

# Tutorial solutions

[Business, Accounting](#)



Customer's business name, address and contact details Type of information (economic / other) Other - details ensure business exists and invoices can be posted to the correct address . Years customer has been in this business Other - establishes track record and history 3. Total assets and estimates of values of assets in the business Economic - establishes size of asset base of business 4. Total liabilities (total commitments) Economic - establishes how much the business currently owes others to assess the extent of claims against assets 5.

Profits of the business for the most recent and previous periods Economic - used to assess whether the business generates sufficient profits to cover the payments that will have to be made of their account 6. Credit references Other - enables Ashley to follow up with other businesses the customer already has accounts with, to assess whether the customer has paid their accounts in time and in full 7.

Details Of any collateral or security that can be provided should the customer default on their payments Economic and other - Ashley will want to ensure that the business will be able to recover any unpaid amounts by claiming from a third party or having a claim over the assets of the business Page 2 of 19 Exercise 1. 7 Factors in making a government decision Consult the relevant business journal or newspaper article and identify the acts of your case involving an important government decision. Identify the key government decision involved.

Discuss the impact of the decision and its relevance to the press and community. Factors to be taken into account in arriving at a government

decision include: 2. 3. 4. 5. 6. 8. 9. 10. 11. 12. 13. 14. The nature of the government decision. The government policy dictating the decision. The political impact of the decision. Identifying all parties affected by the government decision. Identifying all the stakeholders (I. E. Parties to which the decision will have a positive or negative impact). Identifying any particular lobby or special interest groups involved with the Issue.

Identifying the available funding or resources available for the government decision. How is the government initiative to be funded? Identifying the cost of the initiative. Was the decision made in a consultative manner? Was there much political debate or commentary? Possible gains or losses anticipated to be experienced by the community. Possible alternatives which could have been employed by the government. Was the resultant decision considered to be the most efficient use of community resources? Page 3 of 19 Exercise 1.

Economic decisions made by management Required: Provide examples of economic decisions that the following people would need to make with the use of accounting information: ; A manager in a sales department Of a shoe store ; A factory manager ; The manager of a state cricket team ; The manager of an animal shelter which relies on donations for funding Manager of a sales department: Decisions about number of staff required, and when the busy times are (for additional staffing); type and quantity of stock to purchase (based on historic sales figures), cost of inventory researched (for deciding on selling prices and specials / discounts / sales during the coming season); average length of time for which stock is held; stock on hand at any point in time (for purposes of re-ordering); latest fashion trends; information about the demographics of the customer base to enable appropriate stock to

be held and appropriate prices to be set. Factory manager: Decisions about appropriate factory staff levels; appropriate plant and machinery capacity to run the factory; costs of raw materials, labor and overhead, such as electricity, in order to make decisions about goods to be manufactured, production mix; costs of occupational health and safety to make decisions about the most cost effective way to achieve compliance.

Manager of a state cricket team: Decisions about the selection and costs of players and coaching staff; appropriate playing and training Venues and their location to the centre of the city; sponsorship enticements and entitlements; purchase of appropriate sporting equipment for training and match days.

Manager of an animal shelter: Decisions about the cost of collection systems to receive donations and the most appropriate method of obtaining nations; the cost of maintaining animals in the shelter such as food and veterinary costs; overheads such as electricity, insurance and premises; the costs of full-time employment in the shelter, and the management of volunteers.

Page 4 of 19 Exercise 1. 10 The small business owner What types of economic decisions would a person wishing to start their own small business be required to make?

How could an accountant assist in making these decisions? The following are examples of the types of economic (financial) and non-financial decisions a small business owner would have to make: A clear definition of the product or service that is to be provided (non- financial), and what the business will charge for these products or services (financial) - this will determine the projected or likely income ; How the business will be funded - will the owners

put all the money in or will there be other owners or lenders (non-financial and financial)? ; How the business will market its product or service (non-financial), and how much it will cost to do this? (financial) ; Where the business will be located (non-financial), and what the rental cost will be (financial) How much staff will be required, what skills do they need to perform their jobs properly (non-financial), and how much will they be paid (this will have to be benchmark against other businesses in the same industry or using staff with similar skills and experience) ; What equipment or other assets are required to start the business (non-financial), and how will these be acquired and at what cost (financial)? ; Will the business be registered for SST? ; What accounting and information systems are required for the business (non-financial and financial)?

This should be adequate to provide information to the owners, and accurately capture transactions that take place, (including any SST components thereof) The above are just some examples of decisions that will need to be made by a person wishing to start a business. There are many others, and it should be noted that many decisions have both a financial and non-financial component - it is therefore often difficult to make non-financial decisions without considering the financial implications and impacts of those decisions. Accountants can help small business owners With the selection of an appropriate accounting system, with regulatory' requirements such as registering for SST, registering a business name, and applying for tax numbers and other tax obligations (such as PAYE) as required - this will depend on the size of the business and what staff will be hired.

