Solutions Manual

to accompany

Financial Accounting: Recording, Analysis and Decision Making

Fifth Edition

Prepared by

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WILEY

John Wiley & Sons Australia, Ltd 2016

CHAPTER 1 – AN INTRODUCTION TO ACCOUNTING

ASSIGNMENT CLASSIFICATION TABLE

	Learning Objectives	Brief Exercises	Exercises	Problems
1.	Explain the business context and the need for decision making.		1	
2.	Define accounting, describe the accounting process and define the diverse roles of accountants.		1	
3.	Explain the characteristics of the main forms of business organisation.	1		1A,1B
4.	Understand the *Conceptual Framework* and the purpose of financial reporting.			
5.	Identify the users of financial reports and describe users' information needs.	3	1	2A; 2B
6.	Identify the elements of each of the four main financial statements.	4,5,6	1,2,3,4,5, 7, 8,9,10	3A,4A,5A,6A 7A,8A,3B,4B 5B,6B,7B,8B
7.	Describe the financial reporting environment.	2		
8.	Explain the accounting concepts, principles, qualitative characteristics and constraints underlying financial statements		6	3A, 3B
9.	Calculate and interpret ratios for analysing an entity's profitability, liquidity and solvency.	7	11,12,13	9A,10A 9B,10B

CHAPTER 1 – INTRODUCTION TO ACCOUNTING

ANSWERS TO QUESTIONS

1. The first step in the process of decision making is to identify the issue or the decision to be made. The next step is to gather the relevant information required for the analysis. Once gathered, you then identify the tool or technique that can provide the analysis of the issue so a decision may be made. The final step is to evaluate the results of the analysis and make the decision. The primary function of accounting is to relevant information to aid in making a business decision.

2. When running a business most of your actions require decisions. Beginning with deciding which is the most suitable business structure and where are you going to locate your business and are you going to have an online presence as well, how are you going to fund your activities (borrow or have equity investors), how many employees do you need and what level of inventory is required to name a few decisions. When starting a new business deciding on the suitable accounting system and information system is important. Are you intending to have eftpos? Are you going to have online sales? Etc.

3. Advantages of company structure are limited liability (shareholders not being personally liable for corporate debts), indefinite life, easy transferability of ownership (through selling shares), and greater ability to raise funds. Disadvantages of a company are the establishment costs and ongoing fees and increased government regulations.

4. External users are those outside the business who have an interest in knowing about the activities of the entity as resource providers, recipients of goods or services or parties performing a review of oversight function. Examples include investors, creditors such as banks and suppliers, taxing authorities, regulatory agencies, trade unions and customers.

5. (a) Statement of profit or loss.
   (b) Statement of financial position.
   (c) Statement of financial position.
   (d) Statement of profit or loss.
   (e) Statement of financial position.
   (f) Statement of financial position.

6. The Conceptual Framework consists of a set of concepts to be followed by preparers of financial statements and standard setters. The Conceptual Framework provides guidance to preparers of financial information by defining who is required to report and who the users are likely to be.

7. It is important to determine if a business is a *reporting entity* as it is only reporting entities that are required to prepare general purpose financial reports in accordance with the accounting standards.

   Three main indicators determine which of the forms of business organisation fall into the category of a reporting entity. That is, an entity is more likely to be classified as a reporting entity if it is (1) managed by individuals who are not owners of the entity, (2) politically or economically important, and (3) sizable in any of the following ways — sales, assets, borrowings, customers or employees.

8. The three categories in the statement of cash flows are operating activities, investing activities and financing activities. The categories were chosen because they represent the three principal types of business activity.

9. Retained earnings is the profit retained in a company. Retained earnings is increased by profit and is decreased by dividends and by losses.

10. The going concern principle lends credibility to the cost principle; otherwise items would be reported at liquidation value. By assuming the entity will continue to operate, assets can continue to be reported at cost because they are expected to bring benefits to the business through use even though they may have little or no resale value.

11. Rose Ena is correct. Comparability means that financial statements can be compared between companies and over time. Using the same accounting principles and accounting methods from period to period with a company, facilitates comparability. When accounting methods are inconsistent, it is difficult to determine whether a company is better off, worse off or the same from period to period.

12. A company's operating cycle is the average time taken to acquire goods and services and convert them to cash in producing revenues.

13. (a) Tia is not correct. There are three characteristics:
    - liquidity,
    - profitability; and
    - solvency

    (b) The three parties are not primarily interested in the same characteristics of a company. Short-term creditors are primarily interested in the liquidity of the business. In contrast, long-term creditors and shareholders are primarily interested in the profitability and solvency of the company. However, they may use the same financial statements as a source of information.

14. (a) The increase in profit margin is good news because it means that a larger percentage of profit is generated for each dollar of net sales.

(b) An increase in the current ratio generally signals good news because the company improved its liquidity.

(c) The decrease in the debt to total assets ratio is good news because it means that the company has decreased the proportion of assets funded by creditors, thus reducing risk of being unable to repay debt.

(d) An increase in current cash debt coverage ratio is good news because it means that the company has increased its ability to meet short-term obligations. The higher the current cash debt coverage the more favourable is the liquidity of the business.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1.1

(a)	P	Shared control, increased skills and resources.
(b)	SP	Simple to set up and maintain control with founder.
(c)	C	Easier to transfer ownership and raise funds, no personal liability.

BRIEF EXERCISE 1.2

(a) False

(b) True

(c) False

BRIEF EXERCISE 1.3

1. Trying to determine whether the company complied with the Corporations Act.
2. Trying to determine whether the entity can pay its obligations.
3. Trying to determine whether a major investment proposal will be cost effective.
4. Trying to determine whether the company's profit will result in a share price increase.
5. Trying to determine whether the entity should use debt or equity financing.

(a)	3	Executive directors
(b)	2	Bank managers
(c)	4	Shareholders
(d)	5	Chief Financial Officer
(e)	1	ASIC

BRIEF EXERCISE 1.4

ABC Pty Ltd
Statement of financial position
as at 31 December 2015

Assets	
Cash	$30 000
Accounts receivable	10 000
Inventory	7 500
Total assets	47 500
Liabilities	
Accounts payable	32 500
Net assets	$15 000
Equity	
Share capital	15 000
Total equity	$15 000

BRIEF EXERCISE 1.5

PorL (a) Revenues during the period.

SFP (b) Accounts receivable at the end of the year.

SCF (c) Cash received from borrowing during the period.

SCF (d) Cash payments for the purchase of property, plant and equipment.

BRIEF EXERCISE 1.6

Swift Ltd
Statement of financial position (Partial)

Current assets:	
Cash	$4,500
Short-term investments	12,000
Accounts receivable	15,000
Supplies	2,000
Prepaid rent	1,000
Total current assets	34,500
Non-current assets:	
Property, plant and equipment	40,000
Total non-current assets	40,000
Total assets	$74,500

BRIEF EXERCISE 1.7

Return on assets ratio = $\dfrac{\text{Profit}}{\text{Average total assets}} = \dfrac{\$1{,}176{,}000}{\$5{,}113{,}000} = 23\%$

Profit margin ratio = $\dfrac{\text{Profit}}{\text{Sales}} = \dfrac{\$1{,}176{,}000}{\$7{,}840{,}000} = 15\%$

SOLUTIONS TO EXERCISES

EXERCISE 1.1

(a)	1	Auditor's opinion
(b)	2	Accounts payable
(c)	9	Share capital
(d)	7	Company
(e)	3	Accounts receivable
(f)	8	Equity Investors
(g)	4	Sole trader
(h)	5	Partnership
(i)	6	Decision

EXERCISE 1.2

Rosie's Rentals Pty Ltd
Statement of profit or loss
for the year ended 31 December 2015

	$	$
Revenues:		
Hire revenue		140,000
Expenses:		
Advertising expense	3,000	
Electricity expense	4,800	
Rent expense	20,200	
Wages expense	56,000	
Total expenses		84,000
Profit		$56,000

Rosie's Rentals Pty Ltd
Calculation of retained earnings
for the year ended 31 December 2015

	$
Retained earnings, 1 January	90,000
Add: Profit	56,000
	146,000
Less: Dividends	(14,000)
Retained earnings, 31 December	$132,000

EXERCISE 1.3

Quality Products Ltd
Statement of financial position
as at 30 June 2015

Assets:		
Cash		$15,000
Accounts Receivable		6,000
Supplies		5,600
Inventory		28,400
Total assets		55,000
Liabilities:		
Accounts payable		15,000
Net Assets		$40,000
Equity:		
Share capital	$25,000	
Retained earnings	*15,000	40,000
Total Equity		$40,000

