Financial Accounting Reporting Analysis and Decision Making 6th edition Carlon Solutions Manual

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Solutions manual

to accompany

Financial accounting: Reporting, analysis and decision making

6th edition

by

Carlon et al.

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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

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Solutions to questions

1.1. 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.

1.2. 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.

1.3. 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.

1.4. 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.

1.5. (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.

1.6. 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.

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1.7. 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.

1.8. 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.

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

1.10. 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.

1.11. 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.

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

1.13. (a) Tia is not correct. There are three characteristics:
- liquidity
- profitability
- 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.

1.14. (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.

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Solutions to brief exercises

BE1.1

(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.

BE1.2

(a) False
(b) True
(c) False

BE1.3

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

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BE1.4

ABC Pty Ltd
Statement of financial position
as at 31 December 2018

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

BE1.5

P/L	(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.

BE1.6

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

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BE1.7

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

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

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Solutions to exercises

E1.1

(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

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E1.2

Rosie's Rentals Pty Ltd
Statement of profit or loss
for the year ended 31 December 2018

	$	$
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 2018

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

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E1.3

Quality Products Ltd
Statement of financial position
as at 30 June 2018

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

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E1.4

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 2018

	$	$
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

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E1.5

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

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E1.6

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, 2018 results would not be comparable to previous years' results, and the problem would recur in 2019. 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.

E1.7

Maximum Energy Limited
Statement of financial position (Partial)
as at 30 June 2019

	$M
Current assets:	
Cash and cash equivalents	421.5
Receivables	2766.0
Inventories	199.5
Other financial assets	280.3
Other current assets	586.6
Total current assets	4253.90
Non-current assets	
Receivables	70.9
Inventories	43.8
Investments (long term)	49.6
Exploration and evaluation assets	523.5
Oil and gas assets	742.6
Property, plant and equipment	7997.4
Intangibles	4724.1
Deferred tax assets	1093.8
Other financial assets	507.7
Other non-current assets	41.1
Total non-current assets	15794.50
Total assets	$20048.40

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E1.8

Field Limited
Statement of financial position (Partial)
as at 30 June 2019

	$M
Current assets:	
Cash and cash equivalents	603.1
Trade and other receivables	182.9
Inventories	138.9
Derivative financial instruments	0.1
Current tax receivable	8.1
Other current assets	16.6
Assets held for sale	1.9
Total current assets	951.6
Non-current assets	
Receivables	0.9
Investments in jointly controlled entities	6.5
Property, plant and equipment	521.5
Deferred tax assets	57.1
Intangible assets	1410.5
Other non-current assets	1.0
Total non-current assets	1997.5
Total assets	$2949.1

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E1.9

(a)

Christchurch Flooring Pty Ltd
Statement of profit or loss
for the year ended 31 July 2018

	$	$
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 2018

	$
Retained earnings, 1 August 2017	2,000
Add: Profit	15,000
Retained earnings, 31 July 2018	$17,000

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(b)

Christchurch Flooring Pty Ltd
Statement of financial position
as at 31 July 2018

		$	$
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

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E1.10

(a)

Teddy Pty Ltd
Statement of profit or loss
for the year ended 31 July 2020

	$	$
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 2020

	$
Retained earnings, 1 July 2019	10,900
Add: Profit	35,000
Retained earnings, 30 June 2020	$45,900

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(c)

Teddy Pty Ltd
Statement of financial position
as at 30 June 2020

	$	$	$
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

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E1.11

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.

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E1.12

Energy Limited

	2019 $ M				2018 $ M			
(a) Debt to assets ratio	$\frac{\$9026.8}{\$13367.8}$	= 0.6753	or	67.53%	$\frac{\$8605.5}{\$15738.4}$	= 0.5468	or	54.68%
(b) Cash debt coverage ratio	$\frac{\$621.8}{(\$9027 + \$8606) / 2}$	= 0.070			$\frac{\$467.5}{(\$8606 + \$7804) / 2}$	= 0.057		

(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 2019 Energy's cash provided by operations ($621.8.0M) was sufficient to cover the cash used in investing activities ($559.6M). In 2018 the net investing activities ($532.3M) was more than the cash generated from operating activities there was a cash deficiency Energy Limited, being a publicly listed company, could raise more money from the public through the issue of shares or borrow funds.

