Question 3

(a) 34

Profit and Loss Account of Marx plc for the year ended 31/12/2010

Turnover		1,880,000	[2]
Cost of Sales	**W 1**	(1,152,000)	[4]
Gross Profit		728,000	
Distribution Costs	**W 2**	(298,200)	[4]
Administrative Expenses	**W 3**	(329,800)	[6]
		100,000	
Other operating income	**W 4**	80,000	[3]
Operating Profit		180,000	
Investment Income	**W 5**	6,000	[2]
Profit on sale of land		55,000	[2]
		241,000	
Interest payable		(24,000)	[2]
Profit on ordinary activities before tax		217,000	
Taxation		(80,000)	[2]
		137,000	
Dividends paid		(23,000)	[2]
		114,000	
Profit brought forward at 1/1/2010		40,000	[2]
Profit carried forward at 31/12/2010		154,000	[3]

**Penalties are applied where entries are in incorrect sequence.*

Workings

1. Cost of Sales 72,000 + 1,150,000 – 80,000 +10,000	=	1,152,000
2. Distribution costs 250,000 + 4,200 + 44,000	=	298,200
3. Administrative Expenses 240,000 + 60,000 +10,000 + 10,000 + 9,800	=	329,800
4. Other Operating Income 60,000 + 10,000 + 10,000	=	80,000
5. Investment Income 5,000 + 1,000	=	6,000

Note Depreciation - Buildings 2% (700,000) = 14,000

30% (14,000)	=	4,200
70% (14,000)	=	9,800

Notes to the Accounts

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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	80,000	80,000
	380,000	380,000

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	150,000		150,000
Value at 31/12/2010	850,000	220,000	1,070,000
Depreciation 01/01/2010	91,000	8,000	99,000
Depreciation charge for the year	14,000	44,000	58,000
	105,000	52,000	157,000
Transfer on revaluation	(105,000)		(105,000)
Depreciation 31/12/2010	Nil	52,000	52,000
Net book value 01/01/2010	729,000	212,000	941,000
Net book value 31/12/2010	850,000	168,000	1,018,000

(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 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

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.