*$18,000 – $3,000

EXERCISE 1.4

Black Ltd

(a)

Eq	Retained earnings	$2,000
E	Cost of sales	24,600
E	Wages expense	18,300
A	Cash	11,200
L	Current payables	14,500
E	Interest expense	6,200
E	Other expense	1,100
E	Depreciation expense	1,800
L	Non-current borrowings	22,000
A	Inventories	4,500
R	Sales revenue	66,000
A	Accounts Receivable	12,000
Eq	Reserves	8,000
E	Income tax expense	4,200
Eq	Contributed equity	30,000
A	Property and Equipment	20,000

(b) **Calculation of profit for Black Ltd for the year ended 30 June 2015**

	$	$
Sales revenue		66,000
Expenses:		
Cost of sales	24,600	
Wages expense	18,300	
Interest expense	6,200	
Other expense	1,100	
Depreciation expense	1,800	
Income tax expense	4,200	
Total expenses		56,200
Profit		$9,800

EXERCISE 1.5

Road Ltd

Note to solve the missing amounts the student needs to decide the order to solve the missing amounts

1. The Statement of changes in equity shows the ending retained earnings as $45,000 which then can be substituted into the Statement of financial position so that **(b) equals $45,000**.

2. Now (a) Contributed equity can be calculated.
Accounts payable + Contributed equity + Retained earnings = Total liabilities and equity.

$26,000 + (a) + $45,000 = $106,000
(a) = $106,000 – $45,000 – $26,000
(a) = $35,000

3. Items (d) and (e) are the same figure. Therefore solve (e) first in the Statement of changes in equity
Beginning retained earnings+ Profit – Dividends = Ending retained earnings

$12,000 + (e) – $8,000 = $45,000
(e) = $45,000 –$12,000 + $8,000
(e) = $41,000
and also **(d) equals $41,000**

4. Lastly now item (c) can be calculated
Revenue – Cost of sales – Administrative expenses = Profit

$200,000 – (c) – $14,000 = $41,000
$200,000 – $14,000 – $41,000 = (c)
(c) = $145,000

EXERCISE 1.6

Cheong Pty Ltd

(a) This is a violation of the cost principle. The inventory was written up to its market value when it should have remained at cost.

(b) This is a violation of the accounting entity concept. The treatment of the transaction treats Cheong Kong and Cheong Pty Ltd as one entity when they are two separate entities. The computer should not have been charged to the expense account. If paid for by the business, it should have been treated as a loan from the business to Cheong Kong.

(c) This is a violation of the period concept. This concept states that the economic life of an entity can be divided into artificial time periods (months, quarters or a year). By adding two more days to the year, Cheong Pty Ltd would be misleading financial statement users. In addition, 2015 results would not be comparable to previous years' results, and the problem would recur in 2016. The period should have been 52 weeks or 53 at the most. Retailers often use a complete number of weeks rather than an exact year. As a 365-day year consists of 52 weeks plus one day, many retailers use 52-week periods and then, approximately every 5 years, use a 53-week year. However, this is fully disclosed for comparative purposes. For example Woolworths Limited.

EXERCISE 1.7

AGL Energy Limited Ltd
Statement of financial position (Partial)
as at 30 June 2013

	$M
Current assets:	
Cash and cash equivalents	281.0
Receivables	1844.0
Inventories	133.0
Other financial assets	186.9
Other current assets	391.1
Total current assets	2836.0
Non-current assets	
Receivables	47.3
Inventories	29.2
Investments (long term)	33.1
Exploration and evaluation assets	349.0
Oil and gas assets	495.1
Property, plant and equipment	5331.6
Intangibles	3149.4
Deferred tax assets	729.2
Other financial assets	338.5
Other non-current assets	27.4
Total non-current assets	10529.8
Total assets	$13365.8

EXERCISE 1.8

Goodman Fielder Limited
Statement of financial position (Partial)
as at 30 June 2013

	$M
Current assets:	
Cash and cash equivalents	403.1
Trade and other receivables	162.9
Inventories	128.9
Derivative financial instruments	0.1
Current tax receivable	9.1
Other current assets	14.6
Assets held for sale	1.7
Total current assets	720.4
Non-current assets	
Receivables	0.8
Investments in jointly controlled entities	5.5
Property, plant and equipment	511.5
Deferred tax assets	47.1
Intangible assets	1490.5
Other non-current assets	1.0
Total non-current assets	2056.4
Total assets	$2776.8

EXERCISE 1.9

(a)

Christchurch Flooring Pty Ltd
Statement of Profit or Loss
for the year ended 31 July 2015

	$	$
Revenues:		
Sales revenue		62,000
Less: Cost of sales		30,000
Gross profit		32,000
Other revenue		
Rent revenue		30,000
Expenses:		
Salaries expense	25,000	
Depreciation expense	4,000	
Other expenses	18,000	
Total expense		(47,000)
Profit		$15,000

Calculation of Retained Earnings
for the year ended 31 July 2015

	$
Retained earnings, 1 August 2014	2,000
Add: Profit	15,000
Retained earnings, 31 July 2015	$17,000

(b)

Christchurch Flooring Pty Ltd
Statement of financial position
as at 31 July 2015

		$	$
Current assets:			
Cash			33,000
Inventory			26,000
Total current assets			59,000
Non-current assets:			
Land		80 000	
Building	70,000		
Less: Accumulated depreciation	(12,000)	58,000	
Total non-current assets			138,000
Total Assets			197,000
Current liabilities:			
Accounts payable		8,000	
Rent received in advance		2,000	
Total current liabilities		10,000	
Non-current liabilities			
Bank loan	80 000		
Total non-current liabilities		80,000	
Total liabilities			90 000
Net Assets			$107 000
Equity			
Share capital			90,000
Retained earnings			17,000
Total equity			$107,000

EXERCISE 1.10

(a)

Teddy Pty Ltd
Statement of Profit or Loss
for the year ended 31 July 2017

	$	$
Revenues:		
Sales revenue		100,000
Less: Cost of sales		42,000
Gross profit		58,000
Other revenue		
Rent revenue		36,000
Expenses:		
Salaries expense	27,000	
Depreciation expense	5,400	
Other expenses	26,600	
Total expense		59,000
Profit		$ 35,000

(b)

Teddy Pty Ltd
Calculation of Retained Earnings
for the year ended 30 June 2017

	$
Retained earnings, 1 July 2016	10,900
Add: Profit	35,000
Retained earnings, 30 June 2017	$45,900

(c)

Teddy Pty Ltd
Statement of financial position
as at 30 June 2017

	$	$	$
Current assets:			
Cash			42,500
Inventory			36,200
Total current assets			78,700
Non-current assets:			
Land		265,000	
Building	196,000		
Less: Accumulated depreciation	19,600	176,400	
Total non-current assets			441,400
Total Assets			520,100
Current liabilities:			
Accounts payable	39,400		
Rent received in advance	5,800		
Total current liabilities		45,200	
Non-current liabilities			
Bank loan	208,000		
Total non-current liabilities		208,000	
Total liabilities			253,200
Net Assets			$266,900
Equity			
Share capital		221,000	
Retained earnings		45,900	
Total equity			$266,900

EXERCISE 1.11

Retail Ltd

(a) Working capital = current assets – current liabilities

Beginning of year $53,764,000	= $223,313,000 – $169,549,000
End of year: $78,485,000	= $208,426,000 – $129,941,000
Current ratio	= current assets/current liabilities
Beginning of year: 1.32:1	= $223,313,000 / $169,549,000
End of year: 1.60:1	= $208,426,000 / $129,941,000

(b) These measures indicate that Retail Ltd’s liquidity improved during the year.

EXERCISE 1.12

AGL

	2013 $ M	**2012 $ M**
(a) Debt to assets ratio	$\frac{\$6026.8}{\$13365.8}=0.45$ or 45.09%	$\frac{\$7605.5}{\$14738.4}=0.52$ or 51.6%
(b) Cash debt coverage ratio	$\frac{\$601.8}{\frac{(\$6027+\$7605)}{2}}=0.088$	$\frac{\$466.5}{\frac{(\$7605+\$3354)}{2}}=0.085$

(c) The ratio of debt to total assets decreased, indicating decreased reliance on debt, and, AGL's cash flows from operating activities increased and the coverage of total liabilities increased marginally.

