good. This indicates that the company is dependent on outside borrowing and therefore at risk from outside investors.
Interest Cover was 3.15 times in 2011. Interest cover is expected to be 3 times in 2012
This worsening trend could make the payment of both interest and dividends more difficult.

Sector 5

The company is in the renewable energy sector. This is a growing market with emphasis on the environment.
The prospects are average in the short term – Government grants for insulation and water heating.
Its prospects are good in the long term particularly because of oil shortages and rising oil prices

(b)

40

I would advise my friend **not** to borrow money to purchase 200,000 shares in Dantzig plc. [3]

Market price/value of shares [8]

The share price is on a downward slide. The trend is negative. The shares can be purchased at 80c. This is below the market price of 85c and further below market price in 2011 of 90c. This is a worrying trend and should **not** be ignored. It indicates a lack of confidence by the stock market. The purchase price may seem good value but one should be cautious and question why such a large block of the shares is available.

By purchasing 200,000 shares a shareholder would own 36% of the company and may well have to bid for the remaining 64% of the shares

Price earnings ratio is 18 years and in 2011 it was 16.4 years. This is not very appealing if one is seeking a quick return on investment.

Dividend Policy [8]

The dividend yield was 4.28% in 2012 but was 5.22% in 2011.

The dividend cover in 2012 was 1.3 times and in 2011 was 1.17 times. Although the dividend per share has been reduced from 4.7c in 2011 to 3.64c in 2012, Dantzig plc is paying out too much of profits in dividends.

In the short-term the interest on borrowings of €160,000 would amount to €12,800. The income available from dividends is €7,280. This annual shortfall of €5,620 would have to be funded by the purchaser.

The real return to ordinary shareholders would be 5.56% compared to 8% interest on borrowed money.

Profitability [6]

Dantzig plc is not a very profitable firm. Its Return on Capital Employed was 6.1% in 2011 and disimproved to 5.37% in 2012. This trend is a cause for concern and if it continues the firm could find itself in a very serious position.

It indicates that the firm is making poor use of its resources. Dantzig is currently earning 5.37% on capital employed but is paying 8% on €200,000 {debentures} of this investment. Although the ROCE is above the return from risk free investments of [1% to 3%] it leaves little return for risk taking but perhaps it is satisfactory in the current economic climate.

It will take 22 years for the friend to receive back the cost of the shares at the current payout rate. It will take longer if dividends decline further.

Liquidity [6]

The company has a liquidity problem. The quick ratio in 2011 was 0.85 to 1 but this deteriorated to 0.75 to 1 in 2012. The company has only 75c available to pay every €1 owed in the short term.

The deterioration of the ratio indicates a difficulty in paying debts and possible future interest.

This would be a worry for both current shareholders and purchaser as it could result in the company becoming unable to pay interest and dividends even though it had made a profit.

Gearing [6]

Dantzig plc is a low geared company. Its gearing is 34.24%. Its gearing in 2011 was 30%.

This is a worsening situation as the gearing has risen by 4.24% and gives more control to outside investors. If this trend continues they could be at risk from outside investors. However, at the moment, there is little risk from outside investors.

The interest cover is 2.94 times and this shows that the company has the ability to meet its interest charges. However the cover has dropped from 4 times in 2011 and this reveals that the profit has dropped from €64,000 in 2011 or by 26.6%. If this trend continues there is a risk that the company will not be able to meet its interest charges.

Sector [3]

Dantzig plc is in the food processing sector. In the short term the sector is under pressure from cheap imports and shortage of ready cash in the economy.

However in the long-term the prospects are more encouraging. It is expected that demand for food will increase due to food shortages as the world population continues to grow.

Or

Investment Policy and Long-term liability.

The investments made by the company cost €180,000. These investments now have a market value of €80,000. This shows poor management of resources although one must take into account the economic downturn globally in 2012. If these investments are sold in the near future there will be a loss of €100,000. This will reduce the real value of assets and consequently the value of shareholders funds. The debentures are due to be repaid in 2015. This will require further borrowing or sale of fixed assets.

Theory Questions From Mock Exams.

What is Accounting?

Accounting is the process of collecting, recording and analysing financial information. Organisations can do this for their own benefit (to assess how well they are performing, to identify areas of the business that are doing badly, etc.), or to fulfil particular requirements (to comply with tax rules, to prepare accounts as required by company legislation, etc.). Accounting information is used by owners, managers, shareholders, investors, lenders, employees and other interested parties.

What are the Characteristics of Good Accounting Information?

Relevant: Enable good decisions to be made.

Reliable: Should be accurate and creditable.

Easy to Understand: Well presented and correctly laid-out.

Comparable: Prepared so that comparisons can be made with previous years and other companies.

Why Do Farmers / Clubs / Firms / Anyone Prepare Accounts?

To calculate profit.

To assess the effectiveness of different parts of the organisation.

To use as a business plan when trying to attract investment.

To calculate the tax liability of the organisation.

What Are Accounting 'Concepts'?

These are the basic guidelines that apply to all types of accounting:

Going Concern Concept: When preparing accounts, the accountant should always assume that the firm will continue to exist indefinitely.

Accruals Concept: Revenue and expenses should be included in accounts as soon as they are earned or incurred, regardless of whether the money has been actually received or paid yet.

Consistency Concept: The method a firm uses to deal with particular accounting issues should be the same every time.

Prudence Concept: When preparing accounts revenue should not be overestimated and expenses should not be underestimated. The accountant is expected to record information somewhat 'pessimistically'. (e.g. Stock is valued at the lower of cost and selling price).

What Are Accounting 'Bases'?

These are the methods used to implement the accounting concepts. e.g. We use depreciation (an accounting base) to apply the concept of prudence.

What Are Accounting 'Policies'?

These are the strategies used to apply the accounting bases. e.g. We can apply depreciation using the 'straight line' policy or the 'reducing balance' policy.

Accounting Regulation.

The way in which accounts are prepared and presented is regulated in several ways:

- By the government, through laws such as the Companies Act 1963-90
- By the accounting profession, through SSAP's (Statements of Standard Accounting Practice) and FRS's (Financial Reporting Standards).
- By the stock exchange, through their listing rules.
- By the European Union, through regulations and directives.

In order to ensure that the various requirements have been met, companies in Ireland are required to have their accounts 'audited'. The role of the auditor is to confirm that the accounts presented to them represent a 'true and fair' view of the financial position of the company – that all of the relevant information has been included, that the accounts have been prepared in accordance with the legislation, that the figures included are accurate, etc.

Different companies face different legal requirements in terms of how much information they need to prepare. This is based on whether they are a 'small',

‘medium’ or ‘large’ company, which is in turn based on the value, sales and number of employees in the company.

Company Size.

	<u>Small Company</u>	<u>Medium Company</u>	<u>Large Company</u>
Balance Sheet Total	< €1.9		> €7.6
Turnover	< €3.8		> €15.2
Avg. No of Employees	< 50		> 250
A firm must meet two out of three of the criteria to be considered either small, medium or large.			

Reporting Requirements.

	<u>Small</u>	<u>Medium</u>	<u>Large</u>
P&L Shareholders	Short	Short	Full
P&L CRO	None	Short	Full
B.Sheet Shareholders	Abridged	Full	Full
P&L CRO	Abridged	Abridged	Full