

## 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 debenture 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

### *Interim dividend and a final dividend.*

A shareholder's reward for investing in the company comes in the form of a dividend. A dividend is a share of the profits made by the company. An interim dividend is a payment out of profits before the year end while a final dividend represents the payment out of profits proposed by the directors of a company at the AGM.

## **Solution 14.2**

**Nominal 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.

**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

#### Profit & Loss Appropriation Account for year ended 31 May 2004

	€	€
Net operating profit		950,000
Interest paid	35,000	
Interest due	<u>15,000</u>	<u>(50,000)</u>
Net profit before tax		900,000
Corporation tax		<u>(80,000)</u>
Net profit after interest and tax		820,000
Appropriations		
Transfer to reserves		(50,000)
Dividend policy		
Interim ordinary dividend	60,000	
Proposed final dividend	650,000	
Preference dividend provision	<u>48,000</u>	<u>(758,000)</u>
Retained profit current year		12,000
Retained profit b/f		<u>440,000</u>
Retained profit c/f		<u><u>452,000</u></u>

#### Current Liabilities (extract) as at 31 May 2004

	€
Debenture interest	15,000
Corporation tax	80,000
Preference share dividend	48,000
Ordinary share dividend	650,000

#### Capital and Reserves as at 31 May 2004

	€
Ordinary share capital	3,000,000
Preference share capital	600,000
Retained earnings	452,000
Revaluation reserve	700,000
Fixed asset replacement reserve	150,000
P&L reserve	452,000
General reserve	<u>110,000</u>
	<u><u>5,464,000</u></u>

## Solution 14.4 – Zebra Ltd

### Trading, Profit & Loss, Appropriation A/C year ended 31/8/04

	€'000	€'000	€'000
Sales		3,700	
- Returns In		<u>(18)</u>	3,682
<i>Less cost of sales</i>			
Opening stock		180	
Purchases	1,860		
+ Carriage In	22		
- Returns Out	<u>(26)</u>	1,856	
Closing stock		<u>(162)</u>	
Cost of goods sold			<u>(1,874)</u>
GROSS PROFIT			1,808
<i>Add gains or other income</i>			
Rent received		38	
Discount received		<u>27</u>	65
<i>Less expenses</i>			
Administration costs	715		
+ Due	<u>4</u>	719	
Sales & Distribution costs	475		
- Prepayment	<u>(8)</u>	467	
Discount allowed		38	
Carriage out		13	
Annual deprec - premises (1500 x 2%)		30	
Annual deprec - vehicles (700 x 10%)		70	
Annual deprec - F&E (450 x 20%)		<u>90</u>	<u>(1,427)</u>
NET OPERATING PROFIT			446
Less Debenture Interest paid		18	
Debenture Interest due		<u>9</u>	<u>(27)</u>
Net Profit before tax			419
Less Corporation tax			<u>0</u>
Net Profit after Interest and Tax			419
APPROPRIATIONS:			
Transfer to reserves			(32)
<i>Dividend policy</i>			
Interim ordinary dividend paid		15	
Proposed final ordinary dividend (300,000 x .30)		90	
Preference share dividend provided for (350 x 10%)		<u>35</u>	<u>(140)</u>
Retained profit for the year			247
+ Retained profit b/f			<u>83</u>
= Retained profit c/f			330

**Balance sheet as at 31/8/04**

	€'000	€'000	€'000
	Cost	Accum. Deprec.	NBV
<i>Fixed assets</i>			
Premises	1,500	(120)	1,380
Vehicles	980	(350)	630
Furniture & equipment	450	(200)	250
	<u>2,930</u>	<u>(670)</u>	2,260
<i>Current assets</i>			
Closing stock		162	
Prepaid - dist costs		8	
Bank		30	
Debtors		<u>300</u>	
		500	
<i>Current liabilities</i>			
Accrual - admin due	4		
Creditors	155		
Debenture interest due	9		
Proposed final ordinary dividend	90		
Preference share dividend	<u>35</u>	(293)	207
<i>Long term liabilities</i>			
12% Debenture loan			<u>(225)</u>
			<u>2,242</u>
<i>Capital and Reserves</i>			
Ordinary share capital (300,000 @ €5)			1,500
10% Preference share capital			350
General reserve (30,000 + 32,000)			62
P & L reserve			<u>330</u>
			<u>2,242</u>