(d) In 2013 AGL's cash provided by operations ($601.8.0M) was sufficient to cover the cash used in investing activities ($549.6M). In 2012 the net investing activities ($531.3M)was more than the cash generated from operating activities there was a cash deficiency AGL, being a publicly listed company, could raise more money from the public through the issue of shares or borrow funds.

If the Statement of cash flows is downloaded then it can be seen that the cash from operating activities did cover investing outflows but was not sufficient to cover financing resulting in a net decrease in cash for the year of $1584.1M.
In 2012 cash increased by $1124.6M. Cash flow from operating activities was $466.5M and a review of the statement of cash flows indicates cash from new share issues of $883.8M plus an increase in net borrowings $431M. This was used in 2013 to repay borrowings of $1 543.9M

Note to instructor This exercise would be suitable for post graduate class and also provide the URL so that can complete the response in more depth.
If students wish to investigate Wattyl's annual report the web address is
http://agl.com.au/about/InvestorToolkit/Pages/AnnualReports.aspx

EXERCISE 1.13

Goodman Fielder Limited

		2013 $'000	**2012 $'000**
(a)	Debt to assets ratio	$\frac{\$1224.5}{\$2776.8} = 0.44$ or 44.1%	$\frac{\$1318.7}{\$2693.8} = 0.49$ or 48.95%
(b)	Cash debt coverage ratio	$\frac{\$178.7}{\frac{(\$1224.5+\$1318.7)}{2}} = 0.14$	$\frac{\$129}{\frac{(\$1318.7+\$1482.8)}{2}} = 0.09$

(c) The ratio of debt to total assets decreased from 49% to 44%, indicating decreased reliance on debt. The net cash flows from operations increased and the cash coverage of total liabilities increased slightly indicating an better solvency position.

(d) However the cash flows from operating activities in both years is greater than required for investing activities and in both years. If the cash flows statement was to be downloaded you would see that during 2013 a segment of the business was sold and this was used to pay off debt. In both years there was an increase in the cash position. It should be remembered the cash position only tells part of the story mid-way through 2014 the company on the back of declining profit forecast was subject to a takeover from a Singaporean company. The Directors at the time of writing this solution have just advised the shareholders to accept the takeover offer.

If students wish to investigate Goodman Fielder's annual report the web address is:
http://www.goodmanfielder.com.au/index.php?q=node/147

SOLUTIONS TO PROBLEM SET A

PROBLEM SET A 1.1

(a) The concern over legal liability would make the limited liability company form a better choice over a partnership. Also, the corporate form will allow the business to raise cash more easily which may be of importance in a rapidly growing industry.

(b) Sarah and Andrew should adopt the partnership form because it facilitates bringing together the contribution of skills and resources. Also there does not appear to be any expected needs for further fund in the near future.

(c) The fact that the combined business expects that it will need to raise significant funds in the near future makes the company form more desirable in this case.

(d) It is likely that this business would form as a partnership. Its needs for additional funds would probably be minimal in the foreseeable future. Also, the three know each other well and would appear to be contributing equally to the firm. Service firms, like consulting businesses, are frequently formed as partnerships.
Alternatively, they may prefer the company form to simplify subsequent expansion and take advantage of limited liability, but they would need to consider the additional regulation that it would involve.

(e) One way to ensure control would be for Anthony to form a sole proprietorship. However in order for this business to thrive, it will need a substantial investment of funds early. This would suggest the company form of business. In order for Anthony to maintain control over the business, he would need to own more than 50 percent of the voting power. In order for the business to grow, he may have to be willing to give up some control.

PROBLEM SET A 1.2

(a) In deciding whether to extend credit for 30 days you would be most interested in the Statement of financial position because it shows the assets on hand that would be available for settlement of the debt in the near-term.

(b) In purchasing an investment that will be held for an extended period, the investor must try to predict the future performance of Domino's. The statement of profit or loss provides the most useful information for predicting future performance.

(c) In extending a loan for a relatively long period of time, the bank is most interested in the probability that the company will generate sufficient income to meet its interest payments and repay its principal. The bank would therefore be interested in predicting future profit using the statement of profit or loss.

It should be noted, however, that the lender would also be very interested in both the Statement of financial position and the Statement of cash flows — the Statement of financial position would show the amount of debt the company has already incurred, as well as assets that could be liquidated to repay the loan. And the bank would be interested in the Statement of cash flows because it would provide useful information for predicting the company's ability to generate cash to repay its obligations.

(d) The finance director would be most interested in the Statement of cash flows since it shows how much cash the company generates and how that cash is used. The Statement of cash flows can be used to predict the company's future cash-generating ability.

PROBLEM SET A 1.3

Smart Travel Goods Pty Ltd

(a)

1. The accounting entity concept states that economic events can be identified with a particular unit of accountability. Since the Sunshine Coast villa is the personal property of Mark Austin – not Smart Travel Goods Pty Ltd – it should not be reported on the company's Statement of financial position. Likewise, the loan is a personal loan of Mark Austin – not a liability of the company.

2. The cost principle dictates that assets are recorded at their original cost. Therefore reporting the inventory at $40,000 would be improper and violates the cost principle. The inventory should be reported at $15,000.

3. Including the personal telephone account payable is a violation of the accounting entity concept. The $6,000 payable is not a liability of Smart Travel Goods Pty Ltd. If the company pays the telephone account on behalf of Mark Austin, it should be accounted for as a loan to Mark.

(b)

Smart Travel Goods Pty Ltd
Statement of financial position
as at 30 June 2015

	$	$
Assets		
Cash		30 000
Accounts receivable		23 000
Inventory		15 000
Total assets		68,000
Liabilities		
Accounts payable ($30,000-$6,000)	24,000	
Notes payable	12,000	
Total liabilities		36,000
Net Assets		$32,000
Equity		32,000
Total equity		$32,000

PROBLEM SET A 1.4

PQR Pty Ltd
Statement of profit or loss
for the month ended 31 October 2015

	$	**$**
Revenues:		
Service revenue		25,000
Expenses:		
Advertising expense	1,200	
Fuel expense	8,700	
Insurance expense	1,000	
Rent expense	4,000	
Repair expense	800	
Total expenses		15,700
Profit		$9,300

PQR Pty Ltd
Calculation of Retained Earnings
for the month ended 31 October 2015

	$
Retained earnings, 1 October	0
Add: Profit	9,300
	9,300
Less: Dividends	(2,000)
Retained earnings, 31 October	$7,300

PQR Ltd
Statement of financial position
as at 31 October 2015

	$	$
Assets:		
Current Assets		
Cash		9,200
Accounts receivable		28,500
		37,700
Non-Current Assets		
Equipment		80,000
Total assets		117,700
Liabilities:		
Current Liabilities		
Accounts payable	5,400	
Non-Current Liabilities		
Bank loan	40,000	
Total liabilities		45,400
Net Assets		$72,300
Equity:		
Share capital	65,000	
Retained earnings	7,300	
Total equity		$72,300

PROBLEM SET A 1.5

Daisy Ltd

Dunstan Ltd should include the following items in its Statement of cash flows:

Cash paid to suppliers
Cash dividends paid
Cash paid to purchase equipment
Cash received from customers
Cash received from share issue

Daisy Ltd
Statement of cash flows
for the year ended 31 December 2015

Cash flows from operating activities:	
Cash received from customers	$264,000
Cash paid to suppliers	(195,000)
Net cash provided by operating activities	69,000
Cash flows from investing activities:	
Cash paid to purchase equipment	(35,000)
Net cash used in investing activities	(35,000)
Cash flows from financing activities:	
Cash received issue of shares	10,000
Dividends paid	(15,000)
Net cash used in financing activities	(5,000)
Net increase in cash	$29,000

PROBLEM SET A 1.6

Ultra Pty Ltd
Statement of profit or loss
for the month ended 31 May 2016

	$	$
Revenues:		
Service revenue		42 800
Expenses:		
Advertising expense	800	
Fuel expense	3 600	
Insurance expense	2 600	
Rent expense	12 500	
Repair expense	1 800	
Total expenses		21 300
Profit		$21 500

Ultra Pty Ltd
Calculation of Retained Earnings
for the month ended 31 May 2016

	$
Retained earnings, 1 May	0
Add: Profit	21 500
	21 500
Less: Dividends	(2 000)
Retained earnings, 31 May	$19 500

