Accounting for decision making – case study in wotif company

The company is engaged in online accommodation bookkeeping service It operates at its headquarter in Brisbane, Australia and it has its field offices located at the New Zealand, Singapore, Malaysia, Thailand, Vietnam, China and Canada. The bulk of its business is found in Australia with 3. 1 million room night sold in 2007. For other locations, the rooms nights sold are as follows: New Zealand had about 0.

3 million, UK had 0. 09 million, Asia had 0. 18million and North and South America had 0. 023 million (Wotif. com, 2007).

Question 2 The income statement and balance sheet of company would be definitely different from that of a sole trader since a company involves greater regulation than that of sole trader. A company limited by shares must have its financial statements audited in compliance of an accounting standard by independent auditors while income statement and balance sheet of a sole trader may not be strictly required to comply with such requirements. Wotif has issued the following 203, 204, 038 ordinary shares to its shareholders as of June 30, 2007. Two directors of the company include that of Ben Smith and Dave Warneke (Wotif. com, 2007).

Question 3 The following items and their respective amounts are found in the 2007 financial statements of Wotif (8 marks) The amount of net profit after tax and net cash flows from operating activities for 2007 is $26, 400, 000 and $51, 895, 000 respectively. The two amounts are not the same because the first is derived and extracted under the accrual concept of accounting where revenues and expenses may be recognized without being collected or paid while the second is derived and extracted under the cash accounting where the effect of accruals are removed and only those actually collected and paid are considered. Question 5 Wotif reported $1, 702, 000 as unearned revenue for 2007. Unearned revenues are normally pre-collected revenues from the customers. They may constitute advance payment and are considered as current liabilities. When services are rendered, they will be considered as revenues.

Unearned revenues increase as advance payments are collected and they decrease as services are rendered based on those advance payments. Question 6. Wotif has valued plant, property & equipment using historical cost basis. The carrying amounts are as follows: Freehold land at $790, 000, Buildings $1, 617, 000 and Plant and equipment at $1, 580, 000 Question 7 Wotif has applied the straight line method. The underlying assumption is that the plant, property & equipment are being used uniformly and the periods under which said assets are depreciated are equally benefited. Question 8 The choice of accounting methods and estimates made in preparing the financial statements can affect reported profits and assets of the balance sheet by either understating or overstating the same.

To illustrate, the use of straight line method to depreciate would result to lower expenses in the earlier period as compared to the use of declining balance or the sum of year's digit method. Lower expenses for the earlier period means higher book values of assets reported and in the balance sheets. Similarly, overstated expenses means lower book values of assets reported in the balance sheets.