

**ACCT90004**

**Accounting for Decision Making**

Group Assignment:

On Your Bike Pty Ltd

A close up of a bicycle

Description automatically generated

***Semester 2, 2020***

Department of Accounting

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**Group Workload Disclaimer**

All four members need to do all sections of the assignment in collaboration. Any dispute regarding workload should be addressed by the group and if not resolved by the subject coordinator only as a last resort well before the submission of the assignment.

*Note: All information relating to company stated in this assignment are fictitious.*

**ASSIGNMENT INFORMATION**

This assignment should be completed in groups of **FOUR (4)** persons (MAXIMUM).

Form a Group on the Accounting for Decision Making Canvas Platform under ‘People’.

***Assignment conditions:***

|  |  |
| --- | --- |
| Due Date | **Sunday 18 October** 2020 no later than 11 pm (Week 10) |
| Word length | 4,000 words including working papers, journals, and references. There is a 10% tolerance above the 4,000 words which equates to another 400 words. |
| Assessment value | Assignment is worth 15% of your overall grade. |
| Assignment submission | The group assignment is to be submitted electronically through ASSIGNMENTS in the Accounting Decision Making subject webpage located on the Canvas Learning Platform. |
| Assignment presentation | Assignment should be double spaced with left and right margins of 3 cm |
|  | and top and bottom margins of 2.5cm. |
| Assignment cover sheet | A completed cover sheet, which may be downloaded from the Assignments |
|  | page must also be submitted and attached to your assignment. |
| Assignment contribution | Submission confirms that all group members are submitting original work |
|  | and have equally contributed to the final paper. |

***Assignment Learning Aim:***

The assignment group will investigate, analyse, and report on the hypothetical business ‘On Your Bike Pty Ltd’ in a three-part process. The first investigation is to review the entity’s current business practices and provide alternative accounting policies and corrective strategies. Secondly, to review the entity’s non-current asset Building and apply the accounting standard AASB 116 Property, Plant & Equipment. Thirdly, to review the accounting policy AASB 15 Revenue from Contract with Customers.

***Learning Objectives:***

* The student group will complete a 4,000-word detailed report examining the three-stage process which requires research, problem-solving and communication.
* The student group will in the first stage process examine the hypothetical business ‘On Your Bike Pty Ltd’ in terms of business practice, internal controls and alternative accounting policy and strategies.
* The student group will in the second stage process will complete the revaluation of the non-current asset, the building at 143 Saxon Street, North Melbourne by applying AASB 116 Property, Plant & Equipment.
* The student group in the third stage process will examine AASB 15 Revenue from Contracts with Customers and apply the standard to a sales invoice by the entity, ‘On Your Bike Pty’.
* The group will reference any research using the method APA 6 in their report.
* The group will support all figures by citing detailed computations in the body of the report or as an appendix.
* All responses need to be supported by detailed referencing to the Australian Accounting Standards.

**Business History:**

'On Your Bike Pty Ltd' is a new start-up business that commenced trading on 1 July 2017. The business sells leading Danish bicycle brands; -*Avenue, Principia, Kildemoes and Winther* and smaller fold up bicycle brands *Von Bachhaus, Velorbis and Biomega* designed to cater to eco-friendly people living in studio apartments in the Central Business District (CBD) of Melbourne.

Integral to their mission statement is the belief that many cities today are plagued by traffic congestion and in densely populated city areas the fastest way of getting around is often on a bicycle, which is a highly efficient means of transport.

**Shareholders:**

Stefan, Bung and Monique are young entrepreneurs who share a common passion for cycling and wish to invest in eco-friendly social capital for the common good.

***Stefan:***

Stefan is 26 years old who previously lived in Copenhagen for three (3) years and embraced the Copenhagen bicycle culture. He advocates that 'Copenhagen is world famous for its bike culture and now officially the number one bike city in the world'. He strongly supports the City of Melbourne opting for the same pathway. Stefan is a qualified engineer but has no commercial experience.

***Bung:***

Bung is the oldest shareholder and is 29 years old. He has cycled in many parts of the world where often the bicycle is the only means of transport. Bung has a strong appreciation of the spiritual connection between the bicycle and its rider. He was trained as a mechanic in South-East Asia but has worked hard to transfer his mechanical skills to the assembly and maintenance of the Danish produced bikes

A bicycle leaning against a wall

Description automatically generated

***Monique:***

Monique is 23 years old and a social activist who has been lobbying the City of Melbourne to support the expansion of their 2016-2020 Bicycle Plan. She has a Bachelor of Arts in Politics and Communications. Monique whilst intelligent is naive to the ways of business.

She strongly supports

* Increasing bicycle parking by 2,000 in key public locations and installing bicycle maintenance stations and counters at the entrance to the CBD (city).
* Creating local neighbourhood routes in Kensington, North Melbourne, Carlton, and Southbank – connecting to schools, shops, and community facilities.
* Improving connections into and through the city centre including a possible second bike-friendly east-west connection through the central city. This would complement La Trobe Street and improve bicycle access and transit across parts of the central city.

**Shareholder and Management Philosophy:**

On Your Bike Pty Ltd believes that all roles and duties should be shared equally amongst shareholders/management and part-time staff creating an egalitarian working environment. In keeping with this philosophy, no one team member takes any responsibility in their business model. Financial and non-financial decision-making are made collectively regardless of anyone member who might have specific expertise. This also means that all shareholders/management and employees need to be available at the one moment before a decision can be ratified.

**Business Policy:**

Since the inception of the business, the shareholders/management and employees of the business have been confused as to when they should recognise their sales revenue and expenses.

Sometimes they recognise sales when they receive the cash or when expenses are paid. In other instances, recognition takes place when customers take possession of the bicycles before or after they have paid for the inventory. Alternatively, revenue has been recognised when the non-sequential invoices have been issued at the time of placing orders and bicycles are not received by the customers until three (3) weeks later.

**Current Business Practice:**

**Security Protocols:**

There are security cameras in key locations in the business premise and an initial service agreement was entered into with Melbourne Security Pty Ltd. However, due to non-payment of Melbourne Security Pty Ltd.’s invoice, the service agreement between ‘On Your Bike Pty Ltd’ and Melbourne Security Pty Ltd has lapsed, effectively leaving the business without electronic security.

The current practice for securing the building at the end of each day’s trading is shared amongst all staff with no one person responsible. All staff have keys to the store and no record is in place to record staff arriving or leaving the business.

All staff have personal use to all assets which includes the work vehicle and the computer system. There is no restriction on the use of the internet. It is common practice for staff to use the internet for their private use. The anti-virus software is three years old and has not been updated on a yearly basis.

**Data Collection:**

Financial data is backed up on a USB stick occasionally but there is no rigid practice. There is no Cloud Based Data Storage operating within the business. The filing of paper documents (hard copy) such as invoices, bank statements, credit notes and receipts are normally addressed on the last day of each month.

**Business Recording:**

Most recordings of financial transactions are completed by all staff members and the software package such as ‘Xero’ is NOT used. The password attached to other software packages have not been changed since purchase. All staff have access to the current software purchased by the business. No firewalls are protecting any software at ‘On Your Bike Pty Ltd’.

Transactions are often coded and recorded using the Chart of Account numbers when the company first introduced its general ledger. To date, there have been some new account numbers created by staff, but management is not confident that the codes reflect the appropriate and correct accounting classification. As Monique states, ‘the reports will take care of themselves; nothing to worry about’.

**Inventory:**

The Danish bicycles *– Avenue, Principia, Kildemoes and Winther* are fully imported. The Danish manufacturer transits the bicