Accounting Business Reporting for Decision Making 6th edition Birt Solutions Manual

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Solutions manual

to accompany

Accounting: business reporting for decision making

6th edition

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Chapter 1: Introduction to accounting and business decision making

Apply your knowledge

a. Provide an example of the different types of activities that would be performed by a management and financial accountant for a large public company listed on the ASX. (5 marks)
b. What are some of the advantages of business planning? (5 marks)
c. Carbon accounting is a very important and huge growth area of accounting. Discuss the different stakeholders (and their information needs) that would be interested in the carbon accounting report. (10 marks)
d. The AASB's role has changed since the introduction of IFRS in 2005. Most of the Australian accounting standards mandated in Australia are Australian equivalents to IFRS. Why do you think Australia has adopted Australian equivalents to IFRS? (5 marks)
e. The sustainability report is a recent disclosure by some Australian companies. What do you think are the advantages and disadvantages to the company of providing such disclosures? (10 marks)
f. What are the three elements of a business plan? Consider the situation of two brothers contemplating a new business hiring surfboards and providing surf lessons on the Sunshine Coast. Explain how the business plan would assist the two brothers in planning their business venture. (10 marks)

a. Provide an example of the different types of activities that would be performed by a management and financial accountant for a large public company listed on the ASX.

The management accountant would perform activities such as capital budgeting for future store fit-outs, preparation of budgets and cost-volume-profit analysis for a new business venture e.g. diversifying product range to include books.

The financial accountant would perform activities such as preparation of financial reports i.e. statement of profit or loss, balance sheet and the statement of cash flows in accordance with generally accepted accounting principles, which are represented by accounting standards including those issued by both the AASB and the IASB and the Corporations Act.

b. What are some of the advantages of business planning?

Business planning provides a clear, formal statement of direction and purpose. It allows management and employees of the entity to work towards a set of clearly defined goals in the daily operations of the business. It also assists the business entity in evaluating the business.

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c. Carbon accounting is a very important and huge growth area of accounting. Discuss the different stakeholders (and their information needs) that would be interested in the carbon accounting report.

	Stakeholder	Information needs
1.	Management	Levels of carbon emissions can provide targets to improve environmental performance, can also be tied to executive remuneration. Significant costs can lead to increased costs and reduced sales.
2.	Investors	Assist in investment decision making. Research has found that firms with higher disclosures of sustainability carbon information can lead to improved financial performance and share price.
3.	General public	Interested in comparing companies to determine if they are managing their carbon risks and reducing emissions.

d. The AASB's role has changed since the introduction of IFRS in 2005. Most of the Australian accounting standards mandated in Australia are Australian equivalents to IFRSs. Why do you think Australia has adopted Australian equivalents to IFRS?

The Australian standard setter i.e. the AASB has changed its role since the adoption of IFRS in 2005. It is not solely making accounting standards for use by Australian reporting entities, much of that role is now undertaken by the IASB in its development of IFRS. IFRS adoption means that the AASB can now contribute to the development of global financial reporting standards. Most recently, the AASB provided export support on the IASB's discussion paper on 'extractive activities'. Adopting IFRS means that there is a reduction in standard setting costs for Australia. Adopting Australian equivalents of IFRS means that there is still scope for the AASB to tailor the IFRS to meet the needs of Australian entities. For example: certain IFRS standards will be made available to specific Australian entities rather than all Australian entities. Conversely, there will be other IFRS which the intention is for a more narrow group of entities e.g. all listed companies and in Australia it might be applies to both proprietary and limited companies. Adopting Australian equivalents means that there is also the scope to change the wording of certain standards to "fit" the Australian business environment.

e. The sustainability report is a recent disclosure by some Australian companies. What do you think are the advantages and disadvantages to the company of providing such disclosures?

Such disclosures provide a positive signal about the company to various stakeholders such as consumers, investors, general public, employees and suppliers. The disclosures can provide information to investors to determine the future of an entity and to assess the future cash flows for dividends and the possibility of capital growth of investment. Employees can use the information to ascertain job security and future promotional opportunities. Suppliers of the entity can use the information to determine an entity's ability to repay debt associated with purchases.

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f. What are the three elements of a business plan? Consider the situation of two brothers contemplating a new business hiring surfboards and providing surf lessons on the Sunshine Coast. Explain how the business plan would assist the two brothers in planning their business venture.

The three elements/components of a business plan are:

- Marketing
- Operations
- Finance

The business plan would provide the brothers with a clear statement of purpose and direction for their business. It would allow them to both work towards a set of clearly defined goals, thus enhancing the likelihood of the goals being reached. It also provides them with a suitable means of periodically evaluating the performance of their business. Different quantifiable targets, such as sales of surfboards, the number of surfboards sold, market share and profitability, can be compared with the actual results at the end of the plan period. The business plan also would encourage the brothers to effectively review all aspects of their operations, which could foster a more effective use of scarce resources, such as staff, time and money, and improve coordination and internal communication. Finally, the process of collecting information, analysing it and integrating it into a written plan can help ensure that the brothers have adequately researched the business idea.

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Comprehension questions

1.1 What is a business transaction and how does it relate to the accounting process? Illustrate the concept of a business transaction with five examples relating to an SME such as a provider of Chinese therapeutic massages.

A business transaction can be defined as external exchanges of resources between the entity and another entity or individual that affects the assets, liabilities and owners' equity items in an entity. The accounting process is the identifying, measuring and communicating of economic information about an entity to a variety of users for decision-making purposes. The first component of the process is the identification of business transactions which are then measured and communicated to the different users of financial reports.

