The all the previous accumulated profits and losses

[Business](), [Accounting]()

The assigned company isDominos Australia and the latest annual report available is for FY2017 or theyear ending on July 2, 2017. (i) From your firm’s financial statement, list each item of equity and writeyour understanding of each item.

Discuss any changes in each item of equity foryour firm over the past year articulating the reasons for the change? Ans -Thevarious items of equity are as follows. IssuedCapital – This tends to represent the proceeds from the issuance of the sharesto the investors. Reserves – Consideringthat the company has significant transactions in foreign currency, hence theeffect of foreign translation along with the underlying hedging mechanism atplay is represented through this aspect.

Retained Earnings – Theremaining profits after distribution of dividends tend to be transferred intoretained earnings so as to close the profit account with zero outstandingbalance. The retained earnings represent the total of all the previous accumulatedprofits and losses incurred by the company right from the inception. The change in aboveidentified items of equity on a y-o-y basis is summarised below. All figuresare in $ 000’s. (pgno.

45 Domino’s Pizza Enterprises LtdAnnual report 2017) Figures in grey represent the FY2017 numberswhile that in white represent the FY2016 numbers. Issued Capital – Theincrease of $ 91, 486, 000 is observed in issued capital primarily on account ofshares being issued under employee share option plan. Reserves – There has beena decrease in the various reserves primarily on account of losses owing toforeign currency translation and hedging arrangements during FY2017. Retained Earnings – Therehas

been an increase in the retained earnings owing to the transfer of surplusprofits after payment of dividends for FY2017.(ii) What is your firm's tax expensein its latest financial statements? AnsFor FY2017, the income tax expense for the company is $ 44, 876, 000 or $ 44. 876million.

(Source pg. no. 19 Domino's PizzaEnterprises Ltd Annual report 2017) (iii) Is this figure the same as thecompany tax rate times your firm's accounting income? Explain why this is, oris not, the case for your firm. Ans Thisfigure is not the same as the tax rate applicable times the firm's accountingincome. This happens primarily on account of the adjustments arising due todeferred tax which can potentially lead to incremental income or expenditure. The following screenshot from the relevant notes to account elaborates the samefor the company. (Source pg.

no. 64 Domino's Pizza Enterprises Ltd Annual report 2017) (iv) Comment on deferred tax assets/liabilities that isreported in the balance sheet articulating the possible reasons why they havebeen recorded. Ans For the year ending on July 2, 2017, thecompany has not reported any deferred tax assets but has reported deferred taxliabilities to the tune of $48, 115, 000 or $48. 115 million. Owing to thetemporary differences between the carrying value for tax and accounting purposealong with the difference in tax rates applicable for tax payment and taxexpense derived on the basis of the accounting income, deferred tax liabilityis created. It reflects that the company expects to pay a higher amount ofincome tax in the future on account of transaction undertaken in the givenperiod. (v) Is there anycurrent tax assets or income tax payable recorded by your company? Why is theincome tax payable not the same as income tax expense? Ans There are current tax assets to the tune of$470, 000 as on July 2, 2017. The income tax payable is not the same as incometax expense as income tax payable is derived on the basis of taxable incomecomputed using tax rules which is different from the accounting income.

Thereare tax deductions available for certain expenditure while for others suchdeductions are not available and hence the taxable income is not the same asprofit before tax. The income tax expense is linked to accounting profit whilethe income tax payable is linked to tax profits and hence the two differ. (vi)Is the income tax expense shownin the income statement same as the income tax paid shown in the cash flowstatement? If not why is the difference? Ans There is a difference in the tax expense($44. 876 million) represented in the income statement (vii) What do you find interesting, confusing, surprising or difficult to understand about the treatment of tax inyour firm’s financial statements? What new insights, if any, have you gainedabout how companies account for income tax as a result of examining your firm’stax expense in its accounts? Ans The most confusing and surprising aspectthat I find about the tax treatment ofthe company assigned is the creation of deferred tax liabilities and thecomputation of the same. This process must be exceptionally complicatedconsidering the difference in the underlying accounting norms and the taxationrules put in place by the ATO. Also, it was interesting to note that even thetax expense is not without adjustments from deferred tax components and otheradjustments from prior years.

A critical new insight regarding tax treatmentwhich I gained is how companies tend tocompute tax according to the accounting norms and also the tax rules and manageto reconcile the differences between the two through the creation of deferredtax assets and liabilities as may be the requirement.