

Published Company Accounts

PROFIT AND LOSS ACCOUNT

Turnover

Cost of Sales

Gross Profit

Less Distribution Costs

Less Administrative expenses

Add Interest Receivable

Add Income from Shares

Add Income from other Investments

Less Interest Payable

Profit on ordinary activities Before Taxation

Less Taxation on profit of ordinary activities

Profit on ordinary activities After Taxation

Add Extraordinary profit (or loss)

Less Tax on extraordinary profit

Less Dividends

Retained Profit for the Year

Explanations of some of the items above:

Distribution Costs include expenses such as Salespersons salaries; warehousing costs; carriage outwards; depreciation on warehouses and delivery vans etc. These are expenses involved in getting goods to the customers.

Administrative Expenses include all other expenses

Interest Payable includes all interest on loans and debentures

Retained Profit for the current year need only be shown – NOT the Retained Profit accumulated from years before.

STATEMENT OF RECOGNISED GAINS AND LOSSES

This statement is drawn up under the Profit and Loss Account (FRS 3). The Profit and Loss account only contains recognized gains and losses, but the net worth of a company is determined by unrealized gains and losses as well.

Profit on ordinary activities after taxation
Unrealised Surplus on revaluation of property
Unrealised loss on trade investment
Net Gain (or Loss)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

This statement must form part of the Profit and Loss account (FRS 3)

Profit on ordinary activities after taxation
Less Dividends
Add Other recognized gains (*eg revaluation of property*)
Less other recognized losses in the year (*eg loss on trade investment*)
New Share Capital issued (*including any share premium*)
Add Beginning Shareholders funds

Shareholders funds at the end of the year

The following must be included as notes to the Profit and Loss Account:

NOTES:

1. Turnover

Turnover means the amounts derived from the selling of goods and services within the company's ordinary activities, after deducting trade discounts and value added tax.
(If a company sells in different countries or totally different goods (eg food and travel), then they must state the amount of turnover made in each market or class of business.)

2. Interest

The amount of interest on loans; bank overdraft, debentures must be shown separately in this note.

3. Rent from land

If the amount earned is very large then the net amount of rent must be stated in this note.

4. Auditors Remuneration

State the amount paid to the auditors

5. Taxation

The basis on which the tax has been calculated and the tax to dividends received from other companies

6. Staff

*The average number of persons employed
The wages and salaries paid and the pension costs
The number of employees earning over 30 000 and within each 5000 band*

7. Directors Emoluments

*Total emoluments including pensions and other benefits
Total pensions paid to past directors
Total of compensation for loss of office*

If the total emoluments is greater than 60 000 then the following must be included in this note:

*The emoluments of the chairman
The emoluments of the highest paid director*

8. Earnings per Share

SSAP 3 must be stated if the company is listed on the stock exchange

*Show the calculation:
$$\frac{\text{Profit after tax} - \text{preference dividend}}{\text{Number of Ordinary Shares issued}}$$*

BALANCE SHEET

Fixed Assets

Intangible Assets (FRS 10)

Tangible Assets (FRS 15)

Investments

Currents Assets

Less Creditors amounts falling due within one year

Net Current Assets *Current assets – current liabilities*

Creditors amounts falling due after more than one year

Capital and Reserves

Called up Share Capital

Share Premium

Revaluation Reserve

Other Reserves

Capital Redemption Reserve

Etc

Profit and Loss account

NOTES

1. Share Capital

The note should show:

- a) authorized share capital*
- b) number and average value of each class of shares*

If redeemable shares were issued then:

- a) the earliest and latest dates of redemption*
- b) whether the company or the holder has the option of redemption*
- c) amount of premium payable on redemption*

2. Fixed Assets (FRS 15 and SSAP 12)

The note should show:

- a) The cost) of the assets*
- b) The amount of any revaluation of any assets*
- c) Any additions or disposals during the year*
- d) The depreciation at the beginning of the year and for the year and for disposals*
- e) The net book value at the end of the year*
- f) The method and rates of depreciation used (eg 15% on diminishing balance method)*
- g) Any change in the method of depreciation during the year*

AUDITORS AND DIRECTORS REPORT

Auditors Report

Auditors must check that the company has kept proper accounting records and that the Profit and Loss account and the Balance Sheet accurately reflect the records.