Business transactions for a provider of Chinese therapeutic massages include the following:

1. The contribution of capital by the owner to commence the business. This transaction would increase cash (asset) and increase capital (equity).

2. The purchase of equipment (massage tables, massage chairs) on credit. This transaction would increase equipment (asset) and increase creditor (liability).

3. The payment of building rent. This transaction would decrease cash (asset) and decrease profit (equity).

4. The purchase of office equipment for cash. This transaction would increase office equipment (asset) and decrease cash (asset).

5. Withdrawal of business funds by owner. This transaction would decrease cash (asset) and increase drawings/decrease capital (equity).

1.2 Differentiate between financial and management accounting. Give an example of how management accounting reports would be incorporated into financial accounting reports.

In differentiating between financial accounting and management accounting it is important to consider the users of financial information — both internal and external users. Financial accountants prepare and report information for external users (for example prospective investors or the tax office) and as such are subjected to regulation from GAAP, the Corporations Act and in some cases the ASX through their Listing Rules. Management accountants are concerned with the effective use of an entity's resources, and in so doing assist the manager/s (i.e. internal users) of the entity in achieving their goal of enhancing customer and shareholder value. Therefore the management reports generated need to be up to date to be effective. Regulation in management accounting is much less formal and in some areas rules are basically non-existent. Ultimately there will be interaction between the financing accounting and management accounting areas. The information provided by management accountants will provide information for internal users that will be reflected in the financial reports used by the external users. See Table 1.3, page 10, for a detailed list of the differences between financial and management accounting.

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1.3 Describe how accounting information helps shareholders and lenders to make decisions concerning the operations and performance of the entity.

Users of accounting information (both internal and external) require accounting information to assist them in the decision making process. External users such as investors, employees, banks, suppliers, government agencies (e.g. ATO) all have their own specific information needs. A potential investor will require past profits and future profit projections, as well as future growth prospects, to determine if the entity is a good investment proposition or not. Lenders will be seeking details of the level of risk it is exposing itself to by lending money to the entity plus the prospects of the entity repaying its' debt.

1.4 Provide an example of a company that would produce a GPFS and a company that would produce a SPFS. Who are the likely stakeholders of both types of entities?

An example of a company who would produce a GPFR would be Qantas Group, Qantas Group has various stakeholders such as investors, employees, customers, supplies, banks, regulatory bodies that would all require important information from the Qantas annual report. A company that would prepare a SPFS could be an entity such as a local government association. This type of entity would provide a set of financial statements in accordance with the local government code of accounting practice and financial reporting and relevant Australian accounting standards. The association would not have a diverse range of stakeholders and a special purpose financial statement would fit the requirement of its stakeholders such as lenders and regulatory bodies.

1.5 Refer to the reality check 'Job Prospects'. What are the projections for the accounting profession in the next five years?

The projects for the accounting profession in the next five years are that the number of job openings will be greater than 50,000. Opportunities should be available in most regions. Accountants are mainly employed in professional, scientific and technical services, financial and insurance services and public administration and safety.

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1.6 List six stakeholders of accounting information. Describe the information requirements for each one; for example, lenders would need information regarding the business's ability to repay debt and service a loan.

STAKEHOLDERS:	INFORMATION NEEDS:
Internal Stakeholders:	
Managers	require information to determine make or buy decisions or whether to expand or close down or whether to change banks.
External Stakeholders:	
Investor	seek information on capital growth prospects and future dividend payments.
Lenders	need information on the ability of the entity to repay its loans.
Suppliers	want to know can the entity pay for its supply purchasers.
Consumers	are interested in the life expectancy of the entity and the entity's ability to provide appropriate goods and services.
Government agencies	for example, ATO — require information to determine the amount of tax liability of the entity.
Regulatory bodies	for example, ASX and ASIC need to know whether the entity is following the ASX listing rules and the rules and regulations of the Corporations Act.

1.7 One of the limitations of accounting information is the historical nature of the financial statements. Provide an example of an asset from the balance sheet of Qantas Ltd where the asset's historical cost may not reflect its current value.

One example of an asset where the reported historical cost may not reflect its current value is property, plant and equipment. The note to the financial statements state that the property, plant and equipment are stated at cost less accumulated depreciation and impairment (if any). This amount may not reflect its current value. Impairment tests allow for the asset to be written down if its carrying amount exceeds its recoverable amount. However, there is no provision for any revaluation upwards.

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1.8 Darby Davis is considering purchasing a sushi bar in the inner Brisbane suburb of Paddington. Outline the importance of a business plan for Darby and the type of accounting information she will require to assist her in making the decision.

For Darby, the business plan would provide a clear, formal statement of direction and purpose. It would allow her to work towards a set of clearly defined goals in the daily operations of the business. It also helps her in evaluating the business.

Darby should seek the advice of her accountant regarding the following:

1. Evaluate the purchase — from the accountant's experience (or with assistance from his/her professional association) advice can be obtained on whether the purchase is a good buy or not e.g. through comparisons of similar recent sales; analysing past financial reports.

2. Prepare budget forecasts e.g. on sales — i.e. target sales of food necessary to make the purchase worthwhile or to compare whether it is better financially to remain in your present job and make passive investments with your capital. This will enable a prospective buyer to evaluate if such sales are feasible by her.

3. Explain the personal qualities required in owning such a business e.g. long hours; tedious work; customer relationships; impact on family life etc.

