

Published Accounts.

2009 Question 6.

Although Published Accounts is a topic in its own right, anyone who is comfortable with Question One ('Final Accounts') will find it incredibly similar. Basically in this topic we are being asked to prepare a Trading and Profit and Loss Account and a Balance Sheet, but in a very particular way. The main issue is that the Trading and Profit and Loss Account must be prepared in a very definite format, with specific headings and in the correct order (The Balance Sheet is almost identical to a normal Question One Balance Sheet).

So first of all we need to get familiar with the layout of the Trading and Profit and Loss Account. To do this it would help if you could print out the template on my accounting page – just go back to the page you found these notes on and click on 'Published Template' under the 'Background Material' heading.

The basic logic behind this topic is that these accounts are being prepared in order to be 'Published' or viewed by anyone who wants to see them and therefore the law requires that they are laid out in a specific way. Sticking to the correct layout is very important (and kind of the point of the whole question).

A quick look at the answer template might scare you but it's actually a lot easier than it looks. Once you get good at these you'll probably do what you already do with Question One; i.e You'll start with the adjustments and then do your actual answer out after you've sorted all of these. Because it's the first time you're looking at a Published Account Question however, it's easier if we deal with the adjustments as we work our way through it this time.

The first figure we need is Turnover and the good news is that this is just a fancy name for Sales. You'll find the Sales figure about half way down the trial balance so we simply slot that €2,005,000 straight into the top of our answer.

The next item in our answer template is Cost of Sales and it's where you'll see the first difference between this topic and a normal Question One. Instead of putting the Cost of Sales section in figure by figure, what we're expected to do here is work it out and then just put the answer in. In other words, the Cost of Sales would normally look like this...

Opening Stock
+ Purchases
(Closing Stock)
= Cost of Sales

In this case we need to work out the solution and slot it into our answer. So...

Opening Stock	81,000
+ Purchases	1,340,000
<u>(Closing Stock)</u>	<u>(89,000)</u>
= Cost of Sales	1,332,000

It would appear that the Cost of Sales figure therefore is €1,332,000. Have a quick look at adjustment (ii) though. They're telling us that the patent is to be written off over 6 years and that this year's €14,000 write-off (€84,000 divided by six) is to be included in the cost of sales. Don't let the word 'amortisation' bother you – its just a fancy word for a write-off.

So Cost of Sales is €1,332,000 (that we worked out above) plus the €14,000 write-off.

We now have the first section done...

	€	€	€
Turnover			2005000
Cost of Sales			<u>1346000</u>
Gross Profit			659000

Right, next on the template list comes Distribution Costs. This is a list of any expenses connected with the distribution of our product. Thankfully about half way down the trial balance you'll see Distribution Costs of €198,000. The only thing that needs to be added to this is some depreciation. In note (iv) you'll see that we're told to include 40% of the buildings depreciation and all of the vehicles depreciation (it doesn't actually say to include *all* of the vehicle depreciation in the distribution costs but it's assumed that we will know it is obviously a cost associated with distribution so we always do this).

Buildings Depreciation is 2% of the cost (2% of €860,000 = €17,200) and 40% of this (€6,880) is to be included as a distribution cost.

Vehicles Depreciation is 20% of €280,000 (€56,000) and we include all of this in the distribution costs.

So Distribution Costs are: €198,000 + €6,880 + €56,000 = €260,880

Next on our answer list are Administration Expenses. This is basically any other expenses that we

can see in the question (other than Interest, Tax and Dividends – all of which are added in a few minutes). The administration costs are...

Administration Costs	212,000	(straight from the trial balance)
Buildings Depreciation	10,320	(the 60% we didn't use in Dist Costs)
Auditors Fees	7,400	(from adjustment iii)
Directors Fees	40,000	(from adjustment iii)
Discount	<u>17,000</u>	(explained below)
	286,720	

The Discount Issue: You might wonder why I've added €17,000 to the admin expenses above. If you look at adjustment (vi) it might help. We're told that included in the admin expenses is a €17,000 discount we received (i.e. a Gain). We need to know therefore what the expenses would be *without* that gain. Before you lose the plot I know that it would seem far more logical to then simply *subtract* the €17,000 from the admin expenses but unfortunately that's not how accounting works! If two things are *the same* (i.e. Both Gains or Both Expenses) we do the logical thing of subtracting one from the other if we want to separate them. If the two items are *different* however (i.e. One a Gain and One an Expense) we need to *add* them if we want to separate them. I know that makes no sense but it's just the way it is. You can try to understand it (ask me if you want a full explanation) but to be honest the best thing is to just do it and not lie awake at night worrying about it.

