Question 7

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Profit and Loss Account of Atkinson plc for the year ended 31/12/2015

			€	
Turnover			1,799,700	[2]
Cost of sales	**W 1**		(1,191,000)	[5]
Gross profit			608,700	
Distribution costs	**W 2**		(179,000)	[3]
Administrative expenses	**W 3**		(329,250)	[7]
			100,450	
Other operating income	**W 4**		67,250	[4]
Operating profit			167,700	
Investment income	**W 5**		15,000	[3]
Profit on the sale of land			35,000	[2]
			217,700	
Interest payable			(14,000)	[3]
Profit on ordinary activities before taxation		[1]	203,700	
Tax on profit on ordinary activities			(56,000)	[2]
Profit on ordinary activities after taxation			147,700	
Dividend paid			(43,000)	[2]
Profit retained for the year			104,700	
Profit brought forward on 01/01/2015			72,000	[2]
Profit carried forward on 31/12/2015			176,700	[4]

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Balance Sheet of Atkinson plc as at 31/12/2015

		€	€	€	
Fixed Assets					
Intangible assets				22,000	[1]
Tangible assets				928,000	[2]
Financial assets				250,000	[1]
				1,200,000	
Current Assets					
Stock		76,000 [1]			
Debtors	**W 6**	123,100 [3]			
Bank		90,000 [1]	289,100		
Creditors: **amounts falling due within 1 year** [1]					
Trade creditors		94,000 [1]			
Taxation	**W 7**	77,300 [2]			
Other creditors	**W 8**	105,800 [4]	(277,100)		
Net current assets				12,000	
Total assets less current liabilities				1,212,000	
Creditors: **amounts falling due after more than 1 year**					
7% Debentures				[2] 200,000	
Capital and Reserves					
Issued shares			600,000 [2]		[1]
Revaluation reserve	**W 9**		235,300 [3]		
Profit carried forward			176,700 [1]		
				1,012,000	
				1,212,000	

Notes to the Accounts

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1. Accounting policy notes on Tangible Fixed Assets and Stock [5]

Buildings were re-valued at the end of 2015 and were included in the accounts at their re-valued amount. Vehicles are shown at cost. Depreciation is calculated in order to write off the value/cost of the tangible assets over their estimated useful economic life, as follows:

Buildings - 2% per annum - straight line basis.
Vehicles - 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 [5]

Operating profit is arrived at after charging:

Depreciation on tangible assets	72,000
Patent amortised	11,000
Directors' remuneration	26,000
Auditors' fees	18,000

3. Dividends [2]

Ordinary dividend	
Paid 6.96c per share	33,400
Preference dividend	
Paid 8c per share	9,600

4. Tangible Fixed Assets [7]

	Land/Buildings	Vehicles	Total
Value 01/01/2015	785,000	290,000	1,075,000
Disposal	(85,000)		(85,000)
Revaluation surplus 31/12/2015	100,000		100,000
Value at 31/12/2015	800,000	290,000	1,090,000
Depreciation 01/01/2015	121,300	104,000	225,300
Charge for the year	14,000	58,000	72,000
	135,300	162,000	297,300
Transfer on revaluation	(135,300)	-	(135,300)
Depreciation 31/12/2015	------	162,000	162,000
Net book value 01/01/2015	663,700	186,000	849,700
Net book value 31/12/2015	800,000	128,000	928,000

5. Contingent Liability [3]

The company has provided €60,000 for a claim made by an employee for unfair dismissal. The company's legal advisers have advised that the company will probably be liable for the full €60,000 of the claim.

Workings

1.	Cost of sales	91,000 + 1,165,000 + 11,000 - 76,000	=	1,191,000
2.	Distribution costs	121,000 + 58,000	=	179,000
3.	Administrative expenses	203,000 + 18,000 + 26,000 + 8,250 + 14,000 + 60,000	=	329,250
4.	Other operating income	46,000 + 8,250 + 13,000	=	67,250
5.	Investment income	5,400 + 9,600	=	15,000
6.	Debtors	129,000 - 15,500 + 9,600	=	123,100
7.	Taxation	21,300 + 56,000	=	77,300
8.	Other creditors	18,000 + 26,000 + 1,800 + 60,000	=	105,800
9.	Revaluation reserve	100,000 + 121,300 + 14,000	=	235,300

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(i) Regulation is important for the following reasons:

1. To ensure that financial statements are consistent from year to year.
2. To ensure that financial statements can be easily compared with other businesses.
3. To ensure that financial statements comply with national and international law.
4. To ensure that the required accounting information is available to external users (e.g. banks).
5. Good regulation makes fraud less likely and builds trust among the investing public.

(ii) The European Union influences regulation by issuing directives. Directives are instructions that are binding on member states. Member states are given a fixed period of time to implement the directive into national law. The purpose of directives is to harmonise accounting practice in member states. An example would be the fourth directive.