Ultra Pty Ltd
Statement of financial position
as at 31 May 2016

	$	$
Assets:		
Current Assets		
Cash		30 500
Accounts receivable		25 400
		55 900
Non-Current Assets		
Equipment		87 000
Total assets		142 900
Liabilities:		
Current Liabilities		
Accounts payable	8 400	
Non-Current Liabilities		
Bank loan	40 000	
Total liabilities		48 400
Net Assets		$94 500
Equity:		
Share capital	75 000	
Retained earnings	19 500	
Total equity		$94 500

PROBLEM SET A 1.7

Liddy Ltd

Pod Ltd should include the following items in its Statement of cash flows:

Cash paid to suppliers
Cash dividends paid
Cash paid to purchase equipment
Cash received from customers

Liddy Ltd
Statement of cash flows
for the year ended 30 June 2016

Cash flows from operating activities:	
Cash received from customers	$148 000
Cash paid to suppliers	(85 000)
Net cash provided by operating activities	63 000
Cash flows from investing activities:	
Cash paid to purchase equipment	(25 000)
Net cash used in investing activities	(25 000)
Cash flows from financing activities:	
Dividends paid	(9 000)
Net cash used in financing activities	(9 000)
Net increase in cash	$29 000

PROBLEM SET A 1.8

Boral Ltd
Balance Sheet
as at 30 June 2013

	$'m
Current assets:	
Cash and cash equivalents	149.9
Cash on deposit	70.6
Receivable	887.8
Inventories	680.0
Other financial assets	11.6
Other current assets	11.6
Total current assets	1842.7
Non-current assets:	
Receivables	16.8
Inventories	19.6
Investments accounted for using equity method	34.6
Other financial assets	23.5
Property, plant and equipment	3347.1
Intangible assets	849.9
Deferred tax asset	133.7
Other non-current assets	48.5
Total non-current assets	4473.7
Total assets	6316.4
Current liabilities:	
Payables	760.1
Loans and borrowings	126.9
Current tax liabilities	19.1
Provisions	212.0
Total current liabilities	1174.3
Non-current liabilities:	
Payables	9.4
Loans and borrowings	1539.6
Other financial liabilities	25.5
Deferred tax liabilities	57.6
Provisions	116.5
Total non-current liabilities	1748.6
Total liabilities	2922.9
NET ASSETS	$3393.5
Equity:	
Issued Capital	2433.8
Reserves	74.4
Retained earnings	796.0
Total parent entity interest	3304.2
Non-controlling interests	89.3
TOTAL EQUITY	$3393.5

If students wish to look up Boral's annual report the web address is
http://www.boral.com.au/PromoList/annual_sustainability_reports.asp

PROBLEM SET A 1.9

City Sales Pty Ltd

(a) Working capital = \$474,500 – \$250,000 = \$224,500

(b) Current ratio $= \dfrac{\$474{,}500}{\$250{,}000} = 1.9:1$

(c) Current cash debt coverage ratio $= \dfrac{\$260{,}000}{\dfrac{[\$250{,}000 + \$100{,}000]}{2}} = 1.5 \text{ times}$

(d) Debt to total assets ratio $= \dfrac{\$460{,}000}{\$1{,}014{,}800} = 0.453:1$ or 45.3%

(e) Cash debt coverage ratio $= \dfrac{\$260{,}000}{\dfrac{[\$460{,}000 + \$300{,}000]}{2}} = 0.7 \text{ times}$

(f) Profit margin ratio $= \dfrac{\$115{,}000}{\$2{,}200{,}000} = 0.052:1$ or 5.2 %

(g) Return on assets ratio =

$$\frac{\$115{,}000}{\left[\dfrac{\$790{,}800 + \$1{,}014{,}800}{2}\right]} = \frac{\$115{,}000}{\$902{,}800} = 0.127:1 \text{ OR } 12.7\%$$

PROBLEM SET A 1.10

AKA Ltd and UFO Ltd

	Ratio	AKA	UFO
		(All dollars are in thousands)	
(a)	Working capital	\$33,000 - \$15,000 = \$18,000	\$20,000 - \$10,000 = \$10,000
(b)	Current ratio	2.2:1 (\$33,000 ÷ \$15,000)	2.0:1 (\$20,000 ÷ \$10,000)
(c)	Debt to total assets ratio	53.1% [(\$15,000 + \$70,000) ÷ \$160,000]	87.2% [(\$10,000 + \$160,000) ÷ \$195,000]
(d)	Return on assets	$10.7\% = \frac{\$16{,}000}{(\$160{,}000+\$140{,}000)/2}$	$2.9\% = \frac{\$5{,}000}{(\$195{,}000+\$155{,}000)/2}$
(e)	Profit margin ratio	$13.3\% = \frac{\$16{,}000}{\$120{,}000}$	$5.0\% = \frac{\$5{,}000}{\$100{,}000}$

(f) The comparison of the two companies shows the following:

Liquidity – AKA's current ratio of 2.2:1 is better than UFO's 2.0:1. AKA also has higher working capital than UFO.

Solvency – AKA's debt to total assets ratio is lower than that of UFO, indicating that AKA has better solvency.

Profitability – AKA has a higher return on assets and profit margin ratio than UFO, indicating that it is more profitable than UFO. Note that UFO's higher borrowing costs, resulting from its greater reliance on debt, has reduced its profitability.

SOLUTIONS TO PROBLEM SET B

PROBLEM SET B 1.1

(a) One way to ensure control would be for Fiona to form a sole proprietorship. However in order for this business to thrive, it will need a substantial investment of funds early. This would suggest the company form of business. In order for Fiona to maintain control over the business, she would need to own more than 50 percent of the voting power. In order for the business to grow, she may have to be willing to give up some control, maybe her family would also invest or loan the business funds in the early stages of establishment.

(b) Mark should incorporate the business to minimise tax plus he will need to prepare financial forecast to present to the financial institutions to borrow funds. It is likely Mark would not immediately have the advantage of limited liability as the financial institutions would usually require a personal guarantee from Mark for the debt borrowings.

(c) It is likely that this business would form as a partnership. Its needs for additional funds would probably be minimal in the foreseeable future. Also, the three know each other well and would appear to be contributing equally to the business.
Alternatively, they may prefer the company form to simplify subsequent expansion and take advantage of limited liability, but they would need to consider the additional regulation that it would involve.

(d) Amanda and Jessica should adopt the partnership form because it facilitates bringing together the contribution of skills and resources. Also there does not appear to be any expected needs for further fund in the near future.

(e) The fact that the combined business expects that it will need to raise significant funds in the near future makes the company form more desirable in this case.

PROBLEM SET B 1.2

(a) The finance director would be most interested in the Statement of cash flows since it shows how much cash the company generates and how that cash is used. The Statement of cash flows can be used to predict the company's future cash-generating ability.

(b) In purchasing an investment that will be held for an extended period, the investor must try to predict the future performance of Woolworths'. The statement of profit or loss provides the most useful information for predicting future performance.

(c) In deciding whether to extend credit for 30 days you would be most interested in the Statement of financial position because it shows the assets on hand that would be available for settlement of the debt in the near-term.

(d) In extending a loan for a relatively long period of time, the bank is most interested in the probability that the company will generate sufficient income to meet its interest payments and repay its principal. The bank would therefore be interested in predicting future profit using the statement of profit or loss.

It should be noted, however, that the lender would also be very interested in both the Statement of financial position and the Statement of cash flows — the Statement of financial position would show the amount of debt the company has already incurred, as well as assets that could be liquidated to repay the loan. And the bank would be interested in the Statement of cash flows because it would provide useful information for predicting the company's ability to generate cash to repay its obligations

PROBLEM SET B 1.3

Jupiter Pty Ltd

(a)

1. The accounting entity concept states that economic events can be identified with a particular unit of accountability. Since the Port Macquarie villa is the personal property of Mary Eagle – not Jupiter Pty Ltd – it should not be reported on the company's Statement of financial position. Likewise, the loan is a personal loan of Mary Eagle – not a liability of the company.

2. The cost principle dictates that assets are recorded at their original cost. Therefore reporting the inventory at $75,000 would be improper and violates the cost principle. The inventory should be reported at $25,000.

3. Including the personal electricity account payable is a violation of the accounting entity concept. The $2,000 payable is not a liability of Jupiter Pty Ltd. If the company pays the electricity account on behalf of Mary Eagle, it should be accounted for as a loan to Mary.

