Chapter 14

Solution 14.1

Public and private companies

A **private limited company** is a corporate body, which has a legal existence quite separate from the owners (between two and fifty shareholders) that have restrictions on the transfer of their share, but are protected by limited liability. A **public limited company** is a corporate body, which has a legal existence quite separate from the owners (minimum of seven shareholders) that are protected by limited liability. Shares are freely transferable as they can be traded publicly and are quoted on a stock exchange.

Shares and debentures

A person invests or buys ownership of a company by purchasing **shares** in that business. The term **debenture** is used when a company seeks people or other companies to lend it money. Debentures are a fixed interest loan which can be secured against the assets of the company. A share relates to ownership of a company while a denture relates to a loan to a company with no ownership rights.

Ordinary shares and preference shares

Holders of **ordinary shares** are the real owners of the business as each share carries voting rights and a right to a share of the profits of the business. Ordinary shareholders receive the remainder of the total profits available for dividend and, in the case of liquidation, are the last to receive any payments of cash and as a result will generally receive no repayment of capital. Holders of **preference shares** get an agreed, fixed rate of dividend each year. This dividend is paid before any ordinary share dividends are paid. Preference shareholders generally take less risk than ordinary shareholders and thus are not considered the real owners of the business and do not vote on company resolutions such as the appointment of directors etc. In the case of the company going into liquidation they will be repaid their investment before the ordinary shareholders are paid, if there are any monies left in the company.

Capital reserves and revenue reserves.

Capital reserves are reserves that are not available for distribution in the form of dividend to shareholders. Example of capital reserves would be a share premium reserve and a fixed asset revaluation reserve. **Revenue reserves** consist of unused profits remaining in the appropriation accounts (retained profits) or any amounts that have been transferred to a reserve account from the appropriation account

Bank Loans and debentures.

A bank loan occurs where an individual or business applies to a financial institution for a loan or loan facility. The institution assesses the loan application and decides on whether to grant the loan application.

The term loan note/debenture is used when a public company seeks individual investors or other companies to lend it money. In return the loan providers will get a debenture or loan note certificate on which will be stated the annual interest rate and the repayment date. Debentures can be secured against the assets of the company. Obviously investors may require security before giving a company a loan and hence these debentures are termed mortgage debentures. Unsecured debentures whose interest rate would be higher to compensate investors for the lack of security, are termed simple or naked debentures. Debt is normally arranged for a fixed period and hence can be short-term in nature (less than twelve months) medium term (between two and ten years in duration) and long-term (greater than 10 years). For public companies, debentures or loan note certificates are marketable instrument, which can be sold on to other investors at any time between the date of issue and the redemption date. Thus a bond holder can cash in a bond at any time between the date of issue and redemption in a similar way to selling public company shares. This option of liquidity makes debentures popular for investors. The company that originally issued the bond is not affected by this transaction and cannot be asked to repay a bond ahead of time even if ownership of the bond changes.

Solution 14.2

Issued share capital is the amount of authorised share capital actually issued and allotted to shareholders.

Called-up capital is the amount of capital payment which has actually been demanded by the company.

Paid-up capital is the amount of the called-up capital that has been actually paid over to the company by the shareholders.

Authorised share capital is the maximum amount of shares (as stated in the Memorandum and Articles of Association of the company) a company is entitled to issue.

Loan capital refers to the loans acquired by a company. Loans can be acquired in two ways:

1. Approaching your bank in the normal way
2. The company issuing its own loans/debentures

Solution 14.3

Statement of Equity Changes for year ended 31 May

	Ordinary shares	**Pref Shares**	**Share Prem**	**FA replace reserve**	**General reserve**	**Retained /accumulated profit**	**Total**
	€			**€**	**€**	**€**	**€**
Balance	3,000,000	600,000	700,000	150,000	60,000	440,000	4,950,000
Profit after tax						820,000	820,000
Dividend						(108,000)	(108,000)
Transf to reserve					50,000	(50,000)	
Balance at	3,000,000	600,000	700,000	150,000	110,000	1,102,000	5,662,000

Current Liabilities (extract) as at 31 May

	€
Debenture interest	15,000
Corporation tax	80,000
Preference share dividend	48,000