1.9 What are the benefits of professional association membership for accounting graduates?

Benefits include:
- further education through the CPA, CA and MIPA programs
- technical assistance on accounting standards and the Framework
- support for graduates through the resources on the web, seminars and continuing education programs
- guidance in relation to the code of ethics for professional accountants

1.10 Give an example of the role accounting information plays in the investment planning for a retired cricketer and a retired public servant.

Accounting provides us with a language to help understand the decision making process associated with investment planning. A retired cricketer would use accounting to initially work out a strategy for investing earnings and then to help keep track of his/her investments which could include property, shares, luxury cars etc. A retired public servant would have a superannuation fund and possibly other investments. Accounting knowledge would assist in helping to interpret the annual returns and fees from a superannuation policy and the performance of the assets invested by the superannuation fund. It could also assist in choosing investments that would provide most benefits to the retiree

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1.11 What are some of the opportunities and threats for the accounting profession resulting from the large number of corporate collapses in the early 2000s?

The large number of corporate collapses in the early 2000s and throughout the last decade provides many opportunities for the accounting profession. Such as:

- employment in areas such as forensic accounting, insolvency, taxation, auditing
- demand generally for accounting and audit services
- demand for accountants with experience working with global accounting standards
- job opportunities overseas with the Big 4 accounting firms and multinational entities

Threats

- Accounting professions' work under more scrutiny
- There has been an increase in litigation against accountants and auditors
- The demise of some accounting firms e.g. Arthur Andersen

1.12 Compare and contrast the roles of the Financial Reporting Council (FRC) and the Australian Securities Exchange (ASX).

The FRC is a statutory body made up of key stakeholders from the business community, the professional accounting bodies, governments and regulatory agencies. The FRC's role is to oversee the accounting and auditing standard-setting process for both the public and private sectors in Australia. The ASX contributes to company regulation in Australia as it regulates listed entities on the stock exchange through its Business Rules and Listing Rules which are in addition to the regulations in the Corporations Act.

1.13 What is the difference between the *Conceptual Framework's* fundamental qualitative characteristics of relevance and faithful representation? Can you think of any trade-offs between relevance and faithful representation?

Relevance implies that the information should have predictive and confirmatory value for users in making and evaluating economic decisions. Faithful representation implies that the information fully represent the phenomena it purports to represent. This means that the financial information will be complete, neutral and free from error.

A trade-off can occur between relevance and faithful representation. An illustration of this would be the accounting practice of estimating doubtful debts expense. The process of estimating doubtful debts expense is relevant to the decision making process. It is necessary to determine an estimate so that revenues for the period can be appropriately matched with the expenses for the period. However, if you estimate doubtful debts expense the estimate that you use does not faithfully represent the actual amount of bad debts expense i.e. is unlikely to be an amount free from error. However, the process of estimating the expense is useful to the decision maker.

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1.14 How can the professional accounting bodies assist in standard setting?

Professional bodies such as CPA Australia and the ICAA provide feedback on exposure drafts and forward any comments on to the AASB. They also inform their members of any accounting standard developments through newsletters and by conducting Continuous Professional Education (CPE) sessions. The professional bodies' websites provide on-going advice and information on a range of topics including the adoption of IFRS, the *Framework* and compliance issues.

1.15 Describe the major purpose of the ASX. What types of information does it provide for a novice investor?

The major purpose of the ASX is to provide an orderly and fair market in listed companies' shares and securities. It also regulates companies through its Business and Listing Rules. The ASX Listing Rules govern the procedures and behaviour of all ASX listed companies and listed trusts.

Three examples of Listing Rules are:

Chapter 5: Additional reporting on mining and exploration activities. This Listing Rule concerns the mining and exploration industry sector and the additional disclosures they must make such as details of the mining production and development activities and details of exploration activities.

Chapter 17: Trading halts, suspension and removal. This Listing Rule explains the information that an entity must provide to the ASX if there is going to be a trading halt. Such as reasons for the halt and how long it will last.

Chapter 14: Meetings. This Listing Rule outlines the ASX requirements for meetings such as general meetings and directors' meetings.

Other information that it provides for a novice investor includes tutorials on how the sharemarket works; learning how to trade in the sharemarket and information on developing an investment strategy.

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1.16 What is the impact of the qualitative characteristic of 'materiality' on the preparation of the financial statements?

The qualitative characteristic of 'materiality' is another important assumption in accounting. According to the accounting and legal professions, material information is that which affects the decisions made by users of the financial reports in which the information is disclosed. Determining a material item should include a quantitative and qualitative evaluation of that item. The factors that need to be considered are type of entity, size of entity and the industry that the entity is operating in. Significant professional judgment is necessary. The impact of this characteristic on the preparation of financial statements is that information is only disclosed if it affects the decisions made by users of financial reports. Therefore, in financial reports amounts are rounded up to the nearest thousand or ten thousand. Individual assets are not listed in the Balance Sheet - the notes to the financial reports would provide a description of assets under each class of asset on the Balance Sheet.

1.17 The reality check, 'Why adopt IFRS', outlines the advantages of adopting IFRS. In your own words, explain the advantage of comparability and transparency of financial information.

One of the advantages of adopting IFRS, is the increase in comparability of financial information. A single set of global standards would lead to greater consistency in financial reporting as jurisdictions following IFRS would be producing reports under a similar set of guidelines. Adopting IFRS would also lead to more transparency in financial reports as information under IFRS would be accessible, visible, and understandable to all market participants. Most IFRS-are more detailed compared to local GAAP.