(b)

Jupiter Pty Ltd
Statement of financial position
as at 30 June 2016

	$	$
Assets		
Cash		56 000
Accounts receivable		84 000
Inventory		25 000
Total assets		165 000
Liabilities		
Accounts payable ($65,000-$2,000)	63 000	
Notes payable	30 000	
Total liabilities		93 000
Net Assets		$72 000
Equity		72 000
Total equity		$72 000

PROBLEM SET B 1.4

Evans Ltd
Statement of profit or loss
for the year ended 30 June 2016

	$	$
Revenues:		
Service revenue		250 000
Expenses:		
Advertising expense	16 500	
Depreciation expense	30 000	
Insurance expense	24 000	
Office expense	68 000	
Rent expense	37 500	
Repair expense	700	
Total expenses		176 700
Profit		$53 300

Evans Ltd
Calculation of Retained Earnings
for the year ended 30 June 2016

	$
Retained earnings, 1 July 2015	0
Add: Profit	73 300
	73 300
Less: Dividends	(20 000)
Retained earnings, 30 June 2016	$53 300

Evans Ltd
Statement of financial position
as at 30 June 2016

	$	$
Assets:		
Current Assets		
Cash		155 100
Accounts receivable		43 000
		198 100
Non-Current Assets		
Equipment		120 000
Total assets		318 100
Liabilities:		
Current Liabilities		
Accounts payable	24 800	
Non-Current Liabilities		
Bank loan	90 000	
Total liabilities		150 000
Net Assets		$203 300
Equity:		
Share capital	150 000	
Retained earnings	53 300	
Total equity		$203 300

PROBLEM SET B 1.5

Buzzy Bee Ltd

Dunstan Ltd should include the following items in its Statement of cash flows:

Cash paid to suppliers
Cash dividends paid
Cash paid to purchase equipment
Cash received from customers
Cash received from share issue

Buzzy Bee Ltd
Statement of cash flows
for the year ended 31 December 2015

Cash flows from operating activities:	
Cash received from customers	$509 200
Cash paid to suppliers	(301 500)
Net cash provided by operating activities	207 700
Cash flows from investing activities:	
Cash paid to purchase equipment	(210 000)
Net cash used in investing activities	(210 000)
Cash flows from financing activities:	
Cash from share issue	50 000
Dividends paid	(15 000)
Net cash provided in financing activities	35 000
Net increase in cash	$32 700

PROBLEM SET B 1.6

Goodwin Ltd
Statement of profit or loss
for the month ended 31 May 2016

	$	**$**
Revenues:		
Service revenue		30 000
Expenses:		
Advertising expense	2 000	
Office expense	8 200	
Insurance expense	1 200	
Rent expense	3 800	
Repair expense	600	
Total expenses		15 800
Profit		$14 200

Goodwin Ltd
Calculation of Retained Earnings
for the month ended 31 May 2016

	$
Retained earnings, 1 May	0
Add: Profit	14 200
	14 200
Less: Dividends	(750)
Retained earnings, 31 May	$13 450

Goodwin Ltd
Statement of financial position
as at 31 May 2016

	$	$
Assets:		
Current Assets		
Cash		38 350
Accounts receivable		14 800
		53 150
Non-Current Assets		
Equipment		63 000
Total assets		116 150
Liabilities:		
Current Liabilities		
Accounts payable	2 700	
Non-Current Liabilities		
Bank loan	40 000	
Total liabilities		42 700
Net Assets		$73 450
Equity:		
Share capital	60 000	
Retained earnings	13 450	
Total equity		$73 450

PROBLEM SET B 1.7

Spoon Ltd

Spoon Ltd should include the following items in its Statement of cash flows:

Cash paid to suppliers
Cash dividends paid
Cash paid to purchase equipment
Cash received from customers

Spoon Ltd
Statement of cash flows
for the year ended 30 June 2016

Cash flows from operating activities:	
Cash received from customers	$515 000
Cash paid to suppliers	(205 000)
Net cash provided by operating activities	310 000
Cash flows from investing activities:	
Cash paid to purchase equipment	(140 000)
Net cash used in investing activities	(140 000)
Cash flows from financing activities:	
Dividends paid	(77 000)
Net cash used in financing activities	(77 000)
Net increase in cash	$93 000

PROBLEM SET B 1.8

(a)

Retail Ltd
Statement of profit or loss
for the year ended 30 June 2015

	$	$
Revenues:		
Sales revenue		167 420
Less: Cost of sales		82 000
Gross profit		85 420
Expenses:		
Salaries expense	35 000	
Advertising Expense	5 000	
Insurance Expense	1 300	
Rent Expense	2 500	
Repairs Expense	15 000	
Other expenses	6 250	
Total expense		(65 050)
Profit		$20 370

(b)

Retail Ltd
Calculation of Retained Earnings
for the year ended 31 July 2015

	$
Retained earnings, 1 July 2014	12 500
Add: Profit	20 370
	32 870
Less: Dividend	7 800
Retained earnings, 30 June 2015	$25 070

(c)

Retail Ltd
Statement of financial position
as at 30 June 2015

		$	$
Current assets:			
Cash			24 250
Accounts receivable			8 320
Inventory			21 500
Total current assets			54 070
Non-current assets:			
Equipment		83 000	
Intangibles		6 300	
Total non-current assets			89 300
Total Assets			143 370
Current liabilities:			
Accounts payable	3 300		
Total current liabilities		3 300	
Non-current liabilities			
Bank loan	15 000		
Total non-current liabilities		15 000	
Total liabilities			18 300
Net Assets			$125 070
Equity			
Share capital			100 000
Retained earnings			25 070
Total equity			$125 070

(d)

Retail Ltd
Statement of cash flows
for the year ended 30 June 2015

Cash flows from operating activities:		
Cash received from customers	$172 350	
Cash paid operating expenses	(65 050)	
Cash paid to suppliers	(84 500)	
Net cash provided by operating activities		22 800
Cash flows from investing activities:		
Cash paid to purchase equipment	(36 000)	
Net cash used in investing activities		(36 000)
Cash flows from financing activities:		
Cash from borrowing	15 000	
Dividends paid	(7 800)	
Net cash provided in financing activities		7 200
Net decrease in cash		($6 000)

(e) Calculate the Cash account balance at 1 July 2014 (i.e.) the opening balance).

Opening cash balance = Closing balance + decrease in cash
= $24 250 + $6 000
= $30 350

PROBLEM SET B 1.9

Nixon Pty Ltd

(a) Working capital = \$711 750 – \$375 000 = \$336 750

(b) Current ratio $= \dfrac{\$711\,750}{\$375\,000} = 1.9:1$

(c) Current cash debt coverage ratio $= \dfrac{\$375\,000}{\dfrac{[\$375\,000 + \$150\,000]}{2}} = 1.43 \text{ times}$

(d) Debt to total assets ratio $= \dfrac{\$690\,000}{\$1\,522\,200} = 0.453:1$ or 45.3%

(e) Cash debt coverage ratio $= \dfrac{\$375\,000}{\dfrac{[\$690\,000 + \$450\,000]}{2}} = 0.66 \text{ times}$

(f) Profit margin ratio $= \dfrac{\$172{,}500}{\$3{,}300{,}000} = 0.052:1$ or 5.2 %

(g) Return on assets ratio =

$$\frac{\$172{,}500}{\left[\dfrac{\$1522200 + \$11862000}{2}\right]} = \frac{\$172\,500}{\$1354200} = 0.127:1 \text{ OR } 12.7\%$$

.

PROBLEM SET B 1.10

New Ltd and Old Ltd

	Ratio	New Ltd	Old ltd
		(All dollars are in thousands)	
(a)	Working capital	\$115 500 - \$52 500 = \$63 000	\$70 000 - \$35 000 = \$35 000
(b)	Current ratio	2.2:1 (\$115 500 ÷ \$52 500)	2.0:1 (\$70 000 ÷ \$35 000)
(c)	Debt to total assets ratio	53.1% [(\$52 500 + \$245 000) ÷ \$560 000]	87.2% [(\$35 000 + \$560 000) ÷ \$682 500]
(d)	Return on assets	$10.7\% = \frac{\$56000}{(\$560000+\$490000)/2}$	$2.9\% = \frac{\$17500}{(\$682500+\$542500)/2}$
(e)	Profit margin ratio	$13.3\% = \frac{\$56000}{\$420000}$	$5.0\% = \frac{\$17500}{\$350000}$

(f) The comparison of the two companies shows the following:

Liquidity – NEW's current ratio of 2.2:1 is better than OLD's 2.0:1. NEW also has higher working capital than OLD.