Solution 14.4 – Fast Food Ireland

(a) Statement of Comprehensive Income for year 31 March

Sales			242,743
Less cost of sales			
Opening stock		4,500	
Purchases	78,000		
Carriage in	525	78,525	
less closing stock		(3,780)	
Cost of sales			(79,245)
Gross Profit			163,498
Add Gains and other income			
Rental income			24,000
Less Expenses			
Wages and salaries		81,938	
Motor expenses		8,250	
Insurance		9,568	
Rates		15,897	
Advertising		9,870	
Light and heat		4,520	
Telephone		4,320	
General expenses		9,353	
Bad debts		2,560	
Provision for depreciation F&F		6,500	
Provision for depreciation Equipment		4,000	
Provision for bad debts		500	(157,276)
Net profit Before Interest			30,222
- Interest			(13,000)
Net Profit before tax			17,222
- Corporation tax			(2,300)
Net profit after Tax			14,922

(b) Statement of Equity Changes for year ended 31 March

	Ordinary shares	Share Prem	Reval reserve	General reserve	Retained /accumulated profit	Total
	€		€	€	€	€
Balance	250,000	20,000	100,000	12,560	12,000	394,560
Profit after tax					14,922	14,922
Dividend					(5,000)	(5,000)
Transf to reserve				3,000	(3,000)	
Balance at	250,000	20,000	100,000	15,560	18,922	404,482

(b) Statement of Financial Position as at 31 March

ASSETS	€	€	€
Non-Current Assets	**Cost**	**Acc dep**	**NBV**
Land and buildings	500,000	-	500,000
Equipment	45,000	(29,000)	16,000
Fixtures and fittings	65,000	(41,500)	23,500
	610,000	(70,500)	539,500
Current Assets			
Inventory		3,780	
Accounts receivable	2,500		
Less provision	(500)	2,000	
Prepayments		2,000	
Bank		2,350	
Vat refund due		980	11,110
			550,610
EQUITY & LIABILITIES			
Capital and Reserves			
Share capital			250,000
Share premium			20,000
General reserve			15,560
Revaluation reserve			100,000
Retained profit			18,922
			404,482
Non-current Liabilities			
Debentures			130,000
Current Liabilities			
Accounts payable		6,890	
PAYE/PRSI		3,938	
Debenture interest		3,000	
Corporation tax		2,300	16,128
			550,610

Solution 14.5 – Global Cinema Ltd

(a) Statement of Comprehensive Income

	€'000	€'000	€'000
Sales			3,700
Less cost of sales			
Opening stock		180	
Purchases	1,860		
+ Carriage In	22	1,882	
Closing stock		(162)	
Cost of goods sold			(1,900)
GROSS PROFIT			1,800
Add gains or other income			
Rent received		64	
Discount received		27	91
Less expenses			
Administration costs	715		
+ Due	4	719	
Sales & Distribution costs	475		
- Prepayment	(8)	467	
Discount allowed		38	
Carriage out		31	
Annual deprec - premises (1500 x 2%)		30	
Annual deprec - vehicles (700 x 10%)		70	
Annual deprec - F&E (450 x 20%)		90	(1,445)
NET OPERATING PROFIT			446
Less Debenture Interest paid		18	
Debenture Interest due		9	(27)
Net Profit before tax			419
Less Corporation tax			0
Net Profit after Interest and Tax			419

(b) Statement of Equity Changes for year ended 31 August

	Ordinary shares	Pref Shares	General reserve	Retained /accumulated profit	Total
	€,000	€'000	€'000	€'000	€'000
Balance	1,500	350	30	83	1,963
Profit after tax				419	419
Dividend Ord				(15)	(15)
Dividend Pref				(35)	(35)
Transf to reserve			32	(32)	
Balance at	1,500	350	62	420	2,332