1.18 Explain the relationship between the Australian Accounting Standards Board (AASB) and the International Standards Board (IASB).

The AASB is responsible for the development of accounting standards to be followed when preparing GPFRs (General Purpose Financial Reports). The standards have the force of law under the Corporations Act. Disclosing entities, public companies and large corporations must apply the standards when preparing their financial reports. Since 2005, the AASB has released AIFRS – Australian Equivalents of International Financial Reporting Standards issued by the IASB.

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1.19 Growth areas for accountants in the future include sustainability reporting and more specifically carbon accounting. What are the costs and benefits for entities in reporting their carbon 'greenhouse gas' emissions?

There are several benefits for firms in disclosing information about carbon 'greenhouse gas' emissions. Information of this nature can assist in determining how effective the company has been in reducing carbon emissions and other pollutants. It can also provide information to special interest groups to determine whether the entity has considered environmental, social or industrial aspects during its operations. Costs to the entities include information processing costs and the potential loss of business to the entity if the information sends a negative signal about the entity e.g. increases in greenhouse gas emissions and other pollutants or increased water consumption levels.

1.20 Briefly describe how the AASB develops accounting standards.

Since 1 January 2005, Australian entities have complied with **International Financial Reporting Standards (IFRS)**. The **Australian Accounting Standards Board (AASB)** is responsible for the development and maintenance of high-quality financial reporting standards in Australia, and to contribute to the ongoing development of global accounting standards. The AASB provides input into current accounting standards issued by the IASB by contributing to the due process. . The due process of an accounting standard includes identifying a technical issue through submissions and other materials from interested parties; developing a project proposal to determine if the project is worthwhile; researching the issue comprehensively; issuing an exposure draft, discussion paper or an invitation to comment; and issuing a draft interpretation.

1.21 How do accounting standards assist large companies?

The Corporations Act stipulates that large companies must apply accounting standards in preparing their financial reports. The accounting standards assist with consistency in financial reporting and ensuring the users of financial reports (e.g. investors, consumers, employees, regulatory bodies) will have the necessary relevant and faithfully representative information to assist them in their decision making. Without accounting standards, there would be no comparability in financial accounting – firms would produce an statement of profit or loss with differing amounts of information. Some firms would report large number of intangible expenditure and others would report minimal amounts or none at all. A lack of consistency would make it impossible to compare one firm against another.

1.22 What is an IFRS and how does it impact on standard setting in Australia?

Australia adopted Australian equivalents to International Financial Reporting Standards, (IFRS), from 1 January 2005. The adoption of IFRS helps ensure compliance with internationally agreed principles, standards and codes of best practice. The adoption of IFRS also reduces the amount of standard setting in Australia by the Australian Accounting Standards Board, (AASB), which allows the AASB to focus on providing expert advice on some of the International Accounting Standards Board future projects and interpreting issues arising out of the adoption of IFRS.

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Problems

1.23 Australian Accounting Standards

There are at least 50 Australian Accounting Standards. Go to the AASB website at www.aasb.gov.au and choose one. (*Hint:* Go to 'Quick Links' and select 'Table of Standards'.) One of the recent accounting standards is the standard on fair value measurement. Briefly describe the meaning of 'fair value' accounting. What is the purpose of this standard?

AASB 13 Fair Value is a recent accounting standard issued by the AASB. Fair value is a market-based measurement. For some assets and liabilities, observable market transactions or market information might be available. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions.

The purpose of the standard is to define fair value and set out a single standard for measuring fair value and the required disclosures in the notes arising out of applying fair values to assets and liabilities.

1.24 AASB and standard setting

The AASB, as part of its work program, offers comment on documents such as proposed agenda decisions, exposure drafts, draft exposure drafts, invitations to comment and discussion papers. Go to the 'Work in progress page of the AASB website at www.aasb.com.au and choose 'Pending'. One of the topics listed relates to the exposure draft – ED 259 *Classification of Liabilities*. Summarise the main changes to this proposed standard.

ED 259 *Classification of Liabilities* clarifies that the classification of liabilities as either current or non-current is based on the rights that are in existence at the end of the reporting period.

In order to make this clear, the IASB proposes: (a) replacing 'discretion' in paragraph 73 of the Standard with 'right' to align it with the requirements of paragraph 69(d) of the Standard; (b) making it explicit in paragraphs 69(d) and 73 of the Standard that only rights in place at the reporting date should affect this classification of a liability; and (c) deleting 'unconditional' from paragraph 69(d) of the Standard so that 'an unconditional right' is replaced by 'a right'. The IASB also proposes making clear the link between the settlement of the liability and the outflow of resources from the entity by adding that settlement 'refers to the transfer to the counterparty of cash, equity instruments, other assets or services' to paragraph 69 of the Standard. The IASB further proposes that guidance in the Standard should be reorganised so that similar examples are grouped together.

Source: http://www.aasb.gov.au/admin/file/content105/c9/ACCED259_02-15.pdf

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1.25 Professional institutions

CPA Australia, and CAANZ have designated areas on their websites for technical resources and updates. Go to each of the respective bodies' websites (www.cpaaustralia.com.au and www.charteredaccountants.com.au) and summarise the resources provided.

