

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Week 11

SUBJECT: ACCOUNTING

YEAR/LEVEL: 13

Strand 3: COMPANY ACCOUNTING

Sub-strand 3.3: Annual Accounts of Companies

Content Learning Outcome: Prepare the required final accounts for company business.

Greetings to all my students, week 10 we have covered the solutions for activities assigned in previous handout on preparation of final accounts of companies and this week (week 11) we will continue with our coverage on same sub-strand on theory relating to final accounts prepared by companies.

Lesson Notes:

Large public companies are required to have their accounts audited. They are involved in both internal and external audit.

Internal audit	External audit
<ul style="list-style-type: none">- Deals with performing both financial and non-financial verification within a business as directed by the annual audit plan.- strengthens internal control procedures.	<ul style="list-style-type: none">- Mostly deals with verification of financial information and they provide an opinion on whether the financial reports are a true and fair reflection of the company's financial position.- External auditors are independent party hired by the company

Published financial reports

- The public companies financial reports are generally published or made freely available to the shareholders.
- It is mandatory to have the financial reports audited by external auditors to add credibility to the report that will enable the end users to make useful financial decisions.

Internal financial reports

- These are basically prepared by private companies who do not publish the financial reports.
- It is not mandatory to be audited by the external auditors; however the information is contained within the business. The information is not freely available to everyone.

Differences between Shareholders and Debenture holders

Shareholders	Debenture holders
Are owners of the business	Are creditors of the business
Shares are recorded in the Shareholders Equity Section of the balance sheet	Debentures are recorded as deferred liability
Entitled to attend meetings and vote on company policy	Have no such rights
Share dividends are only paid when profits are made	Interest on debentures must be paid whether profit is made or not
Rate of share dividend may vary from year to year	Interest on debentures is set at fixed rate
Dividend paid is not a tax deductible expense	Interest payable on debentures is a tax deductible expense
Shares cannot be redeemed	Debentures are redeemed by the company on maturity
Issues of shares increases shareholders equity which is referred as „equity financing“	Issue of debentures increases debts owing by the company which is referred to as „debt financing“
Do not have any form of security	Have security over the assets of the firm

Note: You need to learn any of the two differences from the list given above for exam purpose.

FUNCTIONS OF THE SOUTH PACIFIC STOCK EXCHANGE (SPSE)

- Facilitate a company to raise capital through the issue of new share to the public via a prospectus.
- Provide a regulated market for the trading of existing stocks between investors.

Publicly listed companies financial reports are published on the stock market of the South Pacific Stock Exchange (SPSE) for information of the shareholders.

Refer to the lesson notes on this sub-strand (Final accounts of Companies) and solve the following activities:

Activity (Ref: MOE Text Year 13 Accounting Pg. 112 Act. 3.3.1)

- a. State two expenses incurred in forming a company.
- b. Differentiate between the following terms:
 - (i) Provisions and Reserves
 - (ii) Capital reserves and Revenue reserves
 - (iii) Internal and published financial reports
 - (iv) Debentures and unsecured notes
- c. Why it is important for a company to have external audit of their accounts?
- d. List two functions of South Pacific Stock Exchange.
- e. State two public limited liability companies listed on the South Pacific Stock Exchange.

**(Solutions of this activity will be provided in the next set of worksheet for verification,
Best wishes for week 11 studies, take care and Stay Safe)**