# Pros and cons of a free market assignment

Regulation of a market economy is ported to come at a significant cost not only from responsible agencies enforcing the regulation but also by the relevant stakeholders undertaking actions to comply (McNeil & O'Brien 2010, p. 66). However the market economy relies greatly on stakeholders such as investors having confidence and trust in the system. In a free market economy without regulation investors can and would get exposed to greater unknown risks. These risks would be of not understanding a product that they are being offered and having no consistency or transparency for the implications of their investment (Cup 2010, p. 3). This can ultimately lead to a lack of confidence and a significant departure by stakeholders to engage. When reviewing the current regulations that have come about recently such as the National Consumer Credit Protection Act 2009, it can be seen that this legislation has been enacted to ensure fair and transparent practices concerning credit lending and to expose unfair and deceptive acts or practices that expose a borrower to position where there is no capacity to be able to meet the required repayments. McNeil & O'Brien 2010, p. 69). Ultimately the pros outweigh the cons for regulation over a free market. It is evident through the reoccurring nature of a financial crisis that regulators need to be in touch with and up to date on current market practices to ensure that they can mitigate the exposure to the risk of another financial crisis. Ultimately regulation is crucial for confidence and economic stability for stakeholders engaged directly and the wider public in general. B.

State your opinion on the regulation versus free market economy debate. Use the backdrop of the Global Financial Crisis to illustrate your main arguments. Regulation is a fundamental key to ensuring that the market economy is fair and transparent. Without regulation stakeholders engaged in the market economy can operate in a manner that is inconsistent and uniformed and ultimately expose the wider general public to adverse outcomes, as was demonstrated through the recent Global Financial Crises (SGF).

It could be argued that we currently have regulation and that this has not prevented the SGF from occurring. I am of the opinion that regulation is actually what mitigated the extent of the GAP and that can be seen through the reduced impact that the Australian financial system was exposed to. The foundations of the current SGF were laid between 2000 to 2007. During this time there were global low interest rates and high levels of global liquidity (McNeil & O'Brien 2010, p. 51).

The monetary position taken by the United States of America (LISA) in response to the low exchange rates and positive saving investment was to engage in supreme mortgages which are a high risk mortgage loan made to borrowers with low credit scores that would not have normally been availed this type of credit lending (McNeil & O'Brien 2010, p. 53). 2 Another important point regarding the supreme mortgage loan is that these loans are subject to adjustable rates of interest which could result in increased monthly repayments of which it ultimately did, causing financial stress for the borrowers and leading to a high rate of loan defaults.

The subsequent foreclosures contributed to losses on supreme and other real estate loans which in turn caused a liquidity crunch. (Cup 2010, p. 10). Serialization which is the packaging and selling of these supreme mortgage loans is largely attributed to the fact the global economy was exposed so significantly to the issues in the USA, along with the fact that many of the Banks (Lenders) were significant international companies such as the Royal Bank of Scotland, Deutsche Bank and HAUSA Holdings (Cup 2010, p. 12).

Ultimately the SGF arose due to insufficient regulation specifically related to: allowing excessively risky lending to borrowers that did not meet the necessary prerequisite capacity for repayments; the creation of complex financial products sold to people who did not understand the risks they were taking and initial lenders of supreme mortgages being highly leveraged and in turn serialization being offered through international trading. C. Do you agree with Mike Mange? Why or why not? Agree with Mike Mange for the following reasons: 3 .

Financial engineering is a term that can be applied to the financial products that can be Offered to a person. In the case Of the SGF it was clear that financial engineering had been employed by financiers and other companies such as the banks that Mike Mange referred to and that the lack of due diligence or good corporate governance led to these companies either failing to understand the risks they were passing on or having an understanding and awareness and still offering the products without declaring the risks (McNeil & O’Brien 2010, p. 70). 2. The failure by the financiers, banks, companies etc. Identify or offer transparency of the risks with the financial products being offered then led to a significant global financial crisis that required the intervention of Governments globally to promote economic and financial stability. In the instances of some Australian Banks this was in the form of Government guarantees and bailouts (Cup 2010, p. 18). 3. Following on from this in response to the economic slowdown for the Australian economy the Australian Government through the Reserve Bank of Australia utilized the lending interest rate in an attempt to stimulate the economy.

By lowering the rate this traditionally has then had the Banking sector pass on a reduced rate to their clients. In instances following the SGF and the intervention and support provided by the Australian Government the banking industry has not always passed on the interest rate cut either at all or only partially. The reasons provided for the failure to pass on the interest rate cut by the banks appears to reflect as trying to increase their profits. QUESTION IOW Refer to the 30 June 2012 financial reports of nuthouses Holding Ltd.

The report can be found on their website or the ASS website. Answer the allowing questions using the consolidated financial reports and the notes to the consolidated financial reports. PART A. For the year ending 30 June 201 2 state: a) The total assets at the end of the financial year. A) ANSWER: 4 Total Assets = current assets $6, 01 5, 000 + Non-current Assets b) The accounting equation in dollar figures for the end and beginning period of the year and the change in the accounting equation from the beginning and the end Of the year. ) ANSWER: End of year accounting equation = + $61 = Beginning of year accounting equation = + $59, 101 , OHO $ 67, 366, 000 Change from beginning & end of year $2, 881 , OHO Asset increase $695, 000 Liability increase = $2, 186, 000 Equity increase c) State the changes in the company’s non-current liabilities during the year. C) ANSWER: Non-current liabilities are comprised of the following: 1 . Borrowings – Increased. The statement of cash flows shows the company borrowed $3, 000, 000 during the financial year, less repayments of $793, 000.