Solvency – NEW's debt to total assets ratio is lower than that of OLD, indicating that NEW has better solvency.

Profitability – NEW has a higher return on assets and profit margin ratio than OLD, indicating that it is more profitable than OLD. Note that OLD's higher borrowing costs, resulting from its greater reliance on debt, has reduced its profitability.

BUILDING BUSINESS SKILLS

FINANCIAL REPORTING AND ANALYSIS

BUILDING BUSINESS SKILLS 1.1 FINANCIAL REPORTING PROBLEM

Domino's Pizza Enterprises Ltd

(a) Domino's total assets at 30 June 2013 were $189,751,000 and at 1 July 2012 were $175,319,000

(b) Domino's had $6,685,000 of inventory at 30 June 2013.

(c) Domino's had Trade and other payables totalling $38,055,000 at 30 June 2013 and $34,172,000 on 1 July 2012.

(d) Domino's reported sales in 2013 of $182,000,000 and in 2012 of $162,337,000. See note 5

(e) Domino's profit before tax increased by $3,121,000 from 2012 to 2013, from $37,644,000 to $40,765,000.

(f) Domino's accounting equation is:

$$\frac{\text{Assets}}{\$189{,}751{,}000} = \frac{\text{Liabilities}}{\$87{,}169{,}000} + \frac{\text{Equity}}{\$102{,}582{,}000}$$

(g) Domino's has current liabilities of $51,561,000 at 1 July 2012.

BUILDING BUSINESS SKILLS 1.2 COMPARATIVE ANALYSIS PROBLEM

Domino's Pizza Enterprises Ltd vs. Classic Food Ltd

(a)

(Amounts in thousands)	**Domino's Pizza Enterprises Ltd**	**Classic Food Ltd**
1. Return on Total assets	$28,657/ [($189,751+$175313)/2] = **15.70%**	$23,552/[($364,227+$170,296)/2] = **8.8%**
2. Profit Margin Ratio*	$28,657 / $188,631 = **15.19%**	$23,552 / $650,738 = **3.6%**

* Revenue from the statement of profit or loss was used here for the profit margin. If you used net Sales (Note 5) the profit margin would be 15.75%

(b) The ratios indicate the Domino's has a stronger profitability because both its return on total assets and profit margin ratio are greater than those of Classic's. Overall Domino's is a stronger performer although Classic is a larger entity.

(c)

Working capital	$9,079 ($60,383 - $51,304)	-$20,300 ($174,700 - $195,000)
Current ratio	**1.177:1** ($60,383 / $51,304)	**0.90:1** ($174,700 / $195,000)

(d) Domino's appears to have better liquidity because it has a higher current ratio and more working capital. Classic Retail has negative working capital.

(e) In order to make an informed assessment of the two companies' performances you would require industry information as a benchmark. You would also need as full set of accounts including the notes to the accounts. Classic Foods has doubled in size during last twelve months. So details of any acquisitions and new share issues. Information about the companies from their web pages or media releases

BUILDING BUSINESS SKILLS 1.3 INTERPRETING FINANCIAL STATEMENTS

NuSmart Technology Ltd

(a) Creditors lend money to companies with the expectation that they will be repaid at a specified point in time in the future. During 2015 and 2016 NuSmart Technology' operating activities used cash instead of generating it, which is not uncommon in start-up companies in this industry. The company has been reliant on borrowing and contributions from shareholders to meet its investing cash needs and provide cash for operations. Creditors may also be concerned about reduced cash holdings which occurred in both years. Creditors may be reluctant to lend to the company without having some additional assurance of repayment. Although details were not provided in the question as to when the company was to generate cash inflows from operating activities it was disclosed that NuSmart Technology had not received any cash from customers in 2015 or 2016.

(b) Shareholders are interested in the long-term performance of a company and how that translates into its share price. Shareholders may be concerned that the company's operations have continued to drain cash flows in 2016. However, this may be reasonably expected during the start-up phase of a communications company. There was a new share issue during 2016 so investor/shareholders must believe in the future viability of the technology the company is developing.

(c) More detailed information about the components of operating, financing and investing cash flows would be useful to determine how cash is being used and in particular, why investing cash flows were a net inflow in 2016. The Statement of cash flows reports information on a cash basis. An investor cannot get the complete story without looking at the statement of profit or loss and statement of financial position as well. A copy of the prospectus used to raise the capital would provide useful information about the elected future cash flows of NuSmart.

BUILDING BUSINESS SKILLS 1.4 FINANCIAL ANALYSIS ON THE WEB

Answers to this question will differ over time and depending on the accounting forms chosen by the student, choice of services (part b) and choices of news item (part d). We provide the following solution for Deloitte & Touche as at June 2014.

(a) Choose from –

Australia:

"Deloitte offers a broad range of integrated services in areas that include Audit, Tax, Consulting, Deloitte Private, Financial advisory and Risk. Our approach combines insight and innovation from multiple disciplines with business and industry knowledge to help our clients excel anywhere in the world.

<u>Deloitte Assurance and Advisory</u> offers external audit, financial reporting and accounting services. We are innovative suppliers of Financial Instruments Advisory Services, Regulatory Compliance and Consulting, Transaction Services, Carbon Reporting, and tailored assurance based solutions for our clients.

<u>For the consulting</u> "We combine specialist skills in operations, finance, people management, strategy and technology with extensive industry experience to make a difference to the operational performance of our clients."

Deloitte Private provides services for small business individuals and families.

Deloitte's also offers services of assisting dealing with overseas countries. There are specialist groups within the firm which deal with China, Japan, Korea and Africa.-"Deloitte professionals are involved in almost every aspect of business today - from economics, innovation and sustainability to advisory services on doing business internationally in Africa, China, Japan and Korea. We offer a full range of services to help you tackle all of these challenges, and a lot more. Each service offered gives you the depth, experience and solutions you need to create and innovate. "

New Zealand:
"Deloitte brings together more than 1000 specialists providing New Zealand's widest range of high quality professional services. We focus on audit, tax, technology and systems, strategy and performance improvements, risk management, corporate finance, business recovery, forensics and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies to smaller businesses with ambition to grow." http://www.deloitte.com/nz/about

(b) Deloittes operate in 150 **countries** including Albania, Argentina, Aruba, Australia, Austria, Bahrain, Bangladesh, Belarus, Belgium, Bonaire, Belize, Bermuda, Bosnia and Herzegovina, Brazil, Brunei Darussalam, Bulgaria, Canada, Cayman Islands, Chile, China, Costa Rica, Croatia, Curacao, Cyprus, Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Gibraltar, Guam, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Korea, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Malaysia, Marshall Islands, Malta, Micronesia, Moldova, Morocco, Netherlands, Netherlands Antilles, New Zealand, North Mariana Islands, Norway, Oman, Pakistan, Palau, Papua New Guinea, Philippines, Poland, Qatar, Romania, Russia, St Maarten, Saudi Arabia, Serbia and Montenegro, Singapore, Slovakia, Slovenia, South Africa, South Korea, Sri Lanka, Syria, Taiwan, Thailand, Turkey, Uruguay, Vietnam. **Regions**: Asia Pacific, Europe, North America, Latin America, the Middle East and Africa.

(c) Australia: Careers information and student programs.

Deloitte run a graduate program for new university graduates but also operate student programs (listed below). The advantage of the student programs is that "those who participate in our student programs often secure a Deloitte graduate position well before their peers."

The student programs are:

"The **Summer Vacation Program** provides you with paid work experience over the summer (or winter) holidays and the opportunity to obtain a graduate position with Deloitte. If you are in your penultimate year of study you are eligible for our Summer Vacation Program.

The **Deloitte Development Program** provides you with the opportunity to learn about career options, networking opportunities and how to be successful in gaining vacationer and graduate roles at Deloitte. If you are in your first year of a three year degree, second year of a four year degree or third year of a five year degree, you are eligible to apply.

Our **Deloitte Private Young Achievers Program** (offered in Sydney only) gives you the opportunity to work flexibly while you are studying to complete your degree, enabling you to gain real business and client experience before you graduate! You are eligible to apply if you are in your first semester of your first year of your degree and are studying an accounting degree that will enable you to be CA eligible upon graduation, for commencement in the second semester of your first year.

Our **Deloitte Technology Insight Night** is a hands on event for Information Technology, Information Systems, Engineering and Computer Science students. This is not a standard show and tell evening about what we do – you get the chance to *actually* experience what we do and how we help our clients with their complex technology and digital issues. We host this event in many of our office locations throughout the year. Registration is open to students up to (and including) their penultimate year of an undergraduate or postgraduate technology-focused degree."

