

Solutions manual

to accompany

Accounting

10th edition

by

Hoggett, Medlin, Chalmers, Hellmann,
Beattie and Maxfield

**Prepared by
Keryn Chalmers**

WILEY

© John Wiley & Sons Australia, Ltd 2018

Chapter 1: Decision making and the role of accounting

Questions and solutions which contain GST:

- Exercise 1.3
- Exercise 1.5

Discussion questions

Suggested topics for discussions are provided for each question. Discussion need not be confined to the topics indicated.

- 1. You are considering buying an apartment. Outline the information you would like to assist you to make this decision. Identify how much of this information is accounting information?**

Considerations when buying an apartment include factors such as location, type (studio, one bedroom, two or three bedrooms), size (bigger rooms, additional bathroom, balcony), age of the apartment, and available funds. Information to assist the purchase decision includes whether the apartment is for residential or investment purpose, personal taste (e.g. interior design, view), distance to workplace or train stations, funds to meet ongoing costs like repairs and maintenance required after purchase, body corporate fees, council rates, and insurance. Initial purchase considerations include whether the apartment is to be purchased outright or through a home loan taken with a financial institution, stamp duty to be paid, and the eligibility of obtaining first-home buyer grant from the federal/state government. Purchase considerations and ongoing costs represent accounting information relevant to the decision-making process.

- 2. Accounting is described as the language of business, and everyone is affected by the business world. Discuss if everyone should be required to study accounting.**

Suggested topics of discussion:

- Adults are affected by business activity but not all adults carry on a business.
- ‘Accounting is the process of identifying, measuring, recording and communicating economic information to permit informed judgements and decisions by users of the information.’ The ‘language of business’ is the communication of accounting information, not the identifying, measuring and recording of accounting information that all adults may not necessarily deal with. Language includes the terminology (jargon) used by accountants in accounting and business reports. Communicating accounting information consists of preparing of financial reports and other interpretative disclosures necessary to make the accounting data understandable. It is up to the accountant to communicate in a language that the client can understand.
- Part of an accountant’s role is to communicate financial information to adults. It is not necessary for everyone to study accounting as it is part of the duty of an accountant to communicate.

3. Describe the differences between accounting information and other information.

Accounting information comprises financial information summarised in the form of financial reports. Accounting information is used to provide information about the financial costs of business decisions. It differs from other information used in the business decision-making process due to the financial nature of measuring economic resources used in business transactions. Other information which may be used in the decision making process includes personal preferences, social factors like the effect on unemployment, environmental factors (like pollution and waste management) and government policy effects on decision making in business entities. Should accountants also report social and environmental information, or is this the task of others?

4. ‘Accounting is irrelevant in decision making because the information it provides relates only to the past.’ Evaluate this remark.

Accounting is relevant to the decision-making process as it helps provide financial information as to the most efficient use of available economic resources. Although accounting provides financial information based on past financial transactions, it is useful in giving details on how efficiently an organisation has been using its available resources. For example, what profit has the accounting entity reported based on the assets used? A reported profit of \$50 000 where an entity has total assets of \$200 000, appears more favourable when compared to an entity which has total assets of \$1 000 000. Accounting information is useful in providing decision makers with information about the outcomes of their past business decisions. Past performance also gives insight to the future trends for the entity. Accounting information is also used as part of the budgeting process of a business entity.

5. Describe how you would identify if a financial statement is a special purpose financial statement or a general purpose financial statement.

Suggested topics of discussion:

- The difference between a general purpose financial statement and a special purpose financial statement lies in the ability of users of those reports to command the preparation of reports tailored to satisfy their needs for particular information.
- General purpose financial statements are prepared by reporting entities for users who do not have access to special purpose financial statements. General purpose financial statements contain information which, while general in nature, is relevant to many of the individual decisions made by the many different types of users, e.g. a shareholder will decide to sell or retain his/her shares based on the information in the general purpose financial statements. Other users such as lenders suppliers and employees will make individual decisions based on these general purpose financial statements.
- Regulators attempt to prescribe the disclosure requirements in the general purpose financial statements to ensure that individual users have access to reliable information.
- General purpose financial statements do not satisfy all of the needs of users for information. Users will also add their personal, social, political and environmental preferences to any decision. General purpose financial statements do not even provide all of the financial information that users may need. For example, budget information is not provided.
- Special purpose financial statements are specifically tailored to provide the special information needs of users for decision-making purposes. Unlike general purpose financial statement users, special purpose financial statements users have the power to require/insist that the information generated is specifically suited to their needs. For example, a bank may require special information from an entity before it grants the entity a loan.

6. Users of accounting information can be identified as internal and external users. List examples of users in each category and the type of information they require.

Firstly, distinguish internal and external users.

The following are examples of internal users and the type of information they require:

- Section/line managers need to know the impact of increasing or decreasing selling price on profitability.
- Chief Executive Officers and directors need accounting information to make a decision of whether it would be beneficial for the company to acquire another company.
- General managers of divisions need to know if their divisions should make new products.
- Account managers require information about how much the company owes suppliers.
- Production supervisors need to know the most efficient production process to be implemented.

External users are often classified as being resource providers, recipients of goods and services, and reviewers and overseers. The following are examples of external users, who mainly receive general purpose financial statements which are commonly available to the general public on an entity's website, and the type of information they require:

- Shareholders want to know the return on their investments.
- Long-term lenders need to know if the company will be able to repay the money lent to it.
- Potential investors want to know if they should invest in the company.
- Suppliers require information to find out if the company will be able to pay outstanding bills.
- Employees want to know if the company is still able to pay their wages.
- Customers want to know if the company uses locally-grown products in their production to support local economy.
- Government e.g. for tax reasons needs to know if the company complies with tax regulations by paying the right amount of tax.

What about other interest groups? e.g. RSPCA, Greenpeace, World Vision, Unions, Chambers of Commerce, Community interest groups, The Australian Securities Exchange (ASX). Are they entitled to receive financial reports?

7. Distinguish between the work performed by public accountants and the work performed by accountants in commerce and industry and in not-for-profit organisations.

Public accounting

Public accountants run businesses which offer their professional services to the public for a fee. These vary from small businesses to very large international organisations. Members of public accounting businesses tend to specialise in one of four general services: auditing and assurance services, taxation services, advisory services, and insolvency and administration.

Auditing and assurance services

An audit is an independent examination of a business entity's financial reports, supporting documents and records in order to form an opinion as to whether the financial reports comply with certain levels of quality, as specified in accounting standards, and present a true and fair view of the entity's performance and financial position. It is essential that auditors are independent observers in carrying out their duties.

Assurance services are defined as 'independent professional services that improve the quality of information, or its context, for decision makers'. Emphasis is being placed on the detection of fraud and assessing whether the entity is appropriately placed to remain as a going concern. The auditor is required to report on the 'credibility' of information.