(c)Statement of Financial Position

ASSETS	€'000	€'000	€'000
		Accum.	
Non-current assets	Cost	Deprec.	NBV
Premises	1,500	(120)	1,380
Vehicles	980	(350)	630
Furniture & equipment	450	(200)	250
	2,930	(670)	2,260
Current assets			
Inventory		162	
Accounts receivable		30	
Bank		300	
prepayments		8	500
			2,760
EQUITY & LIABILITIES			
Capital and Reserves			
Ordinary share capital (300,000 @ €5)			1,500
10% Preference share capital			350
General reserve (30,000 + 32,000)			62
P & L reserve			420
			2,332
Non-current liabilities			
12% Debenture loan			225
Current Liabilities			
Accounts payable		155	
Pref share dividend		35	
Accruals (9+4)		13	203
			2,760

Solution 14.6 – Leisure Hotels Ltd

(a) Statement of Comprehensive Income for year ended 30 June

	€	€	€
Sales			590,000
Less cost of sales			
Opening stock		10,000	
Purchases		158,900	
Less closing stock		(8,000)	
Cost of sales			(160,900)
GROSS PROFIT			429,100
Add gains			
Less Expenses			
Directors remuneration		50,000	
Wages	252,000		
+ Wages due	5,000	257,000	
Motor expenses		15,000	
Rates & insurance	12,000		
- Insurance prepaid	(3,000)	9,000	
General expenses		20,000	
Advertising		32,000	
Auditing		10,000	
Create provision bad debts		260	
Annual depreciation - furniture		7,000	
Annual depreciation - equipment		12,000	(412,260)
NET OPERATING PROFIT			16,840
Interest paid - trial balance		2,100	
Interest due		12,900	(15,000)
Net profit before tax			1,840
Corporation tax paid			
Corporation tax due			(3,500)
Net profit after interest and tax			(1,660)

(b) Statement of Equity Changes for year ended 31 March

	Ordinary shares	Pref Share	Share Prem	General reserve	Retained /accumulated profit	Total
	€			€	€	€
O/Balance	150,000	70,000	50,000	30,000	33,000	333,000
Profit after tax					(1,660)	(1660)
Dividend Ord					(5,000)	(5,000)
Dividend Pref					(4,900)	(4,900)
Transf to				5,000	(5,000)	

reserve						
Issue of shares	50,000		87,500			137,500
C/Balance	200,000	70,000	137,500	35,000	16,440	458,940

Statement of financial position as at 30 June

ASSETS		€	€
Non-current Assets	Cost	Depreciation	N.B.V
Buildings	550,000		550,000
Furniture	70,000	(32,000)	38,000
Equipment	60,000	(32,000)	28,000
	680,000	(64,000)	616,000
Current Assets			
Inventory		8,000	
Accounts receivable	13,000		
- Provision bad debts (€13,000 x 2%)	(260)	12,740	
Bank (-€15,000 – €50,000 + €137,500)		72,500	
Prepayment		3,000	96,240
			712,240
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share (€150,000 + €50,000)			200,000
7% Preference share capital			70,000
Retained profit			16,440
Share premium (€50,000 + €87,500)			137,500
General reserve (30,000 + 5,000)			35,000
			458,940
Non-current assets			
6% Debenture(250,000-50000)			200,000
Current Liabilities			
Accounts payable		27,000	
Debenture Interest due		12,900	
Wages due		5,000	
Corporation tax		3,500	
Preference dividend due		4,900	53,300
			712,240

Solution 14.7 – CRAVEN HOLIDAYS

(a) Statement of Comprehensive Income

	€'000	€'000	€'000
Sales			2,650
Lest cost of sales			
Opening stock		235	
Purchases		1,790	
Less closing stock		(375)	
Cost of sales			(1,650)
GROSS PROFIT			1,000
Less Expenses			
Administration	230		
+ Accrual	30		
- Prepayment	(22)	238	
Distribution	160		
+ Accrual	15	175	
Directors remuneration		68	
Annual depreciation - furniture (10% 0f 80,000)		8	
Annual depreciation - equipment (20% 0f 235,000)		47	(536)
NET OPERATING PROFIT			464
Interest paid		7	
Interest due		11	(18)
Net profit before tax			446
Corporation tax due		40	(40)
Net profit after interest and tax			406
Other comprehensive income			
Revaluation of property			80
Total comprehensive income			**486**