CPA Australia, CAANZ have various resources to assist members with adopting AIFRS. These resources include:

- Articles on adopting IFRS
- Draft submissions from the professional associations on IASB's exposure drafts
- Latest news in relation to IFRS
- IFRS compared to IFRS and the old GAAP
- Interpretations and guidance
- IFRS fact sheets
- IFRS implementation kit for the public and private sectors

1.26 *Conceptual Framework* and accounting standards

Describe the relationship between the *Conceptual Framework* and accounting standard AASB 116 *Property, Plant and Equipment*?

The Australian accounting standards have the force of law under the Corporations Act for disclosing entities. The *Conceptual Framework* contains statements to assist in the preparation and presentation of financial reports however it does not have the force of law and therefore its role is more to substantiate the accounting standards and provide further guidance on the application of the standards.

AASB 116 Property, Plant and Equipment sets out the requirements for accounting for the non-current asset Property, Plant and Equipment which for most companies is one of the largest assets. The *Conceptual Framework* includes the definitions of the elements of the financial statements such as assets, liabilities, expenses, revenues and equity. AASB 116 will apply the definition of asset as outlined in the *Conceptual Framework* and use it as a base and point of reference for the definitions relating to Property, Plant and Equipment in the actual standard.

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1.27 International convergence

It is argued that the convergence of our accounting standards with international standards and their subsequent adoption has brought great benefits to the Australian economy. What are the benefits in relation to international trade?

The adoption of international standards should have a number of benefits for the Australia economy including:

- A global language will be achieved for financial reporting. IFRS are now developed in consultation with countries around the world.
- Business, investors and other stakeholders will more effectively communicate, understand and engage.
- With an increase in understanding of global financial reporting this should lead to more informed decision making by entities and their stakeholders.

International trade will also benefit greatly from the adoption of international standards as with IFRS there is a global language which enables consistency in financial reporting. It also reduces costs for individual entities as they no longer have to produce two sets of financial reports. A global language also increases transparency in financial reporting.

1.28 Disciplinary action

Every time there is a spate of corporate collapses, the accounting profession has been closely scrutinised, and many members of the professional bodies have appeared before disciplinary hearings. The professional bodies publish a professional conduct report each year. Go to the Chartered Accountants Australia and New Zealand website at www.charteredaccountants.com.au. Search for 'member complaints and discipline'. Click on 'tribunal decisions'. Summarise the investigations and tribunal hearings and the nature of the allegations against the members of the accounting profession.

Instructor's notes: Expect a variety of responses here depending on which annual report is accessed.

Responses could include:

- Failure to observe a proper standard of professional care, skill or competence
- Failure to respond to a client's correspondence on personal and business tax returns
- Continuing practising as an accountant in a business that was in the process of liquidation.
- Failure to return client monies held in trust accounts
- Failure to comply with the code of conduct.

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1.29 IFRS adoption

Go to the IFRS Foundation website at www.ifrs.org. Click on the IFRS tab and click on 'Use around the world'. Comment on the jurisdictions that have adopted IFRS. Which countries are yet to adopt IFRS? Can you think of reasons why certain countries have not adopted IFRS?

There are 143 profiles from jurisdictions commenting on whether they have adopted IFRS. Please note this is not the full list of IFRS adopters. Profiles are included from countries such as Albania, Austria, Australia, Iceland, Singapore, Poland, Norway and South Africa. Some of them have adopted IFRS and some have not. The profiles discuss the following issues:

1. **Commitment to a single set of global accounting standards:** Nearly all of the jurisdictions (133 of the 143) have made a public commitment supporting a single set of high quality global accounting standards. Only Albania, Macao, and Switzerland have not.

2. **Commitment to IFRSs:** The relevant authority in all but 8 of the 143 jurisdictions (Switzerland) has made a public commitment to IFRSs as the single set of global accounting standards.

3. **Adoption of IFRS Standards:** 119 jurisdictions (83 per cent of the profiles) require IFRS Standards for all or most domestic publicly accountable entities (listed companies and financial institutions) in their capital markets. All but one of those have already begun using IFRS Standards. Bhutan will begin using IFRS Standards in 2021. Some comments on the remaining 24 jurisdictions that have not adopted:

    a) **Twelve jurisdictions permit, rather than require, IFRS Standards:** Bermuda, Cayman Islands, Guatemala, Honduras, India, Japan, Madagascar, Nicaragua, Panama, Paraguay, Suriname, Switzerland;
    b) **Two jurisdictions require IFRS Standards for financial institutions but not listed companies:** Saudi Arabia, Uzbekistan;
    c) **One jurisdiction is in process of adopting IFRS Standards in full:** Thailand;
    d) **One jurisdiction is in process of converging its national standards substantially (but not entirely) with IFRS Standards:** Indonesia; and
    e) **Eight jurisdictions use national or regional standards:** Bolivia, China, Egypt, Guinea-Bissau, Macao, Niger, United States, Vietnam.

Countries may not yet have adopted IFRS due to the additional information process costs, and also the fear of disclosing additional information to the market which could impact on their level of competition.

Some jurisdictions (e.g. USA) also believe that some parts of IFRS may not meet their user needs and may in fact result in a loss of information for stakeholders.

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1.30 The Australian Accounting Standards Board (AASB) and international accounting standards

What is the relationship between the AASB and the international standard-setting bodies such as the IASB?

Australian and international accounting standards:
Since 1 January 2005, Australian entities have complied with **International Financial Reporting Standards (IFRS)**. The **Australian Accounting Standards Board (AASB)** is responsible for the development and maintenance of high-quality financial reporting standards in Australia, and to contribute to the ongoing development of global accounting standards. The AASB provides input into current International Accounting Standards Board (IASB) projects by issuing exposure drafts of amended AASBs that incorporate the relevant clauses and requirements of the IFRS.

