

# CONTEMPORARY ACCOUNTING

A STRATEGIC APPROACH  
FOR USERS

10E



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## Solutions Manual

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# Chapter 1

## Introduction to accounting

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### Review questions

- To help control the level of expenditure, to assist in planning future levels of expenditure, to help raise additional finance (e.g. mortgages, hire-purchase and so on) and to help decide the best way to spend their money.
  - To control the activities of the organisation, to plan future activities, to assist in raising finance and to report upon the activities and performance of the entity to interested parties.
- Numerous examples are acceptable. Ideas such as exclusion of certain items (e.g. good reputation, brand names, technical know-how) and how accounting reflects the past can be used to provoke discussion.
- Financial accountant, management accountant, tax accountant, auditor etc.
- They want to know they will be paid and their job is secure.
- When they are buying a product or service where there are future obligations on the seller such as warranty or flight in the future etc.
- Some would as they require funds to do the things they were formed to do and they are competing with others for such funds so financial statements may help them attract funds.
- Technology allows for routine tasks like journal entries and simple tax returns to be automated.
- Financial accounting is for external users while management accounting is for internal users.

<https://www2.deloitte.com/au/en/pages/building-lucky-country/topics/building-lucky-country.html>

### Problems for discussion and analysis

- The name of the auditing firm is Deloitte.
  - From note 6.2.2 (not available in text book) it is reported that Woolworths does provide share-based payments to employees. It operates an ESP where employees receive an interest-free loan that can be used to buy shares in Woolworths.
  - Yes, the same note states that the cost of equity settled share-based payment plans are recognised as an expense over the vesting period.
- No set answer.
- In general, students will need to be aware of the contents of the the IASB *Revised Conceptual Framework*. Accordingly, responses should include at least the following points:
  - Employees are interested in the generation of cash flows and whether the entity is achieving its objectives. This information is available from general purpose financial

- reports (GPFs) which also contain non-financial information on the future direction of the entity.
- b** Investors are interested in the amount and timing of profitability, the generation of cash flows, whether the company is achieving its objectives and its future direction. This information is available from GPFs, ASX extracts and media releases.
  - c** Regulators are interested in whether the reporting entity is operating in the interests of its members, whether the entity is achieving its objectives, and if it is operating economically and efficiently. They are also interested in ensuring that reporting entities are complying with various rules and regulations, i.e. AAS, AASB, *Corporations Act 2001*, ASX. Additionally, regulators are concerned with the efficiency of the law and will therefore monitor reports to ensure that regulation complies with public expectation. This information is available from GPFs and other reports to meet specific regulatory requirements, i.e., *Corporations Act 2001*, ASX.
  - d** Suppliers of goods and services are primarily interested in whether the entity is solvent. In addition, they are concerned with profitability and cash flows, and whether the entity is achieving its objectives. This information is available from the statement of comprehensive income and the balance sheet.
  - e** Customers are interested in the ability of the entity to continue a future supply of goods and services, the level at which they will be provided and the likely cost of provision. Ongoing supply depends on profitability and cash flows. In addition, they may be concerned with non-financial issues, such as externalities (pollution, land degradation and so on).
- 4** You are employed by the client, but there are certain obligations to regulatory bodies, such as ASIC and the ASX, which cannot be deliberately disobeyed.
  - 5**
    - Information on costs, including goods purchased, wages, rents, electricity and other overheads, so prices can be set to cover all costs and return a profit to the owner.
    - Information on cash flows – weekly or even daily.
    - Information on inventory levels so goods can be ordered in time to be available before all items are sold. Daily and weekly, depending on items.
    - Competitor pricing policy.
    - Opportunity costs. What could you earn with your money invested elsewhere and what is the cost of wages you could earn by working as an employee? This is an issue that should be considered at some stage, preferably before making the decision to buy the supermarket.
  - 6** What is the amount per band member? What are the opportunity costs of taking the job, i.e. what does the band give up? Any costs to incur, such as hiring equipment, transport to the venue? Tax implications should also be considered.
  - 7**
    - a** Some examples are: selling price, costs of manufacture, set-up costs, marketing costs, patent costs, expected life for the product.
    - b** Some examples are: size of market, competitors, technical specifications. Potential costs which may arise given the risk of hang gliders: does the company need to consider special insurance protection – is it available? This is not the company's core business. What skills does it have in this industry? Costs of relocating to Sydney.
  - 8**
    - Information about competitors.
    - Any proposed changes to zoning in the area which may affect the business.
    - If a lease, when is the lease due for renewal?
    - Information about suppliers.
    - Any new competitors likely to enter the area?