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E1.13

Oldfield Limited

	2019 $ M				2018 $ M			
(a) Debt to assets ratio	$\frac{\$1324.5}{2756.8}$	=	0.4804	or 48.04%	$\frac{\$1328.7}{\$2694.8}$	=	0.4931	or 49.31%
(b) Cash debt coverage ratio	$\frac{\$188.7}{(\$1325 + \$1329) / 2}$	=	0.142		$\frac{\$130}{(\$1329 + \$1405) / 2}$	=	0.095	

(c) The ratio of debt to total assets decreased from 49% to 48%, indicating a slight decrease in the reliance on debt. The net cash flows from operations increased and the cash coverage of total liabilities increased, indicating a better solvency position.

(d) The cash flows from operating activities in both years is greater than required for investing activities in both years.

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Solutions to Problem Set A

PSA1.1

(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.

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PSA1.2

(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 Giorgina'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.

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PSA1.3

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 2019

	$	$
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

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PSA1.4

PQR Pty Ltd
Statement of profit or loss
for the month ended 31 October 2018

	$	$
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 2018

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

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PQR Ltd
Statement of financial position
as at 31 October 2018

	$	$
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

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PSA1.5

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 2018

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

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PSA1.6

Ultra Pty Ltd
Statement of profit or loss
for the month ended 31 May 2019

	$	$
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 2019

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

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Ultra Pty Ltd
Statement of financial position
as at 31 May 2019

	$	$
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

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PSA1.7

Liddy Ltd

Liddy 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 2019

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

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PSA1.8

Cement Ltd
Balance Sheet
as at 30 June 2019

	$'m
Current assets:	
Cash and cash equivalents	249.9
Cash on deposit	80.6
Receivable	877.8
Inventories	620.0
Other financial assets	21.6
Other current assets	32.8
Total current assets	1882.7
Non-current assets:	
Receivables	26.8
Inventories	13.6
Investments accounted for using equity method	44.6
Other financial assets	13.5
Property, plant and equipment	3367.1
Intangible assets	859.9
Deferred tax asset	153.7
Other non-current assets	58.5
Total non-current assets	4537.7
Total assets	6420.4
Current liabilities:	
Payables	761.1
Loans and borrowings	136.9
Current tax liabilities	29.1
Other financial liabilities	66.1
Provisions	242.1
Total current liabilities	1235.3
Non-current liabilities:	
Payables	8.4
Loans and borrowings	1639.6
Other financial liabilities	35.5
Deferred tax liabilities	58.6
Provisions	146.5
Total non-current liabilities	1888.6
Total liabilities	3123.9
NET ASSETS	$3296.5
Equity:	
Issued Capital	2533.8
Reserves	75.4
Retained earnings	588.0
Total parent entity interest	3197.2
Non-controlling interests	99.3
TOTAL EQUITY	$3296.5

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PSA1.9

City Sales Pty Ltd

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

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

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

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

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

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

(g) Return on assets ratio $= \frac{\$115,000}{\left[\frac{\$790,800 + \$1,014,800}{2}\right]} = \frac{\$115,000}{\$902,800} = 0.127:1$ OR 12.7%

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PSA1.10

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.

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Solutions to Problem Set B

PSB1.1

(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.

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PSB1.2

(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

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PSB1.3

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 2019

	$	$
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

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PSB1.4

Evans Ltd
Statement of profit or loss
for the year ended 30 June 2019

	$	$
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		73 300

Evans Ltd
Calculation of retained earnings
for the year ended 30 June 2019

	$
Retained earnings, 1 July 2018	0
Add: Profit	73 300
	73 300
Less: Dividends	(20 000)
Retained earnings, 30 June 2019	$53 300

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Evans Ltd
Statement of financial position
as at 30 June 2019

	$	$
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		114 800
Net Assets		$203 300
Equity:		
Share capital	150 000	
Retained earnings	53 300	
Total equity		$203 300

