Question 4

(a) **37**

Profit and Loss Account of Lemont PLC for the year ended 31/12/2007

			€	
Turnover	[1]		1,990,000	[3]
Cost of Sales			(1,103,000)	[4]
Gross Profit			887,000	
Distribution Costs		W1	(302,600)	[4]
Administration Expenses		W2	(236,400)	[5]
			348,000	
Other operating income			71,000	[3]
Operating Profit			419,000	
Investment Income			13,000	[3]
Profit on sale of land			70,000	[2]
			502,000	
Interest payable			(24,000)	[2]
Profit on ordinary activities before tax	[1]		478,000	
Taxation			(85,000)	[2]
			393,000	
Dividends paid			(43,000	[2]
			350,000	
Profit brought forward at 1/1/2007			50,000	[2]
Profit carried forward at 31/12/2007			400,000	[3]

Notes to the Accounts **13**

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	60,000	60,000
	260,000	260,000

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	800,000	200,000	1,000,000
Depreciation 1/1/2007	41,000	38,000	79,000
Depreciation charge for the year	13,000	40,000	53,000
	54,000	78,000	132,000
Transfer on revaluation	(54,000)		(54,000)
Depreciation	Nil	78,000	78,000
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	10,000	1,103,000
Distribution costs		
As per Trial balance	260,000	
Depreciation Buildings	2,600	
Vehicles	40,000	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%	10,400	236,400
Other Operating Income		
Rental	50,000	
Discount	13,000	
Royalties	8,000	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