- Market research may be necessary but this depends on how long the business has been established and how successful it has been.
  - Any new developments or road construction in the area.
- 9** While automation will do some of the routine tasks accountants will still be required to analyse and interpret numbers and advise managers. The skills they will require will include interpersonal skills, but there will still be a demand for accountants. (Note: This is a good question for students to do some research to find relevant papers and reports.)
- 10** It is true the financial statements tell us where a business has been and how it has performed but does not tell us where it is going. However, it is useful to know how a business has performed as a starting point for predicting the following year's performance.
- 11** There is no 'right' answer to this problem as until the yacht charter business was purchased there was no separate business entity. However, there is clearly a need for Tom to prepare a statement of expenditure as an individual. Some additional questions to promote discussion are: If there had been no problem with the purchase of the boat-building business, what would you have done with the \$1000 paid to the accountant? Would you have a different answer if Tom was already in an established business looking for areas to expand or to diversify into? Should Tom even consider investing in a business of which he has no knowledge?
- 12** • Financial issues – cost of building, machinery, training costs, purchase of components, personnel (wages, annual leave, superannuation and so on), provision for any tax on externalities, projected revenue, life of the project.
- Health and safety issues – location of plant, emissions of toxic substances.
  - Social and legal issues – location of plant, disposal of waste products, procurement of necessary licences for construction.
  - Market research – demand, price, competition.
- Note: if nuclear-powered Frisbees are made and/or tested on site then the above issues will need to be expanded (e.g. community reaction, strict health and safety regulations, adequate containment of nuclear materials, as well as the impact these may have on future legislation, adherence to *Consumers Protection Act* and so on).
- 13** The solution to this problem should focus on the tentativeness which attaches to all economic measurements. Students should appreciate the difference between intrinsic values of an item (such as the official exchange price of a bar of gold) versus the extrinsic effects on economic value produced by conditions or events in the environment (as demonstrated in this problem).
- a** Discussion of the economic worth of the project to be measured might take into account (1) estimated future rental income offset by estimated expenses to maintain and operate the hotel, (2) the expected exchange price if the hotel building were to be sold to an outside party, or (3) an accumulation of the costs incurred. It is not clear that the costs-incurred measure is the best from an economic point of view – even though admittedly it is the simplest and most easily quantifiable.
- Before the decision of the lower court any of the above measures could be justified depending on expectations about the outcome of the court decision. However, following the decision of the lower court the use of measure (3) may seem more prudent.
- b** Students should have some indication of the difficulty of making qualitative versus quantitative measurements. Quantitative measurements in business affairs are typically subject to several assumptions which must be made before such measurements become substantive or reliable. No one economic measurement is perfect. The question, in other words, is the degree of reliability which can be placed upon any one individual measure.
- c** The loss in the case described falls to the owners of the Coastal Development Company. Discussion should bring out that a company is nothing more than a creation of the law and

in reality cannot sustain an economic loss. The owners of the company are the real economic party at interest.

But those who might have stayed in the hotel also lost, although those who retained their views and the character of the neighbourhood gained, as did the general public through the protection of the sand dunes. The local shire council may ultimately lose as it is likely the Coastal Development Company will sue the shire for the losses incurred. If successful, then the ratepayers in the shire area must ultimately pay.

**14 a**

Thug

Possessions	Exchange rates	Equivalent morsels of meat
6 large brown furs	50 morsels of meat each	300
2 small brown furs	30 morsels of meat each	60
5 small black furs	15 small brown furs at 30 morsels of meat per fur	450
34 morsels of meat	3 small brown furs at 30 morsels each	34
Rock fridge	Taxed at 1 rock for every 10 morsels	90
		934
		93 rocks

Olga

Possessions	Exchange rates	Equivalent morsels of meat
2 large brown furs	50 morsels of meat each	100
10 large black furs	20 large brown furs at 50 morsels of meat	1000
9 small black furs	each	810
22 morsels of meat	27 small brown furs at 30 morsels of meat	22
Rock fridge	per fur	100
	2 large brown furs at 50 morsels each	2032
	(equivalent to 1 large black fur)	203 rocks
	Taxed at 1 rock for every 10 morsels	

- b** Thug should pay taxes equivalent to 93 rocks and Olga should pay the equivalent of 203 rocks. They could either collect the rocks themselves or pay Ugg by means of furs and morsels of meat equivalent to the amounts of tax they owe. (Tutors should discuss other possible solutions and alternative measurements, e.g. the rock fridge is shown at two different amounts. Discuss the concept of decline in value through use.)