Examples of assurance services include:

- assessment of risk
- business performance measurement
- information systems reliability
- electronic commerce
- health care and care of the elderly.

Taxation services

Accountants provide advice concerning the tax consequences of business decisions. Individuals and business entities have to collect or pay various forms of taxes including income tax, capital gains tax, fringe benefits tax, goods and services tax, local government rates, and other taxes. Accountants are often engaged to help in tax planning to minimise the tax liability of the business, consistent with the rules and regulations established by taxing agencies. Accountants also are often called upon to prepare tax returns, including business activity statements (BASs), required by law.

Advisory services

Accountants provide advice on:

- overcoming detected defects or problems in a client's accounting system.
- the installation and modification of computer systems,
- budgeting, forecasting and general financial planning,
- design or modification of superannuation plans
- company mergers and takeovers,

- personal financial planning, and
- managing deceased estates.

Forensic accounting

Forensic accounting develops investigative techniques in order to generate information and opinions for use in the legal system, such as in court, and to provide opinions as an expert witness if needed.

The forensic accountant is often needed to resolve disputes in circumstances such as bankruptcy, embezzlement, fraud, employee irregularities, business partnership disputes, personal injury claims, road accidents, divorce proceedings, business losses, and claims for professional negligence.

Visit the following website for further information: www.forensicaccountant.com.

Insolvency and administration

Public accountants help businesses administer their recovery from trading difficulties or insolvency, if possible. However, if recovery is not possible, accountants then help in the winding-up of the business's affairs. In the case of the company form of business organisation, such a wind-up is referred to as liquidation.

Accountants in commerce and industry

An entity's chief financial officer (CFO) has overall responsibility for directing the activities of accounting personnel. In a large company, the CFO may have several management accountants as part of the finance team. Overall responsibilities include:

General accounting

The accountant in commerce and industry is required to oversee the recording of transactions undertaken by the business entity and to prepare reports specially tailored for use by management in their planning, control and decision-making activities.

Cost accounting

The accountant deals with the collection, allocation and control of the costs of producing specific products and services. Knowledge of the cost of each manufacturing process and each service activity is important in making sound business decisions.

Accounting information systems

Accountants are often heavily involved in designing both manual and computerised accounting information systems. Once systems have been designed and installed, their operation is constantly monitored for improvements and system maintenance. Integrity of data and privacy issues are of paramount importance.

Budgeting

Accountants deal with the preparation of plans and forecasts of future operations. Budgets also serve as control devices when used in conjunction with performance reports, which measure actual results for the period. Budgets also are used in assessing the efficiency of operations.

Taxation accounting

Businesses are assessed for a variety of taxes all of which require the preparation of periodic reports to the various taxing agencies. The effects of tax must be considered in every investment and financing decision made by management. Some businesses rely on public accountants for some tax-planning advice and tax-return preparation, but many large companies also maintain a tax accounting department to deal with tax issues and problems.

Internal auditing and audit committees

The internal audit committee in a business conducts ongoing reviews to make certain that established procedures and policies are being followed. Thus, any deficiencies can be identified and corrected quickly.

Not-for-profit accounting

Government

City councils, shire councils, state governments and the federal government collect and spend large amounts of money annually. Many of the problems and decisions faced by government officials are the same as those encountered in private industry, but accounting for not-for-profit entities may require a different approach in some respects because of the absence of a profit motive. Government accounting is concerned with the efficient usage of its resources, consistent with the provisions of city, shire, state and federal laws.

Other not-for-profit organisations

Churches, hospitals, charities, clubs, private educational institutions also have specialised accounting needs.

8. List some of the fields (other than financial reporting) that have opened up to accountants in recent years.

Suggested topics for discussion:

- In addition to the fields that accountants have long been involved in (refer to Q8 above for more details), there are some fields that have opened up to accountants in recent years:
 - **Sustainability reporting:** as the demand from stakeholders that organisations produce sustainability reports has increased, the need to have those reports audited also increases. Accountants can provide assistance to organisations in assessing their compliance with sustainability reporting requirements.
 - **Forensic accounting:** as business structure and transactions become more complicated, organisational issues and disputes cannot be avoided. Forensic accountants help to uncover the causes of those issues and settle disputes within organisation and in the legal system (such as court).
 - **Accounting information systems:** the rapid advancement of technology has enabled organisations to improve the efficiency of their operations using computerised accounting information systems. Some of strategic management accounting techniques, such as Just-In-Time (JIT) and Activity-Based Costing (ABC) rely heavily on good accounting information system to be able to operate effectively. Accountants could be involved in designing, installing, monitoring, and maintaining those information systems.

Ask students if they have other examples of accounting fields that have become more popular recently.

9. Regulators are concerned with external auditors providing advisory services to a client at the same time as providing auditing services to that client. Explain why this is a concern.

Suggested topics for discussion:

- If an external auditor is required to express an independent opinion on whether the financial reports present a true and fair view of the entity's performance and financial position, can the auditor successfully be involved in providing management services to the client and maintain independence?
- Note that as a result of certain significant corporate crashes in the early 2000s, the Australian government introduced requirements (via CLERP no 9) for auditors to declare their independence and to ensure a rotation of auditors every 5 years, with a further two-year delay before a former auditor can become an officer of the former client.

10. Discuss the actions taken by regulators in Australia, the United States and China to address auditor independence concerns.

Australia:

- Although audit firms in Australia are allowed to provide non-audit services to the same audit clients, the audit firms must disclose non-audit services provided to their clients.
- The Corporations Act lists relevant employment and financial relationships that are prohibited between an audit firm and its clients to ensure audit independence (section 324CH).
- Only one former audit partner of an audit firm can be an officer of an audited client (section 324CK).
- Individual auditors who play a significant role in the audit of a listed company must be rotated after five successive years and not return for a further two years (section 324DA).
- There is a two-year ‘cooling-off’ period for former partners of audit firms before they could become officers/employees of an audited client. The ‘cooling-off’ period only applies to a partner or director of an authorised audit firm who has been a professional member of the audit team.

United States:

- An audit firm is prohibited from providing both audit services and non-audit services to client firms.
- The Securities and Exchange Commission (SEC) imposes ban on certain relationships between an auditor or audit firm and an audit client, similar to those listed in the Australian Corporations Act. However, the SEC applies the ‘covered person’ concept (rather than ‘all partner’ approach as adopted in Australia) in regards to restrictions in those relationships.
- The Sarbanes-Oxley Act (SOX) also contains provisions for a ‘cooling-off’ period of no longer than two years before a former auditor could become an officer of audited client. The requirement of ‘cooling-off’ period in the U.S. is more extensive than in Australia as it applies to any person who participated in any capacity in the audit.
- Lead auditors must rotate after five successive years and there is a five-year time-out period before the rotated auditors are allowed to resume involvement with the same audit client.

