Financial Accounting 2

Case Study for Annual Report Assignment

Study Period 2, 2014

The following details are taken from the accounting records of the company as at 30 June 2014:

	Debit	Credit
	$000's	**$000's**
Sales revenue		98,640
Services revenues		36,260
Other revenues or income		2,042
Extraordinary gain		6,400
Expenses	121,540	
Plant & Equipment (at cost net of depreciation)	3,920	
Land (at cost)	6,880	
Buildings (at cost net of depreciation)	13,760	
Vehicles (at cost net of depreciation)	980	
Accounts receivable	4,708	
Allowance for doubtful debts		102
Inventory (at lower of cost & net realisable value)	12,745	
Cash	3,587	
Accrued expenses		287
Legal Provision		510
Employee Provisions		2,985
Accounts payable		3,060
Loan (All Funds Ltd)		7,600
General reserve		1,740
Share capital		3,634
Retained earnings (1 July 2013)		4,860
	168,120	168,120

Additional information: Note: Unless otherwise indicated the events and transactions outlined below have already been accounted for in the balances above if required.

(a) Share capital at 30 June 2014 comprises the following:

- 500,000 ordinary shares at $2 each, fully paid, issued in 2001. The issue incurred $7,000 in share issue costs.
- 300,000 ordinary shares at $3 each, fully paid, issued in 2004. The issue incurred $8,000 in share issue costs.
- 400,000 ordinary shares at $4.40 each, fully paid, issued in 2012. The issue incurred $11,000 in share issue costs. The terms of this offering required shareholders to pay $3 on application and the remaining issue price in instalments as requested. In October 2013 the company made a first and final call of $1.40 on these shares. All call money was received by the 1 December 2013.

(b) The sales revenue in the trial balance above is net of sales returns of $1,300,000.

(c) The extraordinary gain is the net amount received from sale of antique coins. In August 2013 the company renovated a building in the CBD (Central Business District) it owns. During the renovations (which included excavations for a car park) a box containing numerous rare and antique coins was found in the basement of the building. The coins were subsequently sold at auction for $6,400,000 net (i.e. after commission to auctioneers).

(d) Other revenues and income includes the following:

- A net gain from the sale of non-current assets of $1,870,000. In ***separate and unrelated transactions*****,** the company:
  - received $850,000 from sale of land (this had cost $1,200,000) and
  - received $4,200,000 from sale of plant. At date of sale this plant had a carrying amount (i.e. cost less accumulated depreciation) of $1,980,000.
- $22,000 earned from interest (from cash at bank during the period).
- $150,000 from car parking fees. Following the completion of building renovations (refer c above) at the end of April 2014, the company advertised 500 permanent car parking spaces available. Given their central location the company expects that soon all spaces will be contracted for and expects revenue of $1,900,000 for the year ending 30 June 2015, with this to increase in future years as demand for parking spaces increases further and so fees can also be increased.

(e) Included in the amount of ‘Expenses’ in the trial balance above are:

- Cost of sales of $63,470,000
- Staff related expenses of:
  - $13,400,000 for wages and salaries

