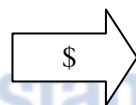


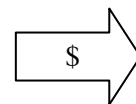
Week 9/10: Company Accounts – Income Statement & Balance Sheet

	\$
Turnover	100,000
(-) Cost of sales	<u>(20,000)</u>
Gross Profit	80,000
(-) Distribution Costs	(10,000)
(-) Administrative Costs	(10,000)
(+) Other Operating Income	<u>10,000</u>
Operating Profit	70,000
(-) Finance Cost	<u>(10,000)</u>
Profit after Interest b4 Tax	60,000
(-) Taxation	<u>(5,000)</u>
Profit after Interest and Tax	55,000
Ordinary Dividend – Interim (1,000)	
- Final <u>(1,000)</u>	(2,000)
Preference Dividend	<u>(800)</u>
Retained Profit for the year	52,200
Retained Earnings brought forward	<u>(2,200)</u>
Retained Earnings carried forward	<u>50,000</u>

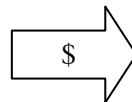
Income Statement



For Debenture Holders



For Ordinary Share Holders



For Preference Share Holders

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Week 9/10 : Company Accounts – Income Statement & Balance Sheet

Balance Sheet

	\$
Fixed Assets	100,000
Current Assets	<u>100,000</u>
	<u>200,000</u>
<u>Authorised share capital</u>	
200,000 ordinary shares of \$1 each	200,000
10,000 8% preference share of \$1each	<u>10,000</u>
	<u>210,000</u>
<u>Issued & paid-up capital</u>	
100,000 ordinary shares of \$1 each	100,000
10,000 8% preference share of \$1each	<u>10,000</u>
	110,000
Retained earnings	50,000
Share premium	20,000
<u>Long-term liabilities</u>	
7% Debenture	<u>20,000</u>
	<u>200,000</u>



Claim of Ordinary Share Holders

Remember that Authorized Share Capital is only the maximum share company can issue!! Investment from the public is in Issued and Paid Share Capital!!

Week 9/10 : Published Accounts of Limited Liability Company

Company accountant needs to prepare annually or sometimes quarterly to all users [internal and external].

Internal Users

They are involved in day-to-day analysis, planning and control of the operation. They can access to any financial documents and records of the company.

External Users

They are outside the business who require certain accounting and financial information. They make economic decision based on quarterly and annual report!

Remember that Published Account is mainly for External Users

Week9/10 : Published Accounts of Limited Companies

Main External User
Shareholders

Internal Users
Board of Director
↓
General Manager
▼
Head of Department
↓
Executive & Assistant
↓

External Users

Suppliers, Tax Authority, Customers, Bankers, Professional Organization.

Week9/ 10 : Published Accounts of Limited Companies

Do you simply join the company which is set up by your friend just because he or she is your buddy? You will ask whether the company has a third party to judge whether the financial statements of existing performance prepared by accountant are reliable or at least have no fraud.



Audit Requirement

Limited companies are usually required by law to have external audit. Some other entities, such as trade unions, government agency and large charities even school are also required to have audit. It is because for various purposes:

Week9/10 : Published Accounts of Limited Companies

1] Inland Revenue Board (tax authority) will tax the amount based on net profit which is stated in audited financial statements.

2] Performance reviews for shareholders in Annual General Meeting.



3] Company law may also require that accounting records and sources of document are kept for certain period of time, for example, in Malaysia :

a) Private Company (*Sdn. Bhd*) = 7 years

b) Public Company (*Bhd*) = 7 years

Week9/ 10 : Published Accounts of Limited Companies

Roles and Responsibilities of External Auditor

1] External auditors carry out an audit in order to be able to give the legal opinion whether financial statements give a true and fair view. After completing the audit, he will issue audit report together with audited financial statements to shareholders.

2] An audit is a *combination of tests, enquiries and judgments* made by the external auditors. The purpose of the test, enquiries and judgment is to give an opinion in an audit report.

3] In audit report, external auditor should state:

Week9/ 10 : Published Accounts of Limited Companies

- a) Whether the financial statements show *true and fair view* of the state of affairs at the year end and the profit and loss for the year.
- b) Whether the report which the directors make as part of the annual statement is *consistent* with the audited financial statements.
- c) Whether the company has kept adequate accounting records and whether management has given *sufficient information* and explanation for the audit, and

Week 9/10 : Published Accounts of Limited Companies

- d) Accounting principle and provision *matches* the financial statements the directors have prepared.
- e) Whether financial statements are properly prepared. It means prepared *in accordance with law (such as Companies Act 1965 in Malaysia) and accounting standards (such as FRS in Malaysia)*.

Presentation

It is same topic discussed in [Week 9](#).