China:

- *Source: Lin, K. Z., and K. H. Chan. 2000. Auditing standards in China: A comparative analysis with relevant international standards and guidelines. International Journal of Accounting 35 (4): 559–77.*
- Article 5 of the Chinese General Standard on Professional Ethics requires the auditor to remain independent in form and in substance. An accounting firm or a CPA must not accept the engagement for an audit or other attestation function if vested interest with the client exists.
- Chinese CPA Law requires that during the period of a professional engagement, the auditor should not: (1) buy or sell stocks or bonds of the client, (2) accept compensation other than the audit fee specified in the engagement letter, (3) act as a liability collector, (4) allow others to practice on his/her behalf, (5) work in two or more CPA firms, (6) obtain clients by advertising, and (7) engage in other activities that violate laws and regulations.

- However, there is no limitation on providing non-audit services, such as bookkeeping, preparation of the financial statements, taxation and management consulting, nor is there any restriction on the percentage of total fee income deriving from one client.

11. ‘When one examines the distinctive and different functions of financial and management accounting, it is obvious that to maximise the usefulness of the information derived, two systems of accounting are necessary. It does not matter how large or small the entity is, it is just common sense that one system cannot do the job.’ (An assertion made by a recent management graduate.) Evaluate this assertion.

Financial and management accounting systems have different objectives, direct reports to different users, and differ in the degree of regulation that can be imposed from outside the entity.

Financial accounting is designed to produce reports for external users, e.g. shareholders, lenders, trade creditors. These reports are general purpose financial statements for entities which are reporting entities, and as such must comply with accounting standards.

Management accounting is designed to produce relevant information for internal users, e.g. all levels of management. The reports are specific-purpose reports, designed to meet specific needs of those using such reports.

The frequency of reporting differs considerably. Whereas with financial accounting, reports could be yearly and half-yearly, management accounting reports are usually requested on a daily, weekly, monthly basis, or on demand.

The question of whether two separate systems are necessary depends, to a large extent, on cost factors.

Both financial and accounting management systems are based on a framework of accounting, the majority of the elements of which are common. Therefore, the one accounting system can be used to serve the needs of both forms of accounting.

12. Describe what it means to behave ethically.

Ethics can be defined as ‘moral principles that govern a person’s behaviour or the conducting of an activity (Oxford Dictionary). Therefore, to behave ethically means to make decisions or to act based on what is morally right, for instance being honest, complying with rules, and ‘doing the right thing’.

Ethical conduct can be considered essential to a business’ long-term survival because:

- (a) It attracts a regular and stable client base;
- (b) The legal implications of unethical conduct may prove to be costly;
- (c) It may attract shareholders and/or consumers in that they trust you to manage their money successfully and/or provide a quality service; and
- (d) Unethical conduct can lead to government intervention and even closure of the business.

Discuss with students the ethical dilemmas they may face in the workplace and identify who are the stakeholders, the ethical issues faced, what they may do in the situation.

13. 'Accounting is all about numbers.' Evaluate.

Although it is a common perception that accounting is all about numbers, the field of accounting encompasses broader issues than merely numbers. Accounting is defined as the process of identifying, measuring, recording and communicating economic information to assist users of the information in making informed economic decisions.

Based on the definition above, there are four elements of accounting associated with providing information that is useful for decision-making. Identification involves selecting economic events that are relevant to a particular entity. Even though the economic events eventually need to be expressed in measuring unit (numbers), the identification process itself requires knowledge about the entity and its operations rather than just looking at the numbers.

After the identification of the transaction, accounting information must be expressed in a common denominator so that the effects of transactions can be combined. This is where measurement takes place. It is true that measuring economic events mostly involves numbers; however it also requires knowledge of various measurement techniques, relies on judgments and assumptions, and involves knowledge of relevant accounting standards.

Economic events or transactions that have been identified and measured are then maintained systematically through recording process. In order to be useful in making decisions, recorded data must be classified and summarised.

Finally, classified and summarised accounting data need to be communicated to the potential users of the information. The communication process consists of placing accounting information into financial reports and preparing interpretive disclosures necessary to make the data understandable. For accountants to be able to help users of the reports to make economic decisions effectively, the accountants who prepare the reports must have a full appreciation of who the users are and their needs for accounting information.

In conclusion, it is a misunderstanding that accounting is all about numbers. Many people with limited knowledge of accounting tend to view accounting as limited to recording numbers and do not comprehend the whole processes involved in accounting as described above, which requires extensive training, business experience and professional judgment rather than merely calculating numbers.

Exercises

Exercise 1.1

Information for decisions

Ian Boardman has been appointed as the loans officer for the local community bank. One day, a person walks into the bank looking for a loan to buy a new car. List six items about that individual that Ian should find out before deciding whether to approve the loan. Classify these items as ‘economic’ or other (specify). Which type of information is more important for the purposes of good decision making? (LO2)

Ian Boardman, as the loans officer, should obtain personal and financial information about the loan applicant to ascertain whether or not the person will be able to repay a bank loan. In deciding to approve the loan, the following would be required:

1. Name of applicant
2. Address of applicant
3. Previous address
4. Employment details
5. Marriage status
6. Years at current or previous address
7. Years in current or previous employment
8. Salary and wage details *
9. Total assets and estimates of values *
10. Total liabilities (total commitments) *
11. If married/de facto, spouse/partner details for items 6-10 *
12. Credit history *
13. Banking details of applicant*
14. Ability to repay the loan for the period of the loan *
15. Any guarantor to the loan

**indicates economic information included.*

Exercise 1.2

Information for decisions

Tran Qu's family lives in Beijing, China. She has been accepted into a university course in Sydney, and has to find accommodation in the city within walking distance of the university, or at least be close to public transport. She searches the Internet to find suitable accommodation and comes across the following apartment:

CBD	\$525 pw
Great unfurnished one bedroom apartment in Maestri Towers. Send an enquiry via the 'email agent' button to access the booking page to schedule an inspection time. Bond is \$2120.	

Required

- (a) Discuss how this information may help Tran make a decision.
- (b) List additional information Tran would need before deciding whether to rent this apartment.

(LO6)

(a) The information provided partly helps Tran's decision-making process. It gives financial information as to the location of the apartment, cost of the rental per week, number of bedroom, and the amount of deposit required as bond. Tran is only able to identify this unit as one of the selections for further investigation based on the location identified, at a weekly cost she can afford and for meeting one of her criteria of being close to public transport. She should highlight this advertisement for further investigation.

(b) Other information Tran may require includes:

- The exact location of the apartment in CBD (is it on a main road/close to shops or transport?).
- Whether the location is safe (will she be able to arrive home safely after night lectures?);
- How far the apartment is to the train station.
- Details for transport close to the apartment (does the train run past the university? If not, is there a suitable bus service?).
- Personal taste (does she like the building, the apartment, or the neighbours?).
- Whether she could afford paying the weekly rental or whether it is financially more affordable for her to rent a two-bedroom apartment and share the rental with a friend).
- Whether it is practical and easy to furnish her own apartment or whether she should be looking for a furnished apartment instead.
- Other alternative options available to Tran (e.g. stay in a student accommodation provided by the university or live with relatives in Sydney).