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PSB1.5

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 2018

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

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PSB1.6

Goodwin Ltd
Statement of profit or loss
for the month ended 31 May 2019

	$	$
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 2019

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

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Goodwin Ltd
Statement of financial position
as at 31 May 2019

	$	$
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

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PSB1.7

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 2019

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	(105 000)
Net cash used in investing activities	(105 000)
Cash flows from financing activities:	
Dividends paid	(77 000)
Net cash used in financing activities	(77 000)
Net increase in cash	$128 000

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PSB1.8

(a)

Retail Ltd
Statement of profit or loss
for the year ended 30 June 2018

	$	$
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 2018

	$
Retained earnings, 1 July 2017	12 500
Add: Profit	20 370
	32 870
Less: Dividend	7 800
Retained earnings, 30 June 2018	$25 070

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(c)

Retail Ltd
Statement of financial position
as at 30 June 2018

		$	$
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

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(d)

Retail Ltd
Statement of cash flows
for the year ended 30 June 2018

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 2017 (i.e.) the opening balance).

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

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PSB1.9

Nixon Pty Ltd

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

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

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

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

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

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

(g) Return on assets ratio $= \frac{\$172{,}500}{\left[\frac{\$1522200 + \$11862000}{2}\right]} = \frac{\$172\,500}{\$1354200} = 0.127:1$ OR 12.7%

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PSB1.10

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.

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Building business skills

Financial reporting and analysis

BBS1.1

Financial reporting problem: Giorgina's Pizza Enterprises Ltd

Giorgina's

(a) Giorgina's total assets at 30 June 2019 were $142,312,000 and at 1 July 2018 were $131,491,000

(b) Giorgina's had $5,014,000 of inventory at 30 June 2019.

(c) Giorgina's had Trade and other payables totalling $28,541,000 at 30 June 2019 and $25,629,000 on 1 July 2018.

(d) Giorgina's reported sales in 2019 of $141,473,000 and in 2018 of $126,350,000.

(e) Giorgina's profit before tax decreased by $1,656,000 from 2018 to 2019, from $32,228,000 to $30,572,000.

(f) Giorgina's accounting equation is:

Assets	=	Liabilities	+	Equity
$142,312.00		$65,378.00		$76,934.00

(g) Giorgina's has current liabilities of $38,708,000 at 1 July 2018.

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BBS1.2

Comparative analysis problem: Giorgina's Pizza Enterprises Ltd

Giorgina's Pizza Enterprises Ltd vs. Classic Food Ltd

(a)

(Amounts in thousands)	**Giorgina's Pizza Enterprises Ltd**	**Classic Food Ltd**
1. Return on Total assets	$21,400/ [($142,312+$131,491)/2] = **15.63%**	$23,552/[($364,227+$170,296)/2] = **8.8%**
2. Profit Margin Ratio*	$21,400 / $141,473 = **15.12%**	$23,552 / $650,738 = **3.6%**

* Sales Revenue from the statement of profit or loss was used here for the profit margin.

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

(c)

Working capital	$6,807 ($45,286 – $38,479)	–$20,300 ($174,700 – $195,000)
Current ratio	**1.177:1** ($45,286 / $38,479)	**0.90:1** ($174,700 / $195,000)

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

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BBS1.3

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 2018 and 2019 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 2018 or 2019.

(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 2019. However, this may be reasonably expected during the start-up phase of a communications company. There was a new share issue during 2019 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 2019. 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.

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BBS1.4

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 as at February 2018.

(a) Deloitte Australia:

''Deloitte' is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk advisory, tax and related services to select clients'.
Audit & Assurance: helping to build and maintain strong foundations for the client's future aspirations.
Consulting services: specialising in 'operations, finance, people management, strategy and technology with extensive industry experience to make a difference to the operational performance' of their clients.
Financial Advisory services: includes restructuring, finance transformation, business modelling and capital optimisation.
Risk Advisory services: allows clients to manage risk more effectively and reach their full potential, thus creating and protecting value for shareholders.
Tax services: a broad range of fully integrated tax services.

