

4. Published Accounts (cont'd.)

(a) (cont'd.)

Notes to the Accounts:

(15)

1. Accounting Policy Notes for Tangible Fixed Assets and Stock (4)

- buildings were re-valued at the end of 2017 (1) 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 (1)
 - vehicles: 20% of cost (1)
- stocks: stocks are valued on a first-in first-out basis at the lower of cost and net realisable value (1)

2. Operating Profit (2)

- The operating profit is arrived at after charging:

	€
Depreciation on tangible fixed assets	•58,500 (½)
Patent amortised	•7,000 (½)
Directors' remuneration	27,000 (½)
Auditors' fees	15,000 (½)

 - Allow full marks for student's own figure if consistent with previous work.

3. Tangible Fixed Assets (7)

	<u>Land & Buildings</u>	<u>Vehicles</u>	<u>Total</u>
	€	€	€
Cost/Valuation at 01/01/2017	810,000 (1)	220,000	1,030,000
Disposal	(85,000)(1)	—	(85,000)
Revaluation surplus at 31/12/2017	115,000 (1)	—	115,000
Valuation at 31/12/2017	<u>840,000</u>	<u>220,000</u>	<u>1,060,000</u>
Depreciation at 01/01/2017	82,000	35,000	117,000
Depreciation charge for the year	•14,500 (1)	•44,000 (1)	58,500
	96,500	79,000	175,500
Transfer on revaluation	•(96,500)(1)	—	(96,500)
Depreciation at 31/12/2017	<u>—</u>	<u>79,000</u>	<u>79,000</u>
Net book value at 01/01/2017	728,000	185,000	913,000
Net book value at 31/12/2017	840,000	141,000	•981,000 (1)

- Allow full marks for student's own figure if consistent with previous work.

4. Contingent Liability (2)

- the company has provided €50,000 for a claim made by an employee for unfair dismissal (1)
- the company's legal advisers have advised that the company will probably be liable for the full €50,000 of the claim (1)

4. Published Accounts (cont'd.)

- (b) (i) ① What is an audit? (7)
- an audit is an independent examination of the financial statements (1) of an enterprise by an appointed auditor (1)
 - the auditor expresses an opinion and certifies whether the accounts give a true and fair view of the financial position of the enterprise (1)
- ** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
- ② What is the purpose of an audit?
- to enable the auditor, in keeping with the requirements of the Companies Acts, to report on the truth and fairness (1) shown by:
 - the balance sheet (1)
 - the profit or loss shown by the profit and loss account (1)
 - any other information required to be disclosed in the financial accounts (1)
- ** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
- (ii) Explain the 'Prudence Concept' and give an example of how this concept has been applied by Toner plc when preparing its accounts and financial statements. (3)
- ① Prudence Concept
- when preparing accounts, caution should be exercised by:
 - not recording profit / income in the accounts until they have been realised (1)
 - but making provisions for any expected losses or expenses (1)
- ** Figures in brackets show the breakdown of marks if answer incomplete.
** Accept student's own wording if equivalent meaning conveyed.
- ② Example
- Any 1: (1)
- provision for bad debts //
 - a contingent liability that is probable - company is likely to be liable // etc.
- ** Accept other appropriate material.