Question 4

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(a) Profit and Loss Account of Ross PLC for the year ended 31/12/2005

	Workings			€	
Turnover				1,221,000	(3)
Cost of Sales (70,000 + 700,000 – 72,000 +8,000)				(706,000)	(6)
Gross profit				515,000	
Distribution costs	**W1**	(51,000)	(2)		
Administrative expenses	**W2**	(314,700)	(5)	(365,700)	
				149,300	
Other operating income					
Discount				6,260	(1)
Operating profit				155,560	
Profit on sale of land				80,000	(2)
Investment Income				18,000	(3)
				253,560	
Interest payable				(13,300)	(3)
Profit on ordinary activities before taxation		(1)		240,260	
Taxation				(40,000)	(1)
Profit after taxation				200,260	
Dividends paid		29,000	(2)		
Dividends proposed		32,000	(2)	(61,000)	
Profit retained for year				139,260	
Profit brought forward at 1/1/2005				78,000	(1)
Profit carried forward at 31/12/2005				217,260	(3)

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	110,000	170,000	-	280,000
Value at 31/12/2005	160,000	700,000	140,000	1,000,000
Depreciation at 1/1/2005	-	-	64,000	64,000
Depreciation charge for year	-	12,300	28,000	40,300
		12,300	92,000	104,300
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	24,000	45,000
Preference dividends		
Interim paid 5.0c per share	8.000	
Final proposed 5.0c per share	8,000	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 it 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 it's 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	(72,000)	706,000
2.	Distribution costs		
	Advertising	23,000	
	Depreciation – delivery vans	28,000	51,000
3.	Administrative expenses		
	Directors fees	89,000	
	Salaries and general expenses	175,000	
	Rent	30,000	
	Auditors fees	8,400	
	Depreciation – Buildings	12,300	314,700