(b) Deloitte operates in over 100 locations around the world including Albania, Argentina, Armenia, Algeria, Australia, Austria, Bahamas, Bahrain, Belarus, Belgium, Brazil, Bermuda, Brunei Darussalam, Bulgaria, Canada, Cayman Islands, Chile, China, Costa Rica, Croatia, Curacao, Cyprus, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, Ethiopia, Finland, France, Germany, Gibraltar, Greece, Guatemala, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Kuwait, Latvia, Lebanon, Lithuania, Luxembourg, Malaysia, Malta, Moldova, Morocco, Mozambique, Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Papua New Guinea, Philippines, Poland, Qatar, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovak Republic, Slovenia, South Africa, Sweden, Syria, Taiwan, Thailand, Turkey, United Kingdom, United States, Uruguay, Vietnam, Yemen.

(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:
Summer Vacation Program: spend three to eight weeks in one of the business units, with the prospect of obtaining a graduate position. The Summer Vacation Program is open for students in their penultimate (second last) year of study.
Deloitte Development Program: a one or two-day workshop that provides the opportunity to learn about career options, networking opportunities and how to be successful in gaining vacationer and graduate roles at Deloitte.
Graduate Program: provides the tools and training to ensure 'graduates can achieve success through mentoring, peer support and e-learning'.

(d) Australia: February 2018:

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Media Releases, 1 February 2018, *'Mining sector poised for growth amidst rapid change and disruption in 2018'*. (by Ian Sanders, Global Lead Client Service Partner for BHP and National Mining Leader for Deloitte Australia; David Cormack, Deloitte Consulting's Strategy and Operations practice).

'To thrive in the mining industry's historical boom and bust cycle, and capitalise on new opportunities, companies must rethink the traditional mining model'. (Ian Sanders, Deloitte National Mining leader).

This article discusses the top 10 issues shaping the mining industry, as identified in the 2018 edition of *Tracking the Trends*. They are:

1. Commodities of the future — predicting tomorrow's disruptors.
2. Bringing digital to life.
3. Overcoming innovation barriers.
4. The future of work.
5. Shifting perceptions.
6. Transforming stakeholder relationships.
7. Water — finding sustainable solutions to a pressing issue.
8. Changing shareholders' expectations.
9. Reserve replacement woes.
10. Realigning mining boards to drive transformation.

The full article can be found at:
https://www2.deloitte.com/au/en/pages/media-releases/articles/mining-sector-poised-growth-amidst-rapid-change-disruption-2018-010218.html

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Critical thinking

BBS1.5

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.

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BBS1.6

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 2019. 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 2019'.

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.

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(b)

A corrected Statement of financial position is as follows.

J. B. Hamilton Ltd
Statement of financial position
as at 30 June 2019

	$	$
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

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BBS1.7

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 the lecturer: for ease of 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 2017 (latest available) was used for this solution. Note the full sustainability report is 89 pages long.

'As the largest private coal fired energy generator in Australia, the largest private operator of renewable energy generation assets in Australia and as one of Australia's largest energy retailers, we're uniquely placed to shape a sustainable energy future for Australia.

We are moving from being a mass retailer to a personalised retailer — using smarter solutions, technology and service to empower our customers.

We are transitioning from being an owner and operator of large generation assets to an orchestrator of large and small assets, allowing energy to be generated, stored and shared by individuals.

And we are moving to lower-emissions technology. We've set a deadline to close our coal plants and are investing heavily in renewable energy.

We've been committed to sustainability for a long time. In fact, we've been reporting on our sustainability journey since 2004. To us, 'sustainability' simply means thinking about the long-term responsibilities we have to all our stakeholders (our employees, our customers, our investors, and the community) and to the environment in which we all work and live. We think this way because we recognise that our future success and reputational standing is shaped and measured by more than just our economic performance; it is also influenced by the social and environmental consequences of our decisions and actions for all our stakeholders.' (AGL Sustainability Report 2017 / Sustainable Business Strategy, p.1)

1. AGL Approach

AGL uses The Global Reporting Initiative (GRI) Standards.