New Zealand: Careers information. Such as The Summer Intern Programme is designed to help you make a sound career choice by showing you what it's like working with Deloitte and our clients. You'll be paired up with a buddy to get you instantly involved in challenging and interesting projects.

(d) Australia: June 2014: "Deloitte says we must do better for retiring Australians

Adequacy and the Australian Superannuation System- a Point of View"

There are a variety of papers published by research carried out by Deloitte's or funded by Deloitte's e.g. in May they published commentary on federal budget

Also published in May "Australian Business Trends 2014: examining how Australian business can capitalise on the latest global trends."

Strengthening our already strong relationships with the new global giants such as China and India will become more important than ever as we seek to establish a stronger presence in their markets and their companies continue to enter ours.

The report Australian Business Trends 2014 examines how Australian business can capitalise on the latest global trends has been recently prepared by professional services firm Deloitte.

Both in Australia and New Zealand they also send out monthly Accounting and Tax Alerts and updates in the form of electronic newsletters.

CRITICAL THINKING

BUILDING BUSINESS SKILLS 1.5 GROUP DECISION CASE

Permanent Press

(a) (1) This is an expense of the business because Permanent Press has provided its stationery, T-shirts and office decorations.

(2) The donation of the grevilleas was an expense of the business; the planting of the gardens was likely on the employees' own time and therefore a personal donation of time by the employees. If Permanent Press paid wages and salaries to its personnel for planting the gladiolas, that would be an expense of Permanent Press.

(3) This is a business expense since the payment is made by Permanent Press to the charity.

(4) As the executives are volunteering their own time, this is not an expense of Permanent Press. It is a personal cost to the executives.

(b) (1) Advertising Expense is the most likely category of those listed because the name, Permanent Press, and the company logo were on all the gifts.

(2) Charitable Contribution Expense is the most likely account. It is **not** Grounds Maintenance Expense because the grounds maintained are not those of the company. If the employees were paid wages while planting grevilleas, the cost would be recorded as wages expense.

(3) This is a Charitable Contribution Expense.

(4) Not recorded in the company's financial records at all.

BUILDING BUSINESS SKILLS 1.6 COMMUNICATION ACTIVITY

(a)

J. B. Hamilton Ltd

To: Amy Joan

From: Student

Date: DD/MM/YY

I have reviewed the Statement of financial position of J. B. Hamilton Ltd as at 30 June 2016. The purpose of a Statement of financial position is to report a company's assets, liabilities and equity at a point in time. It reports what the company controls (assets) and what it owes (liabilities) and the net amount attributed to owners (equity). A number of items in this Statement of financial position are not properly reported. They are:

1. The Statement of financial position should be dated as at a specific date not for a period of time. Therefore, it should be stated 'as at 30 June 2016'.

2. Equipment is usually listed below Supplies on the Statement of financial position. In a classified Statement of financial position it would be shown as a non-current asset.

3. Accounts receivable should be shown as an asset and is usually reported between Cash and Supplies on the Statement of financial position.

4. Inventory should be shown as an asset on the Statement of financial position.

5. Liabilities and shareholders' equity should be shown separately on the Statement of financial position. Contributed equity, Retained earnings and Dividends are not liabilities.

6. Contributed equity, Retained earnings and Dividends are part of shareholders' equity. The Dividends account is not reported on the Statement of financial position but is subtracted from Retained earnings to arrive at the ending balance.

(b)

A corrected Statement of financial position is as follows:

J. B. Hamilton Ltd
Statement of financial position
as at 30 June 2016

	$	$
Assets		
Cash		12 000
Accounts receivable		25 000
Inventory		6 000
Supplies		1 400
Equipment		30 750
Total assets		$75 150
Liabilities:		
Accounts payable		$21 650
Total liabilities		$21 650
Equity:		
Contributed equity	40 000	
Retained earnings	*13 500	53 500
Total liabilities and equity		$75 150

* Retained earnings	$17 000
Less: Dividends	(3 500)
Ending retained earnings	$13,500

BUILDING BUSINESS SKILLS 1.7 SUSTAINABILITY

The term **sustainability** is about making sure the social, economic and environmental needs of our community are met and kept healthy for future generations. Sustainable development must not just be about economic growth but also environmental quality and social equity. Corporate social responsibility (CSR) for business means companies must be aware and have a core understanding of CSR characteristics; an understanding of the basic issues and how they may affect decision making; to be able to apply this basic knowledge with competence to specific activities; and have strategic alignment i.e. have an in depth understanding of the issues and possess the expertise to embed CSR principles into the business decision making process.

AGL sustainability report

BACKGROUND For Lecturer – for ease marking sections of the sustainability report have been downloaded, but the students naturally need to express in their own words or reference the page in the report. We suggest you set a word limit to indicate the extent of the discussion you require.

The 2013 (latest available) was used for this solution. Note the full sustainability report is 113 pages long.

"AGL Energy Limited (AGL) is an ASX 50 listed company with over 3.5 million customer accounts and 2,757 employees. AGL operates Retail, Merchant Energy and Upstream Gas businesses in New South Wales, Victoria, South Australia and Queensland. In the last eight years, AGL has invested more than $3 billion in renewable energy generation making AGL the largest developer of renewable energy assets in Australia over that period."

1. AGL Approach

AGL has published sustainability reports since 2004. AGL uses The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3) including the Electric Utility Sector Supplement. These guidelines were used as it provides a comparable framework for reporting so stakeholders can understand and also provides AGL with guidance on the disclosures contained within the report. AGL has self-assessed (and had it audited) the extent to which the GRI index applies. A full GRI content index is included on pages 99 to 110 of the 2103 sustainability report 2and AGL indicate how these items are addressed and where it is reported.

Using the above approach in 2010, AGL established a framework for sustainability reporting. "*Twelve strategic indicators of success were developed, together with visions to guide performance in the longer term. Performance data as well as forward targets for each indicator have been published since 2010. An account of performance against each of the FY2013 sustainability targets is detailed ….. together with new commitments for FY2014."*

"Performance data in this report has been structured into six chapters, representing the categorisation of AGL's sustainability risks: Economic, Customers, Community, People and

safety, Sustainable energy (formerly Climate Change) and Environment. Within each chapter, two focus areas have been identified. Together, these 12 focus areas represent those issues considered to be the most material sustainability challenges for AGL"

2. AGL's achievements: results and how measured. For health and safety and the environment only.

Health and safety:

"AGL's goal is to engage our employees in ways that support our business, grow their skills and deliver outstanding results in a safe and sustainable way. The two key focus areas for the People and safety chapter of this report are employee engagement and health and safety.

<u>*Health and safety*</u>*: Health and safety performance is indicative of the values that underpin an organisation, the business 'culture', and the effectiveness of health and safety policies and procedures. Health and safety performance is also a significant influencing factor for employee engagement.*

Health and safety section of the report: From the table below AGL **did not achieve its goal** of < 4.9%.

Vision	Target FY2013	Performance FY2013	Target FY2014
Zero harm	Total Injury Frequency Rate <4.9%	Total Injury Frequency Rate was 5.9	Total Injury Frequency Rate <5.0%

Approach:

"Providing a safe and healthy workplace for employees and contractors is a key priority for AGL. Safety performance is regularly monitored at the AGL Board level through the quarterly meetings of the Safety, Sustainability and Corporate Responsibility Committee. Safety performance is also monitored by the Executive Team and reviewed in leadership and team meetings across the business. AGL assesses workplace risks in consultation with employees and, where appropriate, independent external advisors, and manages these risks by identifying and implementing suitable controls. HSE risks are managed as a component of organisation-wide risks, using the Fully Integrated Risk Management approach. Key HSE risks include: contractor safety management; slips/trips/ falls; psychological injury; fatigue; musculoskeletal injury; working remotely; working at heights; flammable gas; electricity; and customer contact hazards."