Tran needs to consider what she is trying to achieve, assess what information she requires, consider what her alternatives are and decide what will be her final choice.

Exercise 1.3

Information for decisions

Renee Carter has decided to study medicine at a university in Melbourne. She has arranged to stay with a family on the north side of the city. In order to get to and from the university, she decides she will need to buy a car, costing a maximum of \$10 000. She searches the Internet and comes across the following at Car City:

MAZDA 323 Red, 4D Sedan; 5 SP Manual;
2.0 Ltr, 4 cyl; odometer 153 293.

Required

- (a) Evaluate how useful this information is in arriving at a decision.
 - (b) List extra information that Renee should ascertain before deciding whether to buy this car.
 - (c) Assume that Renee does purchase the car, and subsequently finds that the car has mechanical problems that will require \$2000 to fix. Discuss what she should do, given that she does not have enough money to pay for the repairs.
 - (d) Hypothesise as to how ethical the community regards used car salespeople.
- (LO6)

(a) Renee needs to buy a small car costing a maximum of \$10 000. The information provided in the advertisement is not very useful for Renee in making a decision, as it mostly describes the physical appearance of the car and does not mention the price of the car. Subsequently, Renee needs to find out the price of the car first before she looks further into other features of the car, as the most important requirement for her in buying the car is that the price does not exceed \$10 000 (i.e. she will not buy the car if the price is above \$10 000 even though she likes other features of the car). There also needs to be clarification as to whether the maximum cost of \$10000 is inclusive of GST.

(b) In her decision-making process (assuming the price of the car does not exceed \$10 000), Renee needs to consider other features beyond personal taste or preference, such as:

- GST.
- The age and previous mileage of the vehicle (the age is unknown at this stage, but once she finds out she needs to consider if the mileage shown on the odometer is reasonable for a car built in that year).
- Whether the vehicle is mechanically sound or whether certain parts of the car need to be repaired.
- Whether the car still has a warranty (although it would be unlikely for a car with such a high mileage to have a warranty).
- The total expected ongoing costs including petrol and oil, maintenance, registration and insurance.
- Additional features included in the car, e.g. tinted windows, power steering, A/C, CD player, and so on.
- Other alternative vehicles available within the same price range (e.g. different brand, model, colour, automatic instead of manual, etc.).

She should highlight the advertisement for further investigation and compare it with other available vehicles advertised in the internet or elsewhere.

(c) If Renee buys the second-hand car and subsequently discovers that it will require further expenditure of \$2000 to fix, she must pay it herself. Does the \$2000 include GST? Is there a warranty attached to a second-hand vehicle? If so, will this cost be passed on to the car dealer? If she has insufficient funds to meet the unexpected expense, she will have to borrow the money (loan from the family or borrow using a credit card) in order to fix the car.

(d) In Australia, the community generally perceives used-car salespeople as being unethical and deceitful in doing business. That is, people commonly have a negative perception of used-car salespeople based on the view that they use high pressure and manipulation to sell vehicles, especially to potential buyers who may not have sufficient knowledge about cars (usually female buyers). It is widely-known that used-car salespeople often do not reveal the truth about real condition of the car, and the unfortunate buyers would only find out about it after they buy the cars. Because of this stigma, many people feel reluctant to deal with used-car salespeople, even though undoubtedly there are a lot of used-car salespeople who do their job with high level of professionalism and integrity.

Ask students from other countries whether they have the same perception about used-car salespeople in their home countries.

Ask if there are students whose family members or relatives or friends are used-car salespeople. Ask them if their perception about used-car salespeople has changed knowing that their close family or friends work in this area.

Exercise 1.4

Choosing a university major

You have just enrolled in a course in business at the Western University. There are several specialty areas, one of which you must choose — accounting, business law, economics, finance, management, marketing, information systems. The choice you make is important as it will affect your future; hence, you must give careful thought to this decision.

Required

- (a) Identify two possible specialty areas in a business that interests you.
 - (b) Set down your goals and personal preferences in selecting a business major. Identify the factors which will help you make this decision, and specify the factors which are most important to you.
 - (c) Establish a set of criteria which must be met before making a decision about your appropriate specialty area.
 - (d) Determine the sources of information you will need to make such a decision.
- (LO6)

Students may answer this question in the context of their own choices made upon entering university.

(a) Identify your own personal preferences and strengths and weaknesses with respect to a choice of major in Business. For example, consider your strengths and weaknesses in considering whether to choose between an accounting or marketing major.

(b) Possible goals include desired area of employment after graduation, postgraduate starting salaries, postgraduate study options and desired membership into professional societies. In choosing a major, you may identify subjects which you enjoyed taking or in which you achieved good grades. Discuss personal goals and ambitions after your degree is completed.

(c) Criteria for selecting a major:

- Postgraduate employment opportunities
- Postgraduate starting salaries
- Recruiting and training opportunities
- Work experience
- Professional society membership
- Personal choice
- Personal interest and work preferences

(d) Identify areas of interest and talk with career advisers, lecturers, members of professional societies or become a student member of a professional society to gain access to information. Also speak with more senior students about their experiences with their studies and don't forget to read the University Handbook and relevant unit outlines. Consult newspapers and business press, prepare a resume and apply for a job. Seek work experience in your desired area of interest.

Exercise 1.5

Making an economic decision

You have decided that now is the time to buy a new laptop. List the factors that are important in choosing a new laptop and gather relevant information from various sources about different models on the market. Given that you have a maximum of \$1600 to spend, identify which model you will buy and discuss the reasons for your choice. Present your answer so as to illustrate the steps required in the decision-making process as discussed in this chapter. (LO2)

1. *What are you trying to achieve? — Establish goals.*

- Discuss your personal preference for a laptop including brand, make and model.
- What laptop do you think you need (e.g. RAM, CPU, hard disk, screen size, weight)?
- How will you use the laptop? Is it for your own personal use, or will you be sharing it with others?

2. *What information do you need? — Gather available information on alternatives.*

- Investigate pricing, taking GST into consideration.
- What are the available models in the desired price range?
- Identify features available for each model.
- Compare warranty and after-sales service.
- Consider all possible alternatives.

3. *What are the consequences of different choices? — Determine consequences of alternatives.*

- Identify all the alternative options in your price range and identify your preferred choice.
- Discuss the features which best appeal to you.
- Discuss the likelihood that laptops will become technologically obsolete in the near future.
- What is the worst case and best case scenario?

4. *Which course of action will you choose? — Choose a course of action.*

- Identify your choice and discuss why and how this particular model appealed to you.
- Discuss why you think this particular model is the best option compared to other alternatives.