'The GRI Standards are designed to be used by organisations to report about their impacts on the economy, the environment and/or society. The GRI Standards were launched in October 2016 to replace the GRI G4 Guidelines, which will be phased out by 1 July 2018. Further information about the GRI Standards is available at the GRI website. For the

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purposes of applying the GRI Standards, the material issues we identified have been mapped back to the available topic-specific GRI Standards'. (AGL Sustainability Report 2017 / Sustainable Business Strategy, p.8*)*

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

Health and safety:

AGL is *'committed to providing our people with a safe and healthy place to work. The wellbeing of our people is critically important, as our people are our greatest assets'.* (AGL Sustainability Report 2017 / Sustainable Business Strategy, p.50*)*

Health and safety: *'Provide a safe and healthy workplace and eliminate work-related injuries and illnesses'.* (p.60)
'Strong and dedicated safety leadership and sound dynamic management systems are essential components of our efforts to achieve a 'zero harm', safe and sustainable work environment'. (p.60)

Health and safety section of the report: From the table below AGL **achieved its goal** of < 3.9%.

Vision	Target FY2017	Performance FY2017	Target FY2018
Zero harm	Total Injury Frequency Rate <3.9%	Total Injury Frequency Rate was 2.0%	Total Injury Frequency Rate ≤1.7%

Approach:

'An effective safety culture requires pro-active commitment, accountability, and continuous reinforcement from all levels of management, including the AGL Board. The AGL Board and Executive Team review HSE performance via the monthly Group Performance Report. The Board Safety, Sustainability and Corporate Responsibility Committee also reviews safety performance on a quarterly basis, as well as reviewing audit findings and recommendations, strategic priorities, and significant incidents'. (p.60)

The key aspects of AGL's strategic approach to health and safety include:

- Values
- Policy
- strategic framework (Target Zero)
- HSE commitments
- Management system
- Hazard, incident and near miss reporting. (p.60-1).

'AGL measures and tracks safety performance using a number of lagging performance indicators based on reported safety incidents. We also track leading indicators to provide insight into trends to inform us on our current and future programs'. (p.61)

Results:
'The total injury frequency rate (TIFR) for employees decreased from 4.3 in FY16 to 2.0, exceeding our target of 3.0. A stretch target of a 50% reduction in contractor TIFR was set for FY17 (equivalent to a TIFR of <5.5). The total injury frequency rate for contractors decreased from 11.0 in FY16 to 5.4, exceeding our target of 5.5.

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The combined TIFR for both employees and contractors decreased from 6.2 to 3.1. The decrease in the combined TIFR indicates that the implementation of the Target Zero Strategic Framework, targeted prevention and leadership programs, and the evolving HSEMS are all playing a part in the prevention of injury and illness in our workplaces. Half of the TIFR-related injuries were lacerations, with the remaining injuries equally fractures, crush or muscular related.

The occupational injury frequency rate (OIFR)2 for employees increased from 1.5 in FY16 to 1.8, whereas the OIFR for contractors decreased from 1.1 in FY16 to 1.0. The combined OIFR for both employees and contractors increased from 1.4 to 1.5. All OIFR-related injuries related to an irritation of a previously acquired injury, eight of which were associated with the back or neck.

There were 13 TIFR-related and 12 OIFR-related employee incidents in FY17 compared to 29 and 10 respectively in FY16, showing a substantial decrease in TIFR-related injuries and a minor increase in OIFR-related injuries. Similarly, contractor TIFR-related and OIFR-related incidents changed from 29 and three to 17 and three respectively.

In FY17, there was one employee and four contractor significant incidents (defined as incidents classified as 'high risk' or above, representing a significant decrease compared to FY16 (18 employee and 19 contractor significant incidents). The data indicates that in relation to significant incidents, a primary area of focus will be on reducing what has been classified as 'AGL Line of Fire'3 events (more that 40% of all TIFR incidents) and a focus on evolving issues such as physical health, wellbeing and mental health.

During FY17, there were 9,859 Health and Safety Walks, 4,254 Environment Walks and 6,142 HSE Technical Interactions. There were also 4,054 hazards (comprising 3,414 safety hazards and 640 environmental hazards) and 1,105 near misses (comprising 850 safety near misses and 255 environmental near misses) reported. These results reflect a substantial improvement in reporting behaviour compared to FY164'. (p.61-2)

Environment:

Approach:
'A number of our operations have a material environmental footprint. The Australian community has an interest in ensuring that we are held to high standards of accountability for the impact of our operations on the environment.