They can also assist by providing the financial information and assisting in the drafting of a sound business plan that covers all the likely financial impacts of the decisions to be made. They can provide book-keeping and page 5 of 19 accounting services to maintain accurate financial records for the business and assist in preparing income tax returns, SST returns and other regulatory reporting requirements. Accountants can also help a small business owner prepare a budget for the business, forecast cash flow requirements, and make decisions about which assets to purchase and how best to finance them. CHAPTER 2 FINANCIAL STATEMENTS FOR DECISION MAKING DISCUSSION QUESTIONS SOLUTIONS 2. Define the terms, assets, liabilities, and equity. Are these terms related in anyway? If so, how?

Assets are defined in the Framework as resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Liabilities are defined in the Framework as present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Liabilities require future payments from assets, generally in the form of cash, or the performance of services to cancel them. Equity is the owner's claim to (or the residual interest in) the assets of the entity after deducting all its liabilities. The basic accounting equation ( $\text{Assets} = \text{Liabilities} + \text{Equity}$ ) indicates the relationship between assets, liabilities and equity.

From the equation, the total assets of the entity equal the total claims against those sets by creditors and owners. Creditors' claims take

precedence over owners' claims, and owners are seen as the ultimate risk-takers in the entity. Thus, equity is a residual claim on the assets of the entity after liabilities are fully paid, and the basic accounting model which expresses this idea clearly is:  $\text{Assets} - \text{Liabilities} = \text{Equity}$  3. A local restaurant is noted for its fine food, as evidenced by the large number of customers. A customer was heard to remark that the secret of the restaurant's success was its fine chef. Would you regard the chef as an asset of the business? If so, would you include the chef on the balance sheet of the business and at what value?

Suggested topics of discussion: Asset definition - " Assets are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. " Does the chef provide future economic benefits to the entity? Yes. Is the chef controlled by the entity? In Page 6 of 19 many cases, it is evident that he/she could not be controlled by the entity (e. G. He/she can resign when he/she likes, can take sick days). He/she cannot be " acquired" or " sold" by the business, I. . They do not have rights to possess him/her. How would you value the chef as an asset? Usually you have some idea of the " life" of the asset, however, the restaurant would not know how long the chef would be working for them (this argument relates back to controlling the asset). 6.

Discuss the significance of the following assumptions in the preparation of an entity financial statements: (a) entity assumption (b) accrual basis assumption (c) going concern assumption (d) period assumption (a) Entity Assumption If the transactions Of an entity are to be recorded, classified and

summarized onto financial statements, the accountant must be able to identify clearly the boundaries of the entity being accounted for. Under the accounting entity assumption, the entity is considered a separate entity distinguishable from its owner and from all other entities. It is assumed that each entity controls its assets and incurs its liabilities. The records of assets, liabilities and business activities of the entity are kept completely separate from those of the owner of the entity as well as from those of other entities. The accounting entity assumption is important since it leads to the derivation of the accounting equation. ) The Accrual Basis Assumption Under the accrual basis of accounting, the effects of transactions and events are recognized in accounting records when they occur, and not when the cash is received or paid. Hence, financial statements report not only on cash transactions but also on obligations to pay cash in the future and on resources that represent receivables of cash in future. It is argued in the Framework that accounting on an accrual basis provides significantly better information about the transactions and other events for the purpose of decision making by users of financial statements than does the cash basis.

C) The Going Concern Assumption According to the Framework, financial statements are prepared on the assumption that the existing entity is expected to continue operating into the future.

It is assumed that the assets of the entity will not be sold off and that the entity will continue its activities; hence, liquidation values (prices in a forced sale) of the entity assets are not generally reported in financial statements, as this assumes that an entity is to be wound up. When management plans the sale or liquidation of the entity, the going concern assumption is then set



aside and the financial statements are prepared on the basis of estimated sales or liquidation values. The significance of the going concern assumption is in the valuation Page 7 of 19 placed on the assets of an entity in the financial statements. The statements should identify clearly the basis upon which asset values are determined - going concern? Or liquidation? (d) The Period Assumption For financial reporting purposes, it is assumed that the total life of an entity can be divided into equal time intervals.

Hence, the financial performance of the entity can be determined for a given time period, and the financial position of the entity can be determined on the last day of that reporting period. As a result of this assumption, profit determination involves a process of recognizing the income for a period and deducting the expenses incurred for that same period. Together, the period assumption and accrual basis assumption lead to the requirement for making balance day adjustments on the last day of the reporting period. These adjustments will be considered in a later chapter.