## Solution 14.5 – Gaelic Souvenir Retailers Ltd

### Trading, P&L and Appropriation Account for year ended 31 March 2005

Sales			242,743
<i>Less cost of sales</i>			
Opening stock		4,500	
Purchases	78,000		
Carriage in	<u>525</u>	78,525	
less closing stock		<u>(3,780)</u>	
Cost of sales			<u>(79,245)</u>
Gross Profit			163,498
<i>Add Gains and other income</i>			
Rental income			24,000
<i>Less Expenses</i>			
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 equipment		6,500	
Provision for depreciation vehicles		4,000	
Provision for bad debts		<u>500</u>	<u>(157,276)</u>
Net profit Before Interest			30,222
- Interest			<u>(13,000)</u>
Net Profit before tax			17,222
- Corporation tax			<u>(2,300)</u>
Net profit after Tax			14,922
<b>APPROPRIATIONS</b>			
Transfer to reserves		3,000	
Interim dividend		5,000	
Final dividend		<u>5,000</u>	<u>(13,000)</u>
Retained profit for the year			1,922
+ Retained profit b/f			<u>12,000</u>
= Retained profit c/f			<u><u>13,922</u></u>

**Balance sheet as at 31 March 2005**

	€	€	€
	Cost	Acc dep	NBV
<i>Fixed Assets</i>			
Land and buildings	500,000	-	500,000
Motor vehicles	45,000	(29,000)	16,000
office equipment	<u>65,000</u>	<u>(41,500)</u>	<u>23,500</u>
	<u>610,000</u>	<u>(70,500)</u>	539,500
<i>Current Assets</i>			
Stock		3,780	
Debtors	2,500		
Less provision	<u>(500)</u>	2,000	
Prepayments		2,000	
Bank		2,350	
Vat refund due		<u>980</u>	
		11,110	
<i>Current Liabilities</i>			
Creditors	6,890		
PAYE/PRSI	3,938		
Debenture interest	3,000		
Corporation tax	2,300		
Dividends	<u>5,000</u>	<u>( 21,128)</u>	(10,018)
<i>Long Term Liabilities</i>			
Debentures			<u>(130,000)</u>
			<u><b>399,482</b></u>
<i>Capital and Reserves</i>			
Share capital			250,000
Share premium			20,000
General reserve			15,560
Revaluation reserve			100,000
Retained profit			<u>13,922</u>
			<u><b>399,482</b></u>

**Solution 14.6 – Leisure Hotels Ltd****Trading and Profit and Loss Account for year ended 30 June 2003**

	€	€	€
Sales			590,000
<i>Less cost of sales</i>			
Opening stock		10,000	
Purchases		158,900	
Less closing stock		<u>(8,000)</u>	
Cost of sales			<u>(160,900)</u>
GROSS PROFIT			429,100
Add gains			
Less Expenses			
Directors remuneration		50,000	
Wages	252,000		
+ Wages due	<u>5,000</u>	257,000	
Motor expenses		15,000	
Rates & insurance	12,000		
- Insurance prepaid	<u>(3,000)</u>	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		<u>12,000</u>	<u>(412,260)</u>
NET OPERATING PROFIT			16,840
Interest paid - trial balance		2,100	
Interest due		<u>12,900</u>	<u>(15,000)</u>
Net profit before tax			1,840
Corporation tax paid			
Corporation tax due			<u>(3,500)</u>
Net profit after interest and tax			(1,660)
APPROPRIATIONS			
Interim ordinary dividend		5,000	
Proposed final ordinary dividend		7,500	
Preference dividend provision		<u>4,900</u>	<u>(17,400)</u>
Retained profit current year			(19,060)
Retained profit b/f			<u>33,000</u>
Retained profit c/f			<u><u>13,940</u></u>

