

# [Analysis of the reasons of the failure of hastie group limited](https://assignbuster.com/analysis-of-the-reasons-of-the-failure-of-hastie-group-limited/)

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The balance of the Property, Plant and Equipment amounting to $49. 8 million as of 30 June 2011 and $42. 5 million as of 31 December 2011 are affected by professional judgment. In the accounting of property, plant and equipment professional judgment is used. For example, the management of the company can choose between two types of accounting-cost model and fair value model accounting. These two models have certain advantages and disadvantages that must be weighed by management before making decisions. Professional judgment is also exercised in the determination of what should be included in the initial cost of a property, plant and equipment. The accountant of the company needs to assess whether the criteria of an asset is present before it can capitalize a certain expenditure relating to the property, plant and equipment account. Professional judgment is also exercised by management in determining whether certain property, plant and equipment accounts have been impaired. Management would have to look at the guidelines listed in AASB 136 to do this. It requires an unbiased and objective assessment to arrive at the conclusion whether an asset is impaired or not. Professional judgment is also used in the calculation of the recoverable amount of the asset to calculate impairment. Management would also need professional judgment in determining the assumptions and discount rates that will be used in calculating the value in use of an asset.

One of the reasons that were cited for the failure of Hastie Group Limited was the series of dud acquisitions and poor implementation. Over the past years before its bankruptcy the company went on an acquisition spree by acquiring several companies all over the world. It turned out that some of these acquisitions were worthless and the company took a huge write down resulting to significant losses. The company also made use of poor implementation of the acquisitions. They were not properly integrated into the operation of Hastie.

This scenario is the result of poor professional competence and due care on the part of the accountants and management of Hastie Group Limited. This fundamental ethical principle requires accountants to possess the necessary skills and knowledge that would allow them to give competent professional services to their employers. Just like what happened at Hastie the accountants were clearly incompetent and did not exercise due care since they were not able to know before acquisition that the companies being acquired are worthless and are hiding significant losses in their books.

The downfall of Hastie Group Limited is also due to fraud in a subsidiary. The company was supposed to be saved by negotiations with creditors. Unfortunately, the goal of refinancing the company fell when a misstatement in the financial statements of a subsidiary was revealed. The fraud committed by the company’s senior executives eventually led to credit insurers pulling out. The last string that would sustain the company was pulled all of a sudden. The company was left with no finances to continue running its operation.

The senior executive of the subsidiary of Hastie Group Limited conspired with two senior officers to record in the books certain adjustments that would bridge the gap between actual and forecasted EBIT. This resulted in misleading the true financial position of the company. The accountants who conspired with the senior executives clearly violated the fundamental principles of integrity and objectivity. They were not honest in their professional and business relationship in the company. They were also not objective since they allowed themselves to be influenced by their boss and allowed their professional judgments to be overridden.

One of the users of the financial statements that were badly affected by the accounting irregularity at one of the subsidiaries of Hastie Group was the creditors. Right before the irregularity was made public, the CEO of the company was about to close a deal with some investors that would keep the company afloat. Getting financing would have reduced the losses of creditors. Unfortunately, upon learning of the irregularity the investors pulled out of the deal and the company was forced declare bankruptcy. As a result, creditors were left with little value and had to write off huge receivable balances in their books. Another user group affected were the shareholders. With the accounting irregularity it became more apparent that the Board of Directors of the company was not in full control and has allowed the irregularity to happened. The shareholders were losing significant money especially when the share price of the company went down due to the scandals. When the company was closed down shareholders were left with nothing given that the remaining assets of Hastie Group was not enough to cover the balance of loans payable to the creditors of the company.

As what we have shown in the previous parts, the ethical decision making of accountants have a huge impact on the accuracy and reliability of financial statements. If accountants will just hold true to the fundamental ethical principles then the users of financial statements would be given reliable, accurate, timely and useful information. As a result, the users can make a more informed business decision. The presence of ethical good conduct in the profession encourages professionals to confine their actions within accepted norms and serves as a deterrent for unethical behavior. When professionals abide by established ethical principles the confidence of the public with the profession and the products and services offered by profession is perceived to be accurate and reliable. The trust of the public to the profession is very important and it runs at its core. Without public trust the profession would be useless.

In the case Hastie Limited, we have shown that if the company’s accountants exercised due care and diligence the company would not have acquired companies which are worthless. If the senior staff of the company’s subsidiary did not allow themselves to be influenced by senior executives to make fraudulent transactions then the company would have had accurate financial reports and it would have secured financing that it badly needs to keep operations afloat. Nonetheless, one could also argue that the ethical decision making of accounts is not the sole factor that would contribute to the reliability and accuracy of financial statements. The management and the board of directors play a significant role. The board is the one that sets the policies and it is the management that executes them. If these two are not dedicated in making sure that reports are accurate and reliable then the accountant would be left with no choice. Just like in the case of Hastie where the root cause of the accounting irregularity and mismanagement was the result of poor corporate governance. It was clear from the results of the investigation that the Board and the management was not on top of everything.