<u>AGL measures</u> and tracks safety performance using a number of trailing performance indicators based on reported safety incidents. The trailing indicators include Total Injury Frequency Rate (TIFR) and Lost Time Injury Frequency Rate (LTIFR). AGL also tracks leading indicators of Health and Safety to provide insight into trends. The leading indicators include HSE activities in Action Plans, safety and wellbeing conversations and 'near miss' incident reporting. At AGL an incident is defined as anything that resulted or had the potential to result in an injury or illness to any person, damage to plant, adverse impact to the environment or reputational damage. Incidents that have high potential risk are reported as Significant Incidents. AGL also records 'near misses' which are events that did not result in an injury, but had the potential to do so. Total injury frequency rate (TIFR)1"

Results:

"In FY2013, AGL's Total Injury Frequency Rate (TIFR) decreased to 5.9 from 6.6 in FY2012. Of the injuries reported:
>>A third were 'non-event related' and defined as occupational illnesses, where repetitive exposure resulted in soft tissue damage/joint deterioration or were mental health illnesses (predominantly stress related); and >>45% were a result of a slip, trip or fall.

For FY2014, AGL will separate Occupational Illness Frequency Rate (OIFR) from TIFR. The OIFR incorporates those longer term occupational injuries that are gradual onset and cannot be attributed to a specific event. This will provide a better understanding of the nature of injuries across the organisation. The purpose of capturing injury data is to inform HSE initiatives thereby increasing the granularity of data by splitting out injuries that occur from a single occurrence from those where there is a gradual development of symptoms. This will enable a better understanding of HSE risks and an appropriate allocation of HSE resources."

AGL's has six different measures injury frequency:

"1. <u>Lost time injury frequency rate</u>(LTIFR) in FY2013 ***decreased*** *to 3.4 from 4.2 in FY2012. There were 15 lost time injuries during FY2013 compared to 17 in FY2012.*

<u>2. Medical treatment injury frequency rate</u> (MTIFR)- -MTIFR for FY2013 increased slightly to 2.5 from 2.4 in FY2012. There were 11 medical treatment injuries during FY2013 compared to 10 in FY2012.

<u>3. Fatalities</u>- In FY2013 there was ***no*** *fatalities.*

<u>4. Incidents</u>- Incidents that have the potential to cause significant harm to people, plant, environment or the business are classified and reported as significant incidents. The number of significant incidents reported in FY2013 was 24, compared to 28 in FY2012. This reduction has been the result of extensive work to address issues relating to electrical safety, work at heights and the safety management of contractors.

<u>5. Contractor safety performance</u> -AGL monitors and reports the LTIFR of contractors, to provide a more comprehensive representation of AGL's safety performance. In FY2013 the LTIFR for contracted workers was 3.5, which whilst comparable to the LTIFR of 3.4 for AGL employees, is an increase from 1.1 in FY2012. The major factor in this increase is related to improved focus on incident reporting to make sure injuries were recorded.

<u>6. AGL Loy Yang Safety Performance</u> -The TIFR for AGL Loy Yang was 5.3, a 66% reduction from 15.4 in FY2012. As of 30 June 2013, the power station has been free of lost time injuries for 712 days."

During April and May 2013, AGL surveyed a number of stakeholders (both internal and external) to gauge their views on AGL's material issues and the level of importance they attach to them. The survey of stakeholders revealed - *<u>"Workplace health and safety</u>: Ensuring that employees stay safe at work every day. In the materiality survey, this ranked as the issue of most importance to respondents, the majority of whom were employees."*

Environment:

Approach:
"A number of AGL's operations have a material environmental footprint and have the potential to interact with, and impact on, various aspects of the environment. AGL's corporate health, safety and environmental management system, Life Guard, establishes a framework of requirements, policies, environmental standards and compliance guides based on the ISO 14001 Environmental Management Systems standard. Life Guard provides a framework to enable continuous improvement in health, safety and environmental performance and facilitates the pro-active management of environmental risks and compliance responsibilities.

AGL's environmental management program is risk-based and driven by a desire to prevent any harm to the environment in areas where AGL operates. Management of water is a particularly critical environmental issue. Governments and communities expect the energy industry to act responsibly so that water resources are not harmed by exploration and *development activities, or energy production operations. The two key focus areas for the Environment chapter of this report are therefore environmental risk and water management.*

Environmental risk: *AGL's environmental program is driven by the environmental risk profile of the business and by regulatory requirements. AGL's long-term vision is to have an environmental risk profile that is 'As Low As Reasonably Practicable'. This aspiration incorporates both the need to operate in an environmentally responsible manner and the need to target resources and efforts on a risk basis.*

Water management: *Management of water resources is a critical environmental issue facing Australia and one that is relevant to AGL's business. AGL's long-term vision is to be recognised as a prudent and responsible user of water t*hat does not adversely impact on local water resources."

Vision	Target FY2013	Performance FY2013	Target FY2014
Environmental Risk			
To have an environmental risk profile that is As Low As Reasonably Practicable (ALA RP).	100% of approved risk register actions for the highest residual environmental risks implemented in accordance with targeted milestones.	96% of actions (or 60 of 62) were implemented in accordance with targeted milestones:	100% of approved risk register actions for the highest residual environmental risks implemented in accordance with targeted milestones.
Water management			
To be recognised as a prudent and responsible user of water that does not adversely impact on local water resources.	Increase number of dedicated monitoring bores and stream gauging sites relative to overall number of CSG wells/sites.	The number of dedicated monitoring bores and stream gauging sites increased from 73 (61 monitoring bores to 12 stream gauging sites) from 1 July 2012 to 103 (88 monitoring bores to 15 stream gauging sites) at 30 June 2013. This represents an increase in the ratio of water monitoring sites to gas wells from 0.45 to 0.63.	Analysis of significant water usage across business units and development of KPI's for water usage and wastewater reduction by end June 2014.

How measured and results:

"*AGL's key environmental risks are systematically identified and reviewed in workshops run in the Upstream Gas and Merchant Energy business units. The workshops involve a diverse range of operations personnel and environmental specialists. Given internal and external factors result in continuous changes to AGL's environmental risks, risk registers and actions to reduce risks are reviewed on a regular basis to ensure their effectiveness.*

To drive the timely completion of actions that have been approved by AGL's management to mitigate AGL's highest residual environmental risks, AGL's environmental ***<u>risk target for FY2013 was to have 100%</u>*** *of such actions implemented in line with targeted milestones. The target was applied to AGL-operated sites that had environmental risk registers in place as at 1 July 2012, with the exception of AGL Loy Yang which was acquired by AGL on 29 June 2012.*

During FY2013, AGL's highest residual environmental risks included risks related to surface water, land and groundwater at a number of power stations. Target actions designed to control these risks were developed and approved and ***96% of actions (or 60 of 62) were completed within the allocated timeframes.*** *The two outstanding actions related to an internal review of screen washing practices at AGL Torrens and the necessary actions will be implemented in the first quarter of FY2014.*

Some examples of activities completed in FY2013 to reduce environmental risk include:
>> conducting a review of fuel and chemical storage and the potential for loss of containment at AGL Hydro
>>developing a Fuel Management Procedure for AGL Hydro which outlines environmental management requirements associated with the transport, storage and handling of fuel, including the management of underground petroleum storage systems
>> reviewing documentation relating to inspections and monitoring at AGL Torrens and AGL Hydro power stations
>> reviewing environmental content within Asset Management Plans for both AGL Torrens and AGL Hydro power stations
>> commencing targeted contamination investigations at selected AGL Hydro power stations, as well as continuing remediation work at AGL Torrens."

<u>"Overall, AGL's FY2013 environmental risk target was effective</u> in driving the completion of risk register actions, thereby further reducing AGL's environmental risk profile. The target will be maintained in FY2014 and extended to AGL Loy Yang where the highest environmental risks relate to surface water, land, groundwater and air."

Results from stakeholder survey - "*Environmental impact: Complying with legislative and licence obligations with respect to the environmental impact of AGL's operations. Again, this was an issue ranked of high importance by respondents to the materiality survey.*"

BUILDING BUSINESS SKILLS 1.8 ETHICS CASE

Mobile Phones Pty Ltd

(a) The stakeholders in this case are:

You, as chief financial officer
Jack Frost, managing director
Users of the company's financial statements.

(b) The ethical issue is the continued circulation of significantly misstated financial statements. As chief financial officer, you have contributed to the preparation of misleading financial statements. Jack Frost and any other directors are responsible for the preparation of the financial statements issued by Mobile Phones Pty Ltd. You have acted ethically by telling the company's managing director. The managing director has reacted unethically by allowing the misleading financial statements to continue to circulate.

(c) As chief financial officer, you have a professional ethical responsibility to attempt to persuade the managing director not to issue misleading financial statements (they would mislead users, cause damage to the company's reputation and possibly incur fines). Other actions that may be considered include reporting the matter to other directors and resigning. If the statements are audited, the matter may be referred to the auditors.