1.31 Sustainability reporting

BHP Billiton Ltd includes a sustainability report in its annual report. What key performance indicators are included in this report? Explain the different stakeholders that would be interested in this information.

The key performance indicators included in this report are:
1. governance
2. people
3. environment
4. society

The employees of the company would be interested in the safety and health measures undertaken by BHP Billiton Ltd. Future employees may be interested in the gender diversity of the organisation such as number of woman directors on the board of directors. Future employees may also be interested in the age and cultural diversity of the workplace. Prospective investors may be interested in the environmental aspects of the company such as climate change and energy, biodiversity and land management and water management. Society would be interested in the way the company supports and engages with the community, the way the company respects human rights and makes a positive contribution to society.

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Decision-making activities

1.32 Go to the ASX website (www.asx.com.au).

a. In the search field type, 'What is the sharemarket'. Click on the result 'ASX Tutorial: What is the sharemarket?'. Watch the video on 'What is the sharemarket?' How the buying and selling process work and what is the role of the broker?

b. Next, click on 'About ASX', then 'Market statistics'. Under the heading 'ASX trading volumes' click on the 'value shares traded'. What are the current top 20 shares by value?

c. Again under 'Market statistics', under the heading 'Historical market statistics' click on 'number of entities listed on the ASX'. What is the current number of listed entities on the ASX and what is the percentage increase since 2002?

a. ASX-listed shares are easy to buy and sell compared with unlisted shares, property and term deposits. You can buy or sell small amounts quickly through a licensed broker. Brokerage fees for executing a trade are usually a fixed fee or a small percentage of the value of the shares traded.

b. 7 June 2016 - Top 20 shares by value

Top 20 Shares by Value

Run Date - 07-jun-2016

ASX Code	Company	Security	$ Value Traded	Last	% Change	GICS Industry Group	Chart
SKI	SPARK INFR	FORUS	269,475,942.17	2.290	-0.87	Utilities	Chart
BHP	BHP BLT	FPO	237,920,280.08	19.780	2.91	Materials	Chart
CBA	CWLTH BANK	FPO	204,455,940.44	77.340	0.97	Banks	Chart
WBC	WESTPAC	FPO	162,104,323.53	30.510	0.83	Banks	Chart
NAB	NAT. BANK	FPO	160,517,411.35	26.590	-0.11	Banks	Chart
GXL	GREENCROSS	FPO	130,535,401.95	7.360	-7.77	Retailing	Chart
ANZ	ANZ BANK	FPO	127,951,285.64	24.860	-0.40	Banks	Chart
NCM	NEWCREST	FPO	107,645,225.06	21.490	-2.58	Materials	Chart
RIO	RIO TINTO	FPO	101,809,419.80	46.040	1.81	Materials	Chart
QBE	QBE INSUR.	FPO	90,611,869.33	12.000	-1.72	Insurance	Chart
MQG	MACQ GROUP	FPO	89,338,683.76	73.800	0.41	Diversified Financials	Chart
WES	WESFARMER	FPO	82,681,377.82	40.340	-0.96	Food & Staples Retailing	Chart
FMG	FORTESCUE	FPO	81,278,648.27	3.290	2.49	Materials	Chart
CSL	CSL	FPO	70,955,820.38	117.100	-0.14	Pharmaceuticals & Biotechnology	Chart
TLS	TELSTRA	FPO	67,821,381.67	5.570	-0.18	Telecommunication Services	Chart
QAN	QANTAS	FPO	55,156,428.78	2.930	0.34	Transportation	Chart
WPL	WOODSIDE	FPO	54,947,197.85	27.460	1.52	Energy	Chart
SGP	STOCKLAND.	STAPLED	48,426,054.09	4.680	0.86	Real Estate	Chart
OSH	OIL SEARCH	FPO 10T	47,114,662.39	6.810	2.41	Energy	Chart
SUN	SUNCORP	FPO	46,564,850.18	12.500	-0.48	Insurance	Chart

c. Number listed on the ASX at 13 November 2013 is approximately 2205. This is a 48% increase in number of listed entities since the same time in 2002.

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1.33 After successfully running her SME recruitment agency for a number of years, Saphira feels it is now time to expand. Her friends in business have told her to 'get big or get out'. One of the options she is investigating is whether or not to list on the ASX. She has heard that the ASX has its own regulation in the form of Listing Rules.

a. Go to www.asx.com.au and conduct a search under 'Listing Rules'.

b. Give two examples of some of the Listing Rules that Saphira must abide by if she decides to list her recruitment agency on the ASX.

b.