    - $4,500,300 for bonuses (Bonuses are paid to sales staff subject to meeting certain sales targets).
    - $900,000 in redundancy payments.
    - Annual leave expense. The opening balance of the provision for annual leave [1 July 2013] was $620,000, and the amount of annual leave paid to staff during the period totalled $1,240,000. The closing balance of annual leave provision as at 30 June 2014 is $480,000. Employees are required to take all annual leave accrued within 12 months. The amount of employee provisions at 30 June 2014 in the trial balance relates to long service leave and annual leave.
    - Long service leave expense of $1,720,000. The opening balance of the provision for long service leave at 1 July 2013 was $980,000. A total of $195,000 was paid to employees for long service leave in the year ending 30 June 2014. It is expected that 30% of the closing balance of this provision as at 30 June 2014 will be paid to employees in the year ending 30 June 2015.
- $11,400,200 general operating costs (including insurance, power, consumables).
- $545,000 paid for call centre set up and yearly service contract. In September 2013 the company decided to outsource many of these services to an overseas call centre to reduce staff costs. The $545,000 payment includes a $200,000 payment for initial training and initial establishment costs of overseas call centre and $345,000 paid in advance for services (for the period from the 1 October 2013 to 30 September 2014). Due to this outsourcing a number of staff were made redundant. Payments to these staff are noted above under staff related expenses
- $1,560,000 payment to auditors (this includes $875,000 for consulting services).
- Interest on a loan for the period. The loan is a $7,600,000 loan from All Funds. This loan was taken out on 1 January 2014 with the loan term ending on 31 December 2018. Interest on the loan is 5% (simple interest) per annum and is paid every year in *arrears* (on 31 December each year). In addition a principal amount of $1,520,000 is payable each year on 31 December.
- Fees of $6,000. These were incurred in obtaining approval for the loan from All Funds and were paid on 28 December 2013.
- Depreciation expense of $1,034,000 comprising:
    - $432,000 for buildings. This has decreased as following a review the useful life of buildings was reassessed and on average was increased from 15 years to 25 years.
    - $490,000 for plant and equipment.
    - $112,000 for vehicles.
- $191,000 for doubtful debts expense. This was significantly reduced this year (to almost 20% of previous years) as the company decided from 15 July 2013 to give a reduced sales price (2% off the recommended retail price) on all products if not purchased on credit. This has reduced the amount of credit sales, and doubtful debts expense) substantially. However, although the overall expense has been reduced the directors reassessed the expected doubtful debts for those customers still purchasing on credit, and increased the estimate (as a % of balances).

(Note: This does not detail all expenses included in the total of 'Expenses' in the trial balance above –You should classify the remaining expenses as 'other' or 'miscellaneous')

(f) The balance of the legal provision in the trial balance relates to a case where the company was being sued by a customer for damages in 2011. Legal advice had estimated that the company would be liable to pay $960,000. However the court case was decided in January 2014 and the company was required to pay only $450,000. This amount was paid on 1 February 2014. On payment the accountant has debited the provision and credited cash by $450,000.

(g) The accrued expenses relate to interest accrued on the loan, and council fees due on a number of the company's properties. These are payable in arrears.

(h) A dividend of $832,000 was declared on 29 June 2013 (this was not subject to further approval) from retained earnings. This dividend was paid on 1 September 2013 following the Annual General Meeting. On 1 February 2014 an interim dividend of 7 cents per share was declared (this was not subject to further approval) and paid from the general reserve.

*Unless otherwise indicated the following events/transactions are **not** reflected in the trial balance above. You will need to make appropriate adjustments **if** required.*

(i) No balance date adjustments have been made for the Call centre contract (see (e) above)

(j) On 30 June 2014, the director's decided to transfer $1,300,000 from retained earnings to the general reserve.

(k) On 1 July 2014 the directors declared a final dividend of 8 cents per share from retained earnings. This dividend is not subject to further approval.

(l) On 15 July 2014 following complaints from customers and staff the Directors undertook a review and determined that there had been a 15% decline in sales and a 40% increase in customer complaints in the period since the call centre operations had commenced. Hence the directors decided that the contract with the call centre would not be renewed after 30 September 2014. The costs to rehire and train and employ staff to undertake these services are estimated to be $2,600,000 for the period ended 30 June 2015.

(m) On 20 July 2014 the company's lawyers advised that an employee who had been dismissed (fired) by the company in late May 2014, was suing the company for unfair dismissal and is seeking a payment of $60,000. The case had been lodged by the employee on the 29 June 2014. The company had dismissed the employee as they had been caught stealing products from the company's warehouse. The company's lawyers have advised that there is only a 15% probability that the company will be required to make any payment.

(n) The company tax rate is 30%. Ignore tax-effect accounting. Tax expense should be based on 30% of the accounting profit before tax. No tax expense has yet been recorded

You should assume that the company that is a reporting entity and that the date the annual report (including the financial report) is authorised for issue is the 1st September 2014.