Exercise 1.6

Factors in making a business decision

Consult the business section of a local newspaper, or *The Australian Financial Review*, or a business journal, and find an appropriate article detailing an important business decision that has been made in the last month. Based on the article, determine the factors that were taken into account in arriving at the decision. Discuss the effects that such a decision will have on various interested parties or stakeholders. (LO2 and LO3)

Factors to be taken into account in arriving at a business decision include:

1. Nature of the business entity.
2. Goals of the business entity.
3. Resources available to the entity.
4. Parties involved in the decision-making process.
5. The management level required for the decision to be made.
6. Possible gains or losses anticipated to be experienced by the business entity.
7. Possible alternatives which could be employed by the business entity.
8. The best or worst case scenario for the entity in adopting a certain business decision.
9. Identifying all possible groups both internal and external to the business entity who may be affected.
10. Identifying the stakeholders (i.e. parties for whom or on whom the decision will have a positive or negative impact).

Exercise 1.7

Factors in making a government decision

Consult a local newspaper, *The Australian Financial Review* or a business journal, and find an appropriate article detailing an important federal government decision in the last month. Based on the article, determine the factors that were taken into account in arriving at the decision. Discuss the effects that such a decision will have on various interested parties or stakeholders. (LO2 and LO3)

Factors to be taken into account in arriving at a government decision include:

1. The nature of the government decision.
2. The government policy dictating the decision.
3. The political impact of the decision.
4. Identifying all parties affected by the government decision.
5. Identifying all the stakeholders (i.e. parties to which the decision will have a positive or negative impact).
6. Identifying any particular lobby or special interest groups involved with the issue.
7. Identifying the available funding or resources available for the government decision.
8. How is the government initiative to be funded?
9. Identifying the cost of the initiative.
10. Was the decision made in a consultative manner?
11. Was there much political debate or commentary?
12. Possible gains or losses anticipated to be experienced by the community.
13. Possible alternatives which could have been employed by the government.
14. Was the resultant decision considered to be the most efficient use of community resources?

Exercise 1.8

Economic decisions made by management

Accounting provides much information to help managers make economic decisions in their various workplaces.

Required

(a) List examples of economic decisions that the following people would need to make with the use of accounting information:

- i. a marketing manager
- ii. a production manager
- iii. the Chief Executive Officer of a national football league
- iv. the manager of a second-hand clothing charity.

(LO3)

i. Marketing manager: decisions about which marketing tools (e.g. radio, TV, billboards, brochures, sponsorships etc.) are most effective in promoting the company's products/services; the best times to put advertising (e.g. which times on TV or radio); how much to spend on advertising; whether it is beneficial to conduct surveys for customers about the products/services.

ii. Production manager: decisions about appropriate production staff levels; appropriate plant and machinery capacity to meet customer's demands; costs of raw materials, labour and overhead, such as electricity, in order to make the appropriate goods; where to get the best suppliers of materials with reasonable price; costs of occupational health and safety; how to improve the efficiency of the production process (e.g. acquiring new machinery).

iii. Chief Executive Officer of a national football league: decisions about the venue selection and costs for football matches; ticket pricing for football matches in different venues and for special events (such as grand final); possible breaches of the salary cap imposed on football clubs; possible implementation of new rules or abolition of certain existing rules; annual membership fees; sponsorship enticements and entitlements; selection of new players for the national draft; addition of new football clubs within the league.

iv. Manager of second-hand clothing charity: decisions about the pricing of second-hand clothing; appropriate locations and display equipment for clothing stores; the cost of collection systems to receive donated clothing; the cost of mending any suitable clothing items; the cost of disposing of any unsuitable items; overheads such as electricity, insurance; the costs of full-time employment and the management of volunteers.

Exercise 1.9

Choosing an accounting career

After reading the chapter, discuss the areas in which accountants work, and indicate which area(s) you find most interesting and/or familiar. If you intend to pursue a career in any one of these areas of accounting, discuss the types of decisions and advice that you believe you will be involved in making and giving. (LO10)

Refer to the chapter text about public accounting versus commercial accounting. Students can then contribute to class discussion re their intentions, familiarities and interests.

- Are students studying accounting because they have a genuine interest in participating as an accountant in business? Or in government? Or in not-for-profit organisations?
- Do students see themselves as experts in tax? Or in assurance services? Or in running a small business? Or...?
- Are any students merely studying accounting because their parents/family have insisted that they do so?
- Do any students have parents/relatives who are accountants?
- Are they studying accounting merely as a subject they have to take as part of the course requirements of another degree? What do they expect to get out of the accounting course, if anything?

Students can then contribute to the class in the types of decisions that they believe they will be involved in making.

Exercise 1.10

Setting up a business

Luigi and Gina Cicello have decided to lease some newly built premises for the purpose of opening a seafood outlet. They intend to provide a wide range of different products, including a variety of seafood for sale and take-away fish and chips.

Required

(a) Discuss the types of economic decisions that they will be required to make, and the information that they will need to make those decisions. Distinguishing non-economic and economic information, identify non-economic decisions that they will also be required to make. Discuss why Luigi and Gina may require the services of an accountant. (LO2 and LO6)

Examples of economic decisions they will need to make include:

- The cost of leasing suitable premises (long-term or short-term).
- The cost of purchasing suitable quantities of different types of seafood from local and overseas suppliers.
- Import and quarantine costs for exotic items.
- Minimisation of wastage and disposal costs.
- Storage costs, including cold storage and freezers.
- Transport facilities to bring merchandise from the markets to the store (e.g. cooling van) and the cost of transport (e.g. petrol).
- Staff wages and training.
- Cost of display equipment, refrigerators, cooking equipment, electricity, and cash registers.
- Selection and development of a suitable accounting system.
- Tax implications, including income tax, GST, import duties.
- Assessment of actual financial performance, in relation to budgeted performance.

Examples of non-economic decisions they will also be required to make include:

- Location of the seafood outlet.
- The range of seafood demanded by their local resident.
- Where to get best suppliers for fresh products with reasonable price.
- Import and quarantine policy (e.g. whether there are certain types of seafood that cannot be imported).
- Where to hire experienced staff.
- Determination of hours open for business (do they also open on weekends or public holidays?).
- Whether to have 'specials' on certain days to attract more customers.

Based on the above list or any appropriate additional items suggested by students, consider the information needed to make such decisions and then discuss in class whether/where accounting may be expected to provide such information.

Of the economic decisions that Luigi and Gina need to make as listed above, there might a number of factors that Luigi and Gina have not considered, particularly those related to development of accounting systems, tax issues, and financial performance assessments.

Therefore, Luigi and Gina may require the services of an accountant to assist them in decision-making by providing relevant information related to certain issues.

Exercise 1.11

Becoming an accountant

Read the article ‘New pathways to business success’ from *InTheBlack* and answer the following questions.