The next item on the answer template is Other Operating Income. This is any money we received other than Sales (which is already in our answer) and Investment Income (which has its own place in a minute). In pretty much every question therefore the things that go here are Rental Income (which in this question is €48,000), Discount Received (don't forget the €17,000 from the explanation above) and Patent Royalties (the bottom item in the trial balance, €11,000). The total of these three is €76,000. So now we have the following...

	€	€	€
Turnover			2005000
Cost of Sales			<u>1346000</u>
Gross Profit			659000
Distribution Costs			-260880
Administration Expenses			-286720
Other Operating Income			76000
Operating Profit			187400

The next section of the answer template needs four things...

Income from Financial Assets (just fancy words for Investment Income) is €22,400 – If you look in the trial balance you'll see we have '7% Investments of €320,000'.

Amounts Written Off Financial Assets: In this case and in almost every question, we don't need to put anything here. The heading is there in case the company has gotten rid of any investments during the year.

Profit on sale of Land: Look at adjustment (v) and you'll see this is easy. Land that had cost €60,000 was sold for €132,000 so we made a profit of €72,000.

Interest Payable: Simply find Debentures in the trial balance and you'll see the interest we should be paying is 6% of €300,000, i.e. €18,000.

So now our answer looks like this...

	€	€	€
Turnover			2005000
Cost of Sales			<u>1346000</u>
Gross Profit			659000
Distribution Costs			-260880
Administration Expenses			-286720
Other Operating Income			<u>76000</u>
Operating Profit			187400
Income from Financial Assets			22400
Amounts Written Off Financial Assets			0
Profit on Sale of Land			72000
Interest Payable			<u>-18000</u>
Profit on Ordinary Activities Before Taxation			263800

Nearly there!

The last few things we need are Tax and Dividends.

The tax figure (€62,000) is given to us in adjustment (iii).

The figure for dividends we've paid is also in the trial balance (€72,000). It's important to have a quick check of the adjustments to see if there are any additional dividends proposed but in this case there aren't.

Finally, we need to know the Profit and Loss balance at the start of the year and you can easily find this towards the bottom of the trial balance (€84,000).

So now we have the entire Trading and Profit and Loss Account...

	€	€	€
Turnover			2005000
Cost of Sales			<u>1346000</u>
Gross Profit			659000
Distribution Costs			-260880
Administration Expenses			-286720
Other Operating Income			<u>76000</u>
Operating Profit			187400
Income from Financial Assets			22400
Amounts Written Off Financial Assets			0
Profit on Sale of Land			72000
Interest Payable			<u>-18000</u>
Profit on Ordinary Activities Before Taxation			263800
Taxation on Ordinary Activities			<u>-62000</u>
Profit on Ordinary Activities After Taxation			201800
Dividends Paid			-72000
Dividends Proposed			<u>0</u>
Retained Profits			129800
Profit and Loss Balance 1/1			<u>84000</u>
Profit and Loss Balance 31/12			213800

Balance Sheet.

The good news is that if you've understood what happened so far (which isn't that difficult thankfully), you'll find the Balance Sheet easy. It's almost identical to a normal Balance Sheet, with only a few little changes.

In the fixed assets section you'll notice that we don't list each asset individually. Instead we put the total of the three types of fixed assets...

Intangible: Goodwill or Patents.

Tangible: Things you can actually see and touch like buildings, vehicles, etc.

Financial: Investments.

Lets work out each one at a time...

Intangible:

The intangible fixed assets are:

Patents – The €28,000 they are currently worth (in the trial balance) minus the €14,000 written off this year (from adjustment (ii)) = €14,000.

Goodwill – None in this question.

Tangible:

	Cost	Depreciation	Value
Vehicles	280,000	112,000 & 56,000	112,000

(€112,00 is the accumulated depreciation from the trial balance / €56,000 is the depreciation this year from adjustment iv).

Buildings	860,000	52,800 & 17,200	790,000
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(€52,800 is the accumulated depreciation from the trial balance / €17,200 is the depreciation this year from adjustment iv).

NB: Adjustment (v) tells us the company wants to revalue the Buildings at €950,000. So if we think the buildings are currently worth €790,000 (as we just worked out above) and they are revaluing this upwards to €950,000, the amount they are putting it up by is €160,000. This is called the Revaluation Reserve and goes in the Financed By section at the end of the question. Meanwhile we then assume the buildings are now worth the new figure of €950,000 for the purposes of the Fixed Assets section.