The company entered into commercial bill facility of which the drawn down component is split between current (due within 12 months) and non-current (due over 12 months). 2. Deferred Tax Liabilities – Increased in relation to the connection of deferred tax liabilities against software intangibles – $423, 000 3. Provisions – Decreased as a direct result of new company acquisitions and the identification of duplicitous roles requiring a restructure.

The restructure was commenced in the 2011 financial year and completed in the early part of the 2012 financial year (August 2011). As such the company incurred a restructuring cost in the 2011 financial year that was not ongoing into the 201 2 financial year. It also appears that the outcome of the restructure for the duplicitous roles may have led to the reduction in employee benefits squired. Also the ‘ Make – good’ provision which requires the company to restore leased goods in a stipulated condition also reduced in the 2012 financial year.

There as a cumulative decrease in the non-current provisions which is made up of: – $42, 000 deduction in employee benefits as result of restructure completed in August 201 1 *With the integration of two companies acquired, duplicate roles were identified impacting on the recognition of non-current employee benefits such as long service leave. – $25, 000 increase in make good which is measured & recognizes as an expected cost to return asset to agreed condition. 5 d) What is the main asset the company owns and what is its value?

Compare this to the total equity. State your conclusion. D) ANSWER: Intangible assets are the company’s key asset, of which Goodwill comprises

(Goodwill – / Total Intangible Assets – AS a percentage of total equity intangible assets make up 97% (Total Intangible Assets – $59. 618, 000 / Total Equity – $61 and of Total Equity relates to Goodwill. Goodwill is an unidentifiable intangible asset in that it has no physical presence and can only be recognizes on a balance sheet if it is acquired.

The amount of Goodwill is determined by what the acquirer would pay over the fair value of the assets (Birth Chalmers, Byrne, Brooks & Oliver 2012. P. 163). Conclusion: There are implications for impairment of intangibles. Indefinite life intangibles such as Goodwill must be tested for impairment annually. If the recoverable amount of Goodwill is less than carrying amount an impairment loss is recognizes and cannot be reversed in subsequent periods. Considering the current market cap of $42, 000, 000 (as at 23 April 2013) which is a discount to the total equity of 31. % which indicates the market currently aloes the company at a considerably less value and the Goodwill could be impaired. This could be due to the recent acquisitions that have substantially increased revenue and the market being wary of the proper integration and management of the newly consolidated entity or potentially the market considers the company paid too much for the acquisitions. E) State the total revenue, net profit/(loss), and BIT. E) ANSWER: Total revenue = $20, 327, 000 (note profit from share of jointly controlled entity of $22, 000).

Net profit = BIT – BIT $2, 141 , OHO + $627, 000 + $245, 000 6 f) How does the company earn its revenue? ) ANSWER: The company's principal activity is the provision of real estate software, data services, and online advertising to real estate professionals, financial institutions and the public in Australia and New Zealand. (10TH Annual Report 201 2, Directors Report, p. 16). The company earns its most significant revenue from the provision of software & data services, transaction services, interest earned on cash & cash equipment held during the period. ) Compare the net profit with the net cash flows from operating activities. Which amount is larger? Is this normal? G) ANSWER: Net Profit = Net cash flows from operating activities = Net cash flows is larger. Yes this is normal. Due to the company collecting and recording information based on the accrual method of accounting the cash flows are recognizes when receipts and payments are made as well as the inclusion of non-cash deductions being depreciation and amortization (Birth, Chalmers, Byrne, Brooks & Oliver 2012. Up. 268-269).

The profit for the company is smaller than the net cash flow from operating activities as the company has a significant non-cash deduction of Amortization $4, 497, 000 and depreciation of $408, 000. ) Outline how the company has financed its activities during the year. H) Based on the statement of scofflaws the company borrowed from Western during the period and uses a debt facility. There was a significant increase in revenue as a result of acquisitions which has turned a loss making entity in 2011 around to a net profit position in 2012.

The company entered into a put and call agreement and this appears to be an Investment in 7 a jointly controlled entity that the company has opportunity to PU reaches the remaining 50%. I) Outline the investment activity the company undertook. Was there a net investment or divestment. I) ANSWER: Based on the statement of scofflaws the company made major acquisitions in 201 1. Increased holding in Resides from 10. 02% to 50%

which was a strategic decision by the company to facilitate integration to the company’s database of over 20 years of proprietary real estate info.

The company also made payments for investments in company assets such as software & data intangibles and plant and equipment. J) Consider the opening and closing cash balance and the total cash flow from each of the operating, investing and financing activities. What is your conclusion regarding the company’s strategy and second year of operation? J) Based on the statement of scofflaws, now that the business acquisitions from 201 1 and restructure have been bedded down the operating scofflaws have turned around from a significant outflow of cash to an inflow of cash of $6, 422, 000.

The company is still investing in strategic entities such as Resides to strengthen its future and integrate the new businesses. The new acquisitions appear to have been funded by issue of shares to the public in 2011 and the investment in Resides was funded by debt/borrowings room Western in 2012, therefore the next cash inflow from financing activities dropped dramatically over the past 2 years from $53, 054, 000 to $679, 000. Altogether there was a net increase in cash Of SSL 9, 000 bringing the balance sheet cash to a healthier $3, 066, 000.