1	Admission
2	Quotation
3	Continuous disclosure
4	Periodic disclosure
5	Additional reporting on mining and exploration activities
6	Securities
7	Changes in capital and new issues
8	Transfers and registration
9	Restricted securities
10	Transactions with persons in a position of influence
11	Significant transactions
12	On-going requirements
13	Additional requirements for trusts
14	Meetings
15	Requirements for documents
16	Fees
17	Trading halts, suspension, removal
18	Application of listing rules
19	Interpretation and definitions
20	Self-listing of ASX

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1.34 Go to the CSR website (www.csr.com.au) and locate the segment report in the latest financial statements.

a. What do you think is the purpose of the segment report?

b. What operating segments does CSR have?

c. How do you think this information would benefit stakeholders of financial statements?

d. Can you think of any disadvantages of disclosing this information for CSR Ltd?

a. The purpose of the segment report is to inform users of financial reports of information relating to the various revenue earnings segments of the business. The segment report also provides a description and definition of each of the segments including the physical location of that segment. The segment report also provides the profit/loss of each segment, total assets and total liabilities of each segment.

b. The operating segments of CSR Ltd are building products, glass, aluminium and property.

c. This information would benefit various stakeholders of the company. Understanding the different profits of the operating segments will assist users in forecasting future profits as it allows users to gain insight into the relative risks and returns of the different segments, compared to a consolidated report which would just focus on the total figure and not enable individual assessment of each of the sections of the business.

d. The disadvantages of disclosing this type of information by the firm would include the additional costs in preparing and disseminating this information and also potential proprietary costs arising from disclosing potentially sensitive information to market competitors.

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1.35 Refer to the latest financial statements for JB Hi-Fi Ltd (the notes to the 2014 consolidated financial statements of JB Hi-Fi appear in the appendix to this book and the statements are available at www.jbhi.com.au). For each of the following stakeholders, give an illustration of a report or a note that would be useful for decision-making purposes, state why the information is useful, and give an example of how that information would be used.

a. Prospective shareholders
b. Customers
c. Employees
d. Suppliers to JB Hi-Fi Ltd
e. Auditors
f. Charity organisations
g. Australian Taxation Office

a. JB Hi-Fi Ltd's prospective shareholders – All financial statements, auditor's report and directors' report. This information would be useful to help them assess the performance and position of the entity at the end of the financial period and what their future potential investment opportunities are.

b. Customers – Statement of Profit or Loss, notes on income and also notes on provisions such as warranties.
This information can assist in determining the profitability of the business and by looking in the notes, the main sources of income for the business. Product warranty information may provide them with estimates on the percentage of products returned to the entity.

c. Employees of JB Hi-Fi Ltd. – All financial statements, note 2 (v) share based payments to employees. Employees are going to be interested in future profitability and cash flow. Job security, promotional opportunities will be of interest to employees. They will also seek information on remunerations such as employee share based plans.

d. Suppliers of JB Hi-Fi Ltd would be interested in the Statement of Profit or Loss, Balance Sheet and notes to the financial reports to determine the entity's ability to meet future cash obligations. They would be concerned with repayment and the business meeting any interest charges. They would also like information to enable the calculation of certain ratios such as liquidity and financial structure ratios to determine what the debt situation currently is for JB Hi-Fi Ltd.

e. Deloitte (auditors) – All financial statements and accompanying notes on policies.
Auditors need to closely scrutinise the financial statements and the notes on accounting policies to determine what policies the firm has implemented during the period, which accounting standards have been early adopted (if any) and this combined will allow them to assess the accuracy of the amounts disclosed in the financial statements.

f. Charity groups - the sustainability report.
The sustainability report discusses the voluntary initiatives and charitable associations that the entity is involved in. This information would provide charity groups with information to ascertain whether JB Hi-Fi Ltd is a good corporate citizen.

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g. Australian Taxation Office – the ATO would be interested in the statement of profit or loss of the company, the balance sheet, statement of cash flows and the associated notes to determine what the obligations of JB Hi-Fi Ltd are in relation to tax.

1.36 Raymond is completing his final year of a commerce degree, majoring in accounting, and he wishes to become a member of a professional accounting association in Australia or New Zealand. Access the websites of the CPA Australia (www.cpaaustralia.com.au) and the Chartered Accountants Australia and New Zealand (CAANZ).

Prepare a one-page memo to Raymond advising him on the strategic mission of all of these associations, any prerequisites for becoming a member of each, and the areas and activities that each one is typically involved in.

Please see the websites above for details relating to the strategic missions, prerequisites and the areas and activities that each of the professional associations are involved with.

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APPLY YOUR KNOWLEDGE

45 marks

a. Provide an example of the different types of activities that would be performed by a management and financial accountant for a large public company listed on the ASX. ***5 marks***

b. What are some of the advantages of business planning? ***5 marks***

c. Carbon accounting is a very important and huge growth area of accounting. Discuss the different stakeholders (and their information needs) that would be interested in the carbon accounting report. ***10 marks***

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d. The AASB's role has changed since the introduction of IFRS in 2005. Most of the Australian accounting standards mandated in Australia are Australian equivalents to IFRS. Why do you think Australia has adopted Australian equivalents to IFRS? ***5 marks***

e. The sustainability report is a recent disclosure by some Australian companies. What do you think are the advantages and disadvantages to the company of providing such disclosures? ***10 marks***

f. What are the three elements of a business plan? Consider the situation of two brothers contemplating a new business hiring surfboards and providing surf lessons on the Sunshine Coast. Explain how the business plan would assist the two brothers in planning their business venture. ***10 marks***

COMPREHENSION QUESTIONS

1.1 What is a business transaction and how does it relate to the accounting process? Illustrate the concept of a business transaction with five examples relating to an SME such as a provider of Chinese therapeutic massages. **LO1**

1.2 Differentiate between financial accounting and management accounting. Provide an example of how a management accounting report would be incorporated into financial accounting reports. **LO3**

1.3 Describe how accounting information helps shareholders and lenders to make decisions concerning the operations and performance of the entity. **LO2**

1.4 Provide an example of a company that would produce a general purpose financial statement and a company that would produce a special purpose financial statement. Who are the likely stakeholders of both types of entities? **LO6**