**Balance sheet as at 30 June 2003**

	€	€	€
	Cost	Depreciation	N.B.V
<i>Fixed Assets</i>			
Buildings	550,000		550,000
Furniture	70,000	(32,000)	38,000
Equipment	60,000	(32,000)	28,000
	<u>680,000</u>	<u>(64,000)</u>	616,000
<i>Current Assets</i>			
Stock		8,000	
Debtors	13,000		
- Provision bad debts (€13,000 x 2%)	<u>(260)</u>	12,740	
Bank (-€15,000 – €50,000 + €137,500)		72,500	
Prepayment		<u>3,000</u>	
		96,240	
<i>Current Liabilities</i>			
Creditors	27,000		
Accrual wages	5,000		
Debenture interest	12,900		
Corporation tax	3,500		
Preference share dividend	4,900		
Ordinary share dividend	<u>7,500</u>	(60,800)	35,440
<i>Long Term Liabilities</i>			
6% Debentures			<u>(200,000)</u>
			<u>451,440</u>
<i>Capital and Reserves</i>			
Ordinary share capital (€150,000 + €50,000)			200,000
7% Preference share capital			70,000
Retained profit			13,940
Share premium (€50,000 + €87,500)			137,500
General reserve			<u>30,000</u>
			<u>451,440</u>

**Solution 14.7 – The Clothing Company****Trading, P&L and Appropriation Account for year ended 30 September 2005**

	€'000	€'000	€'000
Sales			2,550.0
Opening stock		235.0	
Purchases		1,790.0	
Less closing stock		<u>(375.0)</u>	
Cost of sales:			<u>(1,650.0)</u>
Gross profit			900.0
Add gains			
Less Expenses			
Administration	230		
+ Accrual	30		
- Prepayment	<u>(22)</u>	238.0	
Distribution	160		
+ Accrual	<u>15</u>	175.0	
Directors remuneration		68.0	
Annual depreciation - fittings 10% Of 80,000		8.0	
Annual depreciation - equipment 10% Of 235,000		<u>23.5</u>	<u>(512.5)</u>
Net operating profit			387.5
Interest paid - trial balance		7.0	
Interest due - note 10		<u>11.0</u>	<u>(18.0)</u>
Net profit before tax			369.5
Corporation tax due note 9		<u>40.0</u>	<u>(40.0)</u>
Net profit after interest and tax			329.5
Appropriations			
Transfer to reserves - Note 8			(20.0)
Dividend policy			
Interim ordinary dividend		0.0	
Proposed final dividend		60.0	
Preference dividend provision		<u>25.0</u>	<u>(85.0)</u>
Retained earnings current year			224.5
Retained earnings b/f			<u>254.0</u>
Retained earnings current c/f			<u>478.5</u>

**Balance sheet as at 30 September 2005**

	€'000 Cost	€'000 Accum. Deprec.	€'000 N.B.V
<i>Fixed Assets</i>			
Property (€770,000 + €80,000)	850.0		850.0
Fittings	350.0	(278.0)	72.0
Equipment	<u>235.0</u>	<u>(215.5)</u>	<u>19.5</u>
	<u>1,435.0</u>	<u>(493.5)</u>	941.5
<i>Intangible Assets</i>			
Goodwill			350.0
Investments			75.0
<i>Current Assets</i>			
Stock		375.0	
Debtors		305.0	
Bank		144.0	
Prepayment		<u>22.0</u>	
		846.0	
<i>Current Liabilities</i>			
Creditors	138.0		
Accrual admin	30.0		
Accrual distribution	15.0		
Debenture interest	11.0		
Corporation tax	40.0		
Preference share dividend	25.0		
Ordinary share dividend	<u>60.0</u>	<u>(319.0)</u>	527.0
<i>Long Term Liabilities</i>			
6% Debentures (€300,000 - €100,000)			<u>(200.0)</u>
			<u>1,693.5</u>
<i>Capital &amp; Reserves</i>			
Ordinary share capital (€600,000 + €100,000)			700.0
Preference share capital			250.0
Share premium			75.0
Retained earnings			478.5
Revaluation reserve			80.0
General reserve (€90,000 + €20,000)			<u>110.0</u>
			<u>1,693.5</u>