They must state that whether in their opinion:

- a) The Profit and Loss account and the Balance sheet have been prepared in accordance with the Companies Act
- b) Whether the Balance Sheet gives a true reflection of the company's affairs at the end of the financial year and whether the Profit and Loss account gives a true and fair view of the Company's profit or loss for the financial year.
- c) They may comment on the Directors Report stating that it is consistent with the financial statements or not.

Directors Report

The Companies Act 1985 requires Directors to prepare a financial report each financial year. The reason is to add to the information given in the financial statements. The report should include:

- a) A review of the business during the year and at the end of the year
- b) Particulars of any large changes in fixed assets
- c) Particulars of important events affecting the company
- d) Amounts of recommended dividends and transfers to reserves
- e) Names of people who were directors at any time during the year
- f) Donations to political parties and charities
- g) Information about Research and Development carried on by the company
- h) Arrangements for promoting health and safety and welfare for employees
- i) An indication of future developments in the company's business
- j) Policy regarding the payment of creditors
- k) Details regarding the employment of disabled persons

1) The principle activities carried on by the company over the past financial year

Statements of Standard Accounting Practice (SSAP)

a) SSAP 2

Note that this SSAP was replaced with FRS 18

b) SSAP 3 – Earning per share

Requires companies listed on the stock exchange to show their earnings per share calculation on the profit and loss account

c) SSAP 9 – Stocks and Work in progress (and long term contracts)

This SSAP requires that stock and work in progress should be stated at the lower of cost and net realizable value of the separate items of stock and work in progress.

This SSAP also refers to long term contracts which go on for more than one year.

d) SSAP12 - Depreciation

This SSAP deals with

- 1. the depreciation methods used*
- 2. the useful life of an asset (and any changes thereof)*
- 3. the total depreciation for a financial year*

e) SSAP 13 – Research and Development

Expenditure on R&D should be stated and explained. Expenditure on R&D should be included in the Profit and Loss Account. Fixed Assets acquired for R&D should be treated as ordinary fixed assets.

f) SSAP 15 – Deferred Tax

Deferred tax comes about from timing differences. For example, Provision for Bad Debt and Income accrued. They can only be taxed (or tax deductible) when in a later period when they materialize, even though they apply to this financial year.

This SSAP states that the deferred tax should be shown separately on the profit and loss account and Balance Sheet (or as a note).

g) SSAP 25 – Different classes (types) of business or different geographical areas

This SSAP requires that companies perform Segmental reporting. They should give for each class of business or for each geographical area:

- 1. turnover*
- 2. profit before taxation*
- 3. net assets*

Financial Reporting Standards (FRS)

a) FRS 1 – Cash Flow Statements

Companies are required to submit a Cash Flow Statement with their financial statements.

b) FRS 3 – Reporting financial performance

This FRS helps users to assess the company's past and future performance.

It requires:

- 1. turnover to be shown separately for continuing, new and discontinued businesses owned by the company*
- 2. separate profits separately for continuing, new and discontinued businesses owned by the company*
- 3. profits or losses on disposal of fixed assets must be shown separately on the profit and loss account*
- 4. a statement of recognized gains and losses must be shown*
- 5. a reconciliation of movements in shareholders funds must be shown*

c) FRS 10 – Goodwill and Intangible Fixed Assets

This FRS requires that a note to the Balance Sheet includes:

- 1. the basis on which goodwill was valued*
- 2. the basis on which goodwill has been amortised (writing off goodwill to Profit and Loss using the straight line method over not more than 20 years)*
- 3. the basis of revaluation of goodwill*
- 4. details of negative goodwill*

d) FRS 15 – Tangible Fixed Assets

This FRS ensures that:

- 1. tangible fixed assets are revalued on a consistent basis*
- 2. policies of revaluation are explained to users of the records of the company*
- 3. tangible fixed assets must be recorded at cost when first bought. These costs may include delivery charges of the asset, preparing the site for installation of the asset, installation costs, professional fees of lawyers etc, interest on money borrowed to buy the asset*

e) FRS 18 – Accounting Policies

Has replaced SSAP 2 and requires two policies to be applied in the presentation of the accounts:

- 1. Going Concern principle*
- 2. Accruals principle*

Desirable policies also are:

- 1. Consistency principle*
- 2. Prudence principle*