We are working to reduce the risk to the environment and to reduce our environmental footprint by considering environmental outcomes in all our activities. The AGL Environment Policy outlines our approach to protecting the environment and minimising our environmental footprint in the areas where we operate, and includes the following commitments:

- *We will adhere to high standards to protect the environment where we do business.*
- *We will strengthen our business by integrating environmental considerations into all business activities.*
- *We will analyse and improve the way we do business to reduce environmental risks and impacts.*
- *We will use resources and energy efficiently, minimising emissions and waste.*

This section focuses on:

- ***Climate change (greenhouse and energy):** The greenhouse and energy section shows how we measure and manage our greenhouse footprint, and how we are leading the transition to a carbon constrained future.*

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- ***Renewable energy:*** *We are committed to the development of renewable energy in Australia, and through the Powering Australian Renewables Fund, we've commenced the construction of the Silverton Wind Farm in New South Wales.*
- ***Water management:*** *The management of water resources is a critical environmental issue facing Australia and one that is relevant to our business. We want to be recognised as a prudent and responsible user of water, and a user who does not adversely impact local water resources.*
- ***Air, waste and noise:*** *Emissions from our operations can potentially contribute to regional airshed environmental issues, so it is important that our operations run efficiently and within the parameters set by regulatory licences.*
- ***Biodiversity and cultural heritage:*** *We operate and develop assets on land that, in many cases, has value for reasons of biodiversity and cultural heritage, in addition to its commercial value.*
- ***Rehabilitation:*** *We recognise our responsibility to rehabilitate assets to an appropriate state upon the cessation of activity'.* (p.63)

Vision	**Target FY2017**	**Performance FY2017**	**Target FY2018**
Climate change (greenhouse and energy) (p. 64)	Progressively decarbonise the energy supply to our customers.		
	Compliance with AGL Greenhouse Gas Policy: **100%**	Compliance with AGL Greenhouse Gas Policy: **100%** Target met.	Compliance with AGL Greenhouse Gas Policy: **100%**
	Annually offset the greenhouse gas emissions from electricity consumed at AGL's corporate workplaces	2,405 tCO2e of Gold Standard abatement was purchased to offset the emissions associated with electricity purchased for AGL's corporate workplaces Target met.	Annually offset the greenhouse gas emissions from electricity consumed at AGL's corporate workplaces
			Customers signed up to AGL's Future Forests carbon offset product3: **10,000**
Renewable energy (p. 67)	Continue to be Australia's leading privately-owned operator of renewable energy.		
	Development of first project to financial close,	Financial close on Silverton Wind Farm achieved 19	Development of one additional project, through to

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	through the Powering Australian Renewables Fund	January 2017 Target met.	financial close, via the Powering Australian Renewables Fund

Water management (p. 69)	Manage water resources sustainably		
	Environmental Regulatory Reportable Frequency Rate (ERRFR): **<1.5**	Environmental Regulatory Reportable Frequency Rate (ERRFR): **1.0** Target met.	Environmental Regulatory Reportable Incidents: **≤12**
Air, waste and noise (p. 72)	Minimise our environmental footprint		
	Environmental Regulatory Reportable Frequency Rate (ERRFR): **<1.5**	Environmental Regulatory Reportable Frequency Rate (ERRFR): **1.0** Target met.	Environmental Regulatory Reportable Incidents: **≤12**
Biodiversity and cultural heritage (p. 75)	Minimise our environmental footprint		
	Environmental Regulatory Reportable Frequency Rate (ERRFR): **<1.5**	Environmental Regulatory Reportable Frequency Rate (ERRFR): **1.0** Target met.	Environmental Regulatory Reportable Incidents: **≤12**
Rehabilitation (p. 77)	Rehabilitate sites to an appropriate state, with appropriate community consultation, upon cessation of activity.		
	Compliance with AGL Rehabilitation Principles: **100%**	Compliance with AGL Rehabilitation Principles: **100%** (delivered through the Rehabilitation Report Target met.	Compliance with AGL Rehabilitation Principles: **100%**

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BBS1.8

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.

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