Required

- (a) Compare the entry requirements to become a full member of CPA Australia, Chartered Accountants Australia and New Zealand (CAANZ) and the Institute of Public Accountants (IPA). Identify the commonalities and differences.
- (b) Discuss why the professional accounting bodies would have different entry requirements.
- (c) Identify what qualifications are required to:
- i. be a company auditor;
 - ii. be a public accountant;
 - iii. be a financial advisor; and
 - iv. prepare tax returns.

(LO9)

- (a) The entry requirements to become a full member of CPA Australia, CAANZ, and IPA:

	CPA Australia	CAANZ	IPA
Academic requirements for accounting degree	A degree or postgraduate awards in accounting recognised by CPA Australia.	Australian accounting bachelor or masters degree or an overseas accounting degree recognised by CAANZ.	Advanced diploma or a bachelor degree in accounting.
Academic requirements for non- accounting degree	A degree or postgraduate awards in any discipline recognised by CPA Australia.	Any Australian non-accounting degree and completion of CANNZ-accredited conversion course.	Non-accounting degree is not eligible to enrol in IPA program.
‘Core knowledge’ requirements	Successfully cover the core knowledge required that is obtained either through accounting degree study or CPA’s foundation level program.	Successfully cover the core knowledge required that is obtained either through accounting degree study, CAANZ-accredited conversion course, or CAANZ program entrance exam.	Successfully cover the core knowledge required that is obtained either through accounting degree study.
Member admission program	CPA Program professional level	CA Program	IPA Program
Working experience	Practical experience requirement within six year of starting CPA Program.	Mentored Practical Experience.	Mentored Experience Program.

In general the three professional accounting bodies have similar entry requirements to become full members of their associations. Candidates aiming to be admitted as full members must have a university degree, either in accounting or non-accounting, with the exception of IPA who accepts candidates with advanced diplomas in accounting. All associations have their own program of study that includes material at the post-degree level. In order to become a full member, candidates must have covered the core knowledge required by the professional bodies, either through their accounting degree or by completing programs conducted by the professional bodies. Before being admitted as full members, candidates must also complete further studies and a mentored working experience program.

The differences in the entry requirements is reflected in the programs that the professional bodies offer. The CPA professional level program offers 6 segments consisting of 4 compulsory segments and 2 electives. The CA Program consists of 5 modules and upon successful completion of the program candidates are awarded a Graduate Diploma. The IPA Program offers 4 subjects consisting of 1 core subject and 3 electives. Upon completion of the program candidates will receive a Graduate Certificate in Professional Accounting.

(b) Different professional accounting bodies may have different entry requirements as a way to set themselves apart from other professional bodies and attract a different member cohort. To attract members, the associations have generally become more flexible with their entry requirements by providing a pathway to full membership for a person without an accounting qualification.

(c) Qualifications required to:

i. be a company auditor (as prescribed by ASIC):

- Candidates must have the prescribed academic qualifications and have completed a prescribed course in auditing, OR have other qualifications and experience that ASIC considers equivalent to both of these requirements.
- Candidates must satisfy all the components of an ASIC-approved competency standard, OR have the prescribed level of practical experience or experience that ASIC considers equivalent.
- Candidates must be capable of performing the duties of an auditor, AND be a fit and proper person to be registered as an auditor.

ii. become a public accountant (as prescribed by IPA):

- Must be a member of IPA.
- Candidates must hold a Public Accountant Practice Certificate.

iii. be a financial advisor (as prescribed by ASIC):

- Candidates must have an AFS (Australian Financial Services) license which can be applied through ASIC.

iv. prepare tax returns (as prescribed by the Tax Practitioners Board):

- Must be a registered as a tax agent with the Tax Practitioners Board.
 - http://www.tpb.gov.au/TPB/Register/0322_Registering_as_an_individual_tax_agent.a_spx

Exercise 1.12

Conduct in business

Read the prelude to NIKE's Code of Ethics by the President of NIKE, Inc. and discuss the points that follow.

Required

- (a) Check if there is a code of ethics to guide your behaviour as a student at your university.**
- (b) Identify if the university that you are attending has a course on ethics in accounting or in business. Also find out whether this ethics course (if it exists) is compulsory in your degree.**
- (c) If such a course exists, find out the types of issues discussed in the course.**
- (d) Referring to 'Inside the Lines', NIKE, Inc.'s code of ethics governing the conduct of all employees, identify the values employees should operate by as part of the NIKE team.**
- (e) Assume that you are employed by NIKE Inc. Referring to the company's code of ethics, discuss how the code would guide your behaviour in the following situations:**
 - i. A retailer offers you an all-expenses paid holiday if he can have a special price on a runner soon to be released.**
 - ii. You are aware that NIKE is shortly to announce a profit increase for the most recent reporting period and think that it would be a good time to sell some of your NIKE shares.**

(LO11)

(a), (b) and (c): answers here must come from the student's own research.

(d) Some of the values employees should operate by as part of the Nike team:

- Treat others the way they would expect to be treated as professional adults, respectful of the diverse workforce NIKE enjoys.
- Uphold business integrity (i.e. not doing anything prohibited by NIKE policy).
- Refrain from disclosing NIKE's confidential information to anyone without prior written consent from NIKE.
- Maintain accurate records and reports, including financial and accounting records that accurately and completely reflect all transactions and assets.
- Safeguard NIKE's assets and records against waste and abuse.
- Use NIKE's computing and information assets in accordance with NIKE's business objectives and policy.
- Respect privacy of other people's personal information.
- Refrain from committing fraud and theft.
- Avoid conflict of interest (i.e. using his/her position at NIKE for personal gain).
- Maintain high level of honesty and integrity when dealing with gifts and hospitality received or offered.
- Refrain from using material non-public information about NIKE for personal financial benefits (insider trading).
- Comply with antitrust and competition laws.

(e) How NIKE's code of ethics would guide your behaviour in the following situations:

(i) A retailer offers you an all-expenses paid holiday if he can have a special price on a runner soon to be released:

- In essence, the retailer is offering you gift and hospitality in exchange for obtaining improper business advantage in the form of a special price of NIKE's products. This could be considered an illegal bribe, which is in breach of the anti-bribery laws. As NIKE's code of ethics prohibits its employees from offering, giving, receiving or promising any gift or hospitality for the purpose of obtaining improper business advantage, you must not accept the retailer's offer.

(ii) You are aware that NIKE is shortly to announce a profit increase for the most recent reporting period and think that it would be a good time to sell some of your NIKE shares:

- Since NIKE has not yet announced the profit increase news, that material information is still non-public information. Selling some of your NIKE shares based on such material non-public information is considered as insider trading, which is against NIKE policy and against the law. You must not sell your shares before the information become public, as the law imposes severe criminal and civil penalties for those who violate this law.

Exercise 1.13

The power of intentional trust in professional services

Read the following article ‘International trust’ from *Chartered Accountants* and answer the question that follows.