So our tangible fixed assets are €112,000 + €950,000 = €1,062,000

Financial:

Our investments are €320,000 in the trial balance.

So the fixed assets look like this...

	€	€	€
<u>Fixed Assets</u>			
Intangible Assets			14000
Tangible Assets			1062000
Financial Assets			<u>320000</u>
			1396000

Current Assets.

The normal current assets of Stock, Bank and Debtors are all that we'll see here:

Stock: €89,000 (in adjustment (i)).

Bank: €62,900 (from the trial balance).

Debtors: €245,300 (€243,000 from the trial balance minus the Bad Debt Provision of €14,500 from the trial balance). It is also worth noting that the 'Debtors' figure in a Published Account is *any* money owed to us (not just from regular Debtors), so we need to include the investment income due in this. The total investment income should be €22,400 (€7% of €320,000) and the trial balance tells us we have already received €5,600 of this. So the extra €16,800 we are still owed should be included in our Debtors figure.

Current Liabilities.

The first thing you'll notice is that in a Published Account the Current Liabilities need to be called 'Creditors (Amounts Falling Due Within 1 Year)'. It is important that you label it correctly. Then we put in the following three things:

Trade Creditors: The regular Creditors from the trial balance (€191,000).

Taxation: €62,000 from adjustment (iii) and €66,000 VAT from the trial balance.

Other Creditors: This is anyone else we owe money to or any expenses we have been told to 'provide for'. In this case it will be...

Debenture Int Due	3,000	(€18,000 total - €3,000 paid)
Auditors Fees	7,400	(adjustment (iii))
Directors Fees	40,000	(adjustment (iii))

So now our Balance Sheet looks like...

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	€	€	€
<u>Fixed Assets</u>			
Intangible Assets			14000
Tangible Assets			1062000
Financial Assets			<u>320000</u>
			1396000
<u>Current Assets</u>			
Stock		89000	
Bank		62900	
Debtors		<u>245300</u>	
		397200	
<u>Creditors (amounts falling due within 1 year)</u>			
Trade Creditors	191000		
Taxation	128000		
Other Creditors	<u>50400</u>		
	<u>369400</u>	<u>369400</u>	
Net Current Assets		<u>27800</u>	<u>27800</u>
Total Assets less Current Liabilities			<u>1423800</u>

Finally, we have to do the Financed By section. Just like in the Current Liabilities you'll notice that the title for the Financed By section is different than normal and its important that you label it correctly. Once you have the label right, there's only four figures needed to finish the answer...

Debentures: €300,000 (from the trial balance).

Issued Shares: €750,000 (the €600,000 plus €150,000 from the trial balance).

Revaluation Reserve: €160,000 (we worked it out when we were doing the fixed assets, above).

Profit Carried Forward: €213,800 (the final answer from the Trading and Profit and Loss Account).
And that's it...

	€	€	€
<u>Fixed Assets</u>			
Intangible Assets			14000
Tangible Assets			1062000
Financial Assets			<u>320000</u>
			1396000
<u>Current Assets</u>			
Stock		89000	
Bank		62900	
Debtors		<u>245300</u>	
		397200	
<u>Creditors (amounts falling due within 1 year)</u>			
Trade Creditors	191000		
Taxation	128000		
Other Creditors	<u>50400</u>		
	<u>369400</u>	<u>369400</u>	
Net Current Assets		<u>27800</u>	<u>27800</u>
Total Assets less Current Liabilities			<u>1423800</u>
<u>Creditors (amounts falling due after 1 year)</u>			
Debentures			300000
<u>Capital and Reserves</u>			
Issued Shares		750000	
Revaluation Reserve		160000	
Profit Carried Forward		<u>213800</u>	<u>1123800</u>
			1423800

NB:

You'll notice in the question that we have been specifically asked for some things other than the accounts above. There is a list of four things they want us to show (numbered 1-4) and then there are two theory questions in part (b) (numbered i and ii).

The theory part of Published Accounts is very important and it is vital that you know how to layout and answer these. The explanation about how to do these things is on my website. Just go back to the page you got these notes from and click on 'Accounting Theory' under the 'Class Notes' heading. My Accounting Theory notes contain all the theory from all of the topics on the course so you'll need to scroll down till you see the 'Published Accounts' heading and there you'll find an explanation of the theory that can be asked in this topic (including obviously the things that were asked in this particular question).

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