(b) Statement of Equity Changes for year ended 31 March

	Ordinary shares	Pref Share	Share Prem	Reval Res	General reserve	Retained /accumulated profit	Total
	€				€	€	€
O/Balance	600,000	250,000			90,000	254,000	1,194,000
Profit after tax						406,000	406,000
Dividend Ord							
Dividend Pref						(25,000)	(25,000)
Trans to reserve					20,000	(20,000)	
Issue of shares	100,000		75,000				175,000
Revaluation				80,000			80,000
C/Balance	700,000	250,000	75,000	80,000	110,000	615,000	1,830,000

Statement of Financial Position as at 30 September

	€'000	€'000	€'000
ASSETS	Cost	Accum.	N.B.V
Non-current Assets		Deprec.	
Property (770 + 80)	850		850
Furniture	350	(278)	72
Equipment	235	(139)	96
	1,435	(417)	1018
Intangible Assets			
Goodwill			350
Investments			75
Current Assets			
Inventory		375	
Accounts receivable		55	
Bank (319,000 + 175,000 – 100,000)		394	
Prepayment		22	846
			2289
CAPITAL AND LIABILITIES			
Capital and Reserves			
Ordinary share capital (600,000 + 100,000)			700
Preference share capital			250
Share premium (50,000 x €1.50)			75
Retained profit			615
Revaluation reserve			80
General reserve (90,000 + 20,000)			110
			1,830
Non-current Liabilities			
6% Debentures (300,000 – 100,000)			200
Current Liabilities			
Accounts payable		130	
Accrual admin		30	
Accrual distribution		15	
Debenture interest		11	
Preference dividend due		25	
Bank Overdraft		8	
Corporation tax		40	259
			2,289

Solution 14.8 – PLEASURE EVENTS

(a) Statement of Comprehensive Income

		€	€
Revenue/Sales			550,000
Less Cost of Goods Sold			
Opening Stock		45,000	
Add Purchases		210,000	
		255,000	
Less Closing Stock		55,000	200,000
Gross Profit			350,000
Less Expenses:			
Motor Expenses		20,000	
Directors Remuneration (100,000 + 10,000)		110,000	
Rates		25,000	
Wages & Salaries		65,000	
Light & Heat (16,000 + 4,500)		20,500	
Insurance		14,000	
Increase in Provision for Doubtful Debts		3,000	
Bad Debts written off		4,000	
Depreciation:			
Equipment	130,000 x 10%	13,000	
Fixtures & Fittings	100,000 x 15%	15,000	
Motor Vehicles	80,000 x 20%	16,000	305,500
Profit before interest and tax			44,500
Interest	80,000 x 10%		8,000
Profit before tax			36,500
Corporation tax			6,500
Profit after tax			30,000
Other comprehensive income			
Revaluation of property			75,000
Total comprehensive income			105,000

(b) Statement of Equity Changes for the year

	Ordinary shares	Pref Share	Share Prem	Reval Res	General reserve	Retained /accumulated profit	Total
	€				€	€	€
O/Balance	300,000					65,000	365,000
Profit after tax						30,000	30,000
Dividend Ord						(10,000)	(10,000)
Revaluation				75,000			75,000
C/Balance	300,000			75,000		85,000	460,000

(c) Statement of Financial Position as at 31st March

	Cost	Accumulated Deprec.	NBV
Non-current Assets	€	€	€
Premises	325,000	0	325,000
Equipment	130,000	88,000	42,000
Fixtures & Fittings	100,000	60,000	40,000
Motor Vehicles	80,000	51,000	29,000
	560,000	199,000	436,000
Current Assets			
Inventory		55,000	
Accounts receivable	46,000		
Less Provision	6,000	40,000	
Bank		65,000	160,000
			596,000
Equity and Liabilities			
Capital and Reserves			
Ordinary Share Capital			300,000
Retained Profit			85,000
Revaluation reserve			75,000
Shareholders Funds			460,000
Non-Current Liabilities			
10% Debentures			80,000

Current Liabilities

Cred/accounts payable	32,000	
Accruals (4500 + 10,000)	14,500	
Corporation tax	6,500	
Debenture interest due	3,000	
		56,000
		596,000