Required

(a) Discuss the significance of intentional trust to the success of a professional services firm. (LO10)

(a) The article highlights the importance of intentional trust to the success of a professional services firm. Drawing on research it notes:

- When trust exists, things get done better, quicker and more profitably.
- With trust there is more openness and sharing of information.
- With trust people tend to be more engaged in their work, find meaning from that work, and are happier in the workplace.
- When trust is high, clients more readily seek advice, are more willing to pay for that advice because they trust in the value they’re receiving, and are more likely to be comfortable and confident to refer more business.
- When trust is high, employee stress goes down, mistakes go down, rework is reduced, absenteeism is reduced and excuses and blame are reduced.

If trust results in such outcomes then these are beneficial for a professional services firm.

The last sentence of the article is most pertinent being “Your intentions impact every area of your personal and professional life, and every area of your personal and professional life is impacted by trust. Clarity of intention builds trust. Without clarity of intention, trust is at risk... and when trust is at risk, everything is at risk.”

The pillars of trust described are: 1) intentional promises 2) intentional actions and 3) intentional results.

Students should be encouraged to work through a practical exercise to apply the model. Rather than position themselves in a professional service firm, the model could be applied to their university studies. Students could:

- Make a list of all their stakeholders interested in their successful completion of their degree.
- Next to each stakeholder group, complete this statement: “My intention for my (name the stakeholder group) is...” ensuring that students ensure that the statement does not reflect in any way what they want from this stakeholder, but what the student wants for them.

Case studies

Decision analysis

Choosing an accountant for a small business

After reading the extract of a company profile of Explore Engage, winner of the Best Services Start-up in the 2012 Best StartupSmart Awards for a service company, list the factors that would be important for someone like the owners of Explore Engage in making a decision about which accounting firm to employ. Also list the services that a business such as Explore Engage is likely to require of its accountant.

Factors that would be important in deciding which accounting firm to employ include:

- Past experience with the industry the business is in.
- Experience in advising small businesses, particularly in strategy analysis as Explore Engage is preparing to take its business to international market.
- Ability to think for the small business owner and to pre-empt potential difficulties.
- Having worked with clients in the past who knew little or nothing about accounting and being able to communicate with them without using accounting jargon.
- Reasonably convenient.
- Prepared to drop in on the business regularly to see how things are going rather than waiting for the client to come to them with problems.
- Ability to think for the client on financial and accounting issues.
- Good at tracking cash flow and foreseeing any problems in this area as this is proved to be the most challenging part of starting the business for Explore Engage, and is often what leads to small business failure.
- Ability to organise the financial structure of the business to achieve the best outcomes for the owner in terms of limited legal liability and in minimising tax.
- Experience in dealing with financial institutions on behalf of clients.
- Having listed the things that Explore Engage requires of its accountant, the owners of Explore Engage need to have an interview with a potential accounting firm and to ask them to provide examples of how they have achieved the things they require of them with other clients in the past.

Services that a business such as Explore Engage are likely to require of its accountant include:

- Taxation services including business activity statements and the GST.
- Completing statutory returns for government agencies.
- Management consulting services.
- Possibly advising on computer hardware and software needs for tracking work and invoicing Customers and maintaining accounting records.
- Setting up benchmarks and KPIs to measure business performance.
- Assessment of risk.
- Monitoring cash flow needs and budgeting services.
- Possibly negotiating with financial institutions.

Critical thinking

Business increase revenue with social media

Read the article ‘Marketing into the future’ and address the questions that follow.

Required

Assume you are a newly graduated marketing student. You recall from your studies that accounting plays a vital role in the decision-making processes of every commercial organisation. Your employer, the Trendy Tie Company, is suffering from a downturn in economic conditions, and in preparing the budget for 2018 they have reduced the marketing budget by 10 per cent. The marketing manager suggests that, if the budget cannot be increased to the previous year’s level, then you will lose your job.

- (a) Drawing on the study discussed in the article, prepare a draft report for the marketing manager to submit to the company’s accountants explaining why they should not reduce the marketing budget but rather increase the investment in social media.
- (b) In drafting your report, explain why marketing might be considered an investment rather than a cost, why it is important from an accounting point of view, and how the funds could be used more effectively. You should also consider why brands, customers and information about them are valuable assets of a company. Remember that your report is being written to the company’s accountants and you must justify your position in terms of the best financial interests of the company as opposed to best marketing practice.

Trendy Tie Company

Report on the Marketing Budget for 2018

To: (name of the accountant)
Company Accountant: Trendy Tie Company

Re: Why the proposal to reduce the marketing budget by 10 per cent will be detrimental to the bottom line of the company’s profitability.

The report could include some of the following points:

- During these times of economic downturn the Trendy Tie Company (TTC) has the opportunity to take advantage of the gut reaction of its competitors as they resort to cutting their marketing budgets.
- By not following the usual reaction to economic downturn but by maintaining the existing marketing budget and refocusing the TTC’s efforts this is an opportunity to build market share and to maintain brand awareness.
- Rather than being seen as an expense, marketing to maintain brand awareness should be viewed as an investment in the future of the TTC. If brand status is not maintained then it will cost far more when the downturn ends to re-establish brand loyalty and market awareness. By maintaining existing marketing budgets future expenditure will be avoided leading to greater long-term profitability. Brand awareness can fall very quickly so while others cut their budgets if the TTC maintains its marketing budget it can reduce customers’ awareness of other brands while building its own image.

- Marketing could be refocused from large-scale general advertising to social media activities that build an online community. The research suggests that social media activities contribute to the bottom line. Such activities strengthen the bond between customers and the firm and increase customer participation. A social media campaign could target existing customers and customers of our competitors and make them special offers for remaining loyal to the brand. Rather than being seen as an expense, as marketing is in accounting terms, it is more of an investment in the long-term profitability of the firm with brand, customers and information about them being one of TTC's most valuable assets.
- If the TTC maintains its marketing budget and refocuses its efforts, while its competitors reduce their marketing efforts during these difficult economic times we have the opportunity to build our market share so that when the economy turns around we will have built an intangible asset in terms of brand and market share that will lead to greater future profitability.
- Expenditure on marketing during poor economic times should be viewed as an investment in future profitability even though it shows as an expense in the current periods financial reports. Marketing is not a discretionary expense but rather an investment in long-term success. This is evidenced by the value placed on brand names.

Communication and leadership

Ethical dilemma

Within your tutorial group, organise yourselves into groups. Where possible, organise the groups according to the professional majors that students are studying, such as groups of accounting, marketing, human resource management, economics and management students. Read the ethical dilemma ‘Auditing hidden agendas’ and discuss how you would respond to the situation described. Present your group’s response to the class.

As a member of the accounting profession in the role of a member of audit committee, you are required to comply with the principles contained in APES 110 *Code of Ethics for Professional Accountants*, which include the principle of integrity. Upholding the principle of integrity implies that you should not be associated with any information, including reports, that contains materially false or misleading statements.