1.5 Refer to the reality check 'Job prospects'. What are the projections for the accounting profession in the next five years? **LO10**

1.6 List five stakeholders of accounting information. Describe the information requirements for each one; for example, lenders would need information regarding the business's ability to repay debt and service a loan. **LO2**

1.7 One of the limitations of accounting information is the historical nature of the financial statements. Provide an example of an asset from the balance sheet of Qantas Group where the asset's historical cost may not reflect its current value. **LO9**

1.8 Darby Davis is considering purchasing a sushi bar in the inner Brisbane suburb of Paddington. Outline the importance of a business plan for Darby and the type of accounting information she will require to assist her in making the decision. **LO4**

1.9 What are the benefits of professional association membership for accounting graduates? **LO7**

1.10 Give an example of the role accounting information plays in the investment planning for a retired cricketer and a retired public servant. **LO2**

1.11 What are some of the opportunities and threats for the accounting profession resulting from the large number of corporate collapses in the early 2000s? **LO5**

1.12 Compare and contrast the roles of the Financial Reporting Council (FRC) and the Australian Securities Exchange (ASX). **LO6**

1.13 What is the difference between the *Conceptual Framework*'s fundamental qualitative characteristics of relevance and faithful representation? Can you think of any tradeoffs between relevance and faithful representation? **LO8**

1.14 How can the professional accounting bodies assist in standard setting? **LO7**

1.15 Describe the major purpose of the ASX. What types of information does it provide for a novice investor? **LO6**

1.16 What is the impact of the qualitative characteristic of 'materiality' on the preparation of the financial statements? **LO8**

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1.17 The reality check, 'Why adopt IFRS', outlines the advantages of adopting IFRS. In your own words, explain the advantage of comparability and transparency of financial information. **LO7**

1.18 Explain the relationship between the Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB). **LO6, 7**

1.19 Growth areas for accountants in the future include sustainability reporting and, more specifically, carbon accounting. What are the costs and benefits for entities in reporting their carbon greenhouse gas emissions? **LO10**

1.20 Briefly describe how the AASB develops accounting standards. **LO5, 6**

1.21 How do accounting standards assist large companies? **LO7**

1.22 What is an IFRS and how does it impact on standard setting in Australia? **LO7**

PROBLEMS

★ BASIC | ★★ MODERATE | ★★★ CHALLENGING

1.23 Australian Accounting Standards ★ **LO7**

There are at least 50 Australian Accounting Standards. Go to the AASB website at www.aasb.gov.au and choose one. (*Hint*: Go to 'Quick Links' and select 'Table of Standards'.) One of the recent accounting standards is the standard on fair value measurement. Briefly describe the meaning of 'fair value' accounting. What is the purpose of this standard?

1.24 AASB and standard setting ★ **LO7**

The AASB, as part of its work program, offers comment on documents such as proposed agenda decisions, exposure drafts, draft exposure drafts, invitations to comment and discussion papers. Go to the 'Work in progress' page of the AASB website at www.aasb.com.au and choose 'Pending'. One of the topics listed relates to the exposure draft — ED 259 *Classification of Liabilities*. Summarise the main changes to this proposed standard.

1.25 Professional institutions ★ **LO7**

CPA Australia and CAANZ have designated areas on their websites for technical resources and updates. Go to each of the respective bodies' websites (www.cpaaustralia.com.au, www.charteredaccountantsanz.com) and summarise the resources provided.

1.26 *Conceptual Framework* and accounting standards ★ **LO8**

Describe the relationship between the *Conceptual Framework* and accounting standard AASB 116 *Property, Plant and Equipment*.

1.27 International convergence ★★ **LO5, 7**

It is argued that the convergence of our accounting standards with international standards and their subsequent adoption has brought great benefits to the Australian economy. What are the benefits in relation to international trade?

1.28 Disciplinary action ★★ **LO7**

Every time there is a spate of corporate collapses, the accounting profession has been closely scrutinised and many members of the professional bodies have appeared before disciplinary hearings. The professional bodies publish a professional conduct annual report each year. Go to Chartered Accountants Australia and New Zealand website at www.charteredaccountantsanz.com/. Search for 'member complaints and discipline'. Click on 'tribunal decisions'. Summarise five of the tribunal hearings and the nature of the allegations against the members of the accounting profession.

1.29 IFRS adoption ★★ **LO5**

Go to the IFRS Foundation website at www.ifrs.org. Click on the IFRS tab and click on 'Use around the world'. Comment on the jurisdictions that have adopted IFRS. Which countries are yet to adopt IFRS? Can you think of reasons why certain countries have not adopted IFRS?

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1.30 The Australian Accounting Standards Board (AASB) and international accounting standards ★★ **LO7**

What is the relationship between the AASB and international standard-setting bodies such as the IASB?

1.31 Sustainability reporting ★★★ **LO2**

BHP Billiton Ltd includes a sustainability report in its annual report. What key performance indicators are included in this report? Explain the different stakeholders that would be interested in this information.

DECISION-MAKING ACTIVITIES

1.32 Go to the ASX website (www.asx.com.au).

a. In the search field type, 'What is the sharemarket?' Click on the result 'ASX Tutorial: What is the sharemarket?'. Watch the video on 'What is the sharemarket?'. How does the buying and selling process work and what is the role of a broker?

b. Next, click on 'About ASX', then 'Market statistics'. Under the heading 'ASX trading volumes' click on the 'value shares traded'. What are the current top 20 shares by value?

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