Given that the company has experienced some volatility as a result of recent financial crisis, it would be reasonable to expect that the impact of the financial crisis on the company be discussed in the first meeting. The fact that such matter is not in the agenda of the first company meeting and the CEO’s advice that audit committee no longer needs to sign off on the loan compliance audits have raised concerns for you that the information provided in the loan compliance reports may have been manipulated to give favourable results.

The followings are some suggestions on what you should do in this situation. It would be interesting to see the suggestions students come up with, especially among different groups.

- Since you have some concerns over the compliance report audit, you should explain to the CEO why it is important to discuss the audit during the meeting and request that the matter be included in the meeting agenda.
- Explain to the CEO that it is the responsibility of the audit committee, rather than the CEO, to determine the need to review future loan compliance reports.
- Explain to the CEO the importance of preparing reports that are free from material errors and misstatements.
- Gather more information about this matter from sources other than the CEO.
- Monitor the impact of the financial crisis on the company’s ability to repay its debts and raise early warning signs with the board of directors.
- Assist the company in preparing necessary changes to minimise the impact of the financial crisis.
- Prepare a risk assessment for the company and discuss it with the management.
- Look for ways to improve the effectiveness and independence of audit committee.

Ethics and governance

Ethical practices among friends

Two friends, Becks and Vicky, had just started university studies. Both intended to major in accounting. During the first week of lectures, Vicky, who had to go home for family reasons, asked Becks to buy a copy of the prescribed accounting text for her from the university bookshop. She left Becks \$100 to cover the cost of the text currently selling in the bookshop for \$80.

On the day Becks visited the bookshop to buy the text, he noted that there were a number of copies that had been returned to the shop by students who had managed to get second-hand copies. These returned copies had been marked down to \$65 and looked new. Unable to resist a bargain, Becks bought a copy for \$65.

Becks then realised that Vicky would not know that the text he had bought was a return and had been bought at a special price, and that he could give Vicky change of \$20 and keep the savings on the text of \$15 for himself. He simply had to tell Vicky that he had lost the receipt, and given the crowds in the bookshop on the day the text was bought, Vicky could not possibly learn that he had not bought a new copy of the text for her.

Required

- (a) Identify who the stakeholders are in this situation.**
- (b) Outline the ethical issues involved.**
- (c) Discuss what you would do if you were Becks.**

(a) The stakeholders or the involved parties in this situation are Becks and Vicky.

(b) Becks has gained \$15 by acquiring the text at a price lower than the bookshop text price of \$80. He has misled his friend Vicky by failing to disclose the cost price of \$65 which represents what he paid for the textbook.

His friend has lost the benefit of the reduced price cost saving of \$15. He has not acted honestly by retaining the \$15 cash saving. He has not acted ethically nor has he acted as a friend.

Becks has not told Vicky the economic value of the book. He has breached his duty to his friend by not buying the new book at \$80 and offering \$15 balance in return.

(c) Becks' alternatives are:

- tell Vicky what happened and give her the correct change; or
- buy a brand-new textbook for \$80 as listed by the bookshop.

Financial analysis

Refer to the latest financial statements of Woolworths Group David Jones Limited on its website, <http://www.woolworthsgroup.com.au/page/investors/our-performance/reports/Reports>. Browse through the chairman's and chief executive officer's reports and the notes to the financial statements and address the following.

Required

- (a) Describe the main activities and operations of the company.
- (b) Identify the company's chief executive officer and chief financial officer.
- (c) List any important investment or financing decisions made by the company during the year.
- (d) Summarise what the directors are declaring in relation to the information in the financial statements.
- (e) Assess whether Woolworths Group complies with the Australian Securities Exchange Corporate Governance Council (ASXCGC) Corporate Governance Principles and Recommendations.
- (f) Examine the independent audit's report on the company for the year and address the following:
 - i. Identify the company's audit firm.
 - ii. Specify what the auditors' state in relation to the accounting information in the company's report.
 - iii. Specify what the auditor state in relation to their independence.
- (g) Ascertain if the auditors received any money from the company for doing any work apart from conducting the audit.

The solution below is based on the Woolworths Group Annual Report for 2016, available on the Woolworths Group website: <http://www.woolworthsgroup.com.au/page/investors/our-performance/reports/Reports>.

- (a) From the Director's Statutory Report (p. 30), the principal operations were retail operations across:
 - Australian Food and Petrol
 - Endeavour Drinks Group
 - New Zealand Supermarkets
 - Big W
 - Hotels
 - Home Improvement.
- (b) The managing director/chief executive officer (CEO) is Brad Banducci (appointed February 2016) and the chief financial officer (CFO) is David Marr.
- (c) Based on the Chairman and CEO's report, the company made a number of decisions to turnaround the Woolworth's business. This includes:
 - Focusing the team on customers.
 - Exiting businesses that are underperforming or loss making, changing the operating model to drive more accountability and focus on our core Food and Drinks businesses.
 - A new operating model with 1,000 team members moved from the Group support functions into our businesses where they are closer to our stores and customers.

- The CEO states that the focus is on a three to five year transformation for the business guided by five key priorities: 1) Building a customer and store-led culture and team; 2) Generating sustainable sales momentum in Food; 3) Evolving our Drinks business to provide even more value and convenience to customers; 4) Empowering our portfolio businesses to pursue strategies to deliver shareholder value; and 5) Becoming a lean retailer through end-to-end process and systems excellence.

(d) The directors, among other things, declared that:

- There are reasonable ground to believe that the company will be able to pay its debts as they become due.
- The financial statements and notes are in compliance with the International Financial Reporting Standards.
- The financial statements and notes thereto are in accordance with the Corporations Act 2001 (Cth), including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.
- The Directors have been given the declarations required by s.295A of the Corporations Act 2001 (Cth).

(e) Woolworths Group's Corporate Governance Statement is available at www.woolworthslimited.com.au. The report for 2016 notes that "The Board has reviewed the Company's corporate governance policies and practices and considers that they comply with the ASX Principles."

(f)

i. The auditor appointed to conduct the independent audit for the 2016 year was Deloitte Touche Tohmatsu.

ii. With respect to accounting information in the company's financial report, the auditor expressed the opinion that the financial report gave a true and fair view of the financial position as at 26 June 2016 and the financial performance for the year ended on that date, and complied with requirements of the Corporations Act 2001, International Financial Reporting Standards and other mandatory financial reporting requirements in Australia. It also notes that the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in the basis of preparation. *Note: The report is on p116.*

iii. In relation to their independence, the auditors stated that they have complied with the independence requirements of the *Corporations Act 2001* and there have been no contraventions to such requirements or any applicable code of professional conduct.

(g) Yes, Deloitte did receive money from Woolworths for doing other assurance services. Refer to information for auditors' remuneration in Note 36 (p. 113) for total amounts paid to auditors. The total remuneration was \$3,273,000 with \$2,748,000 being for audit related services and the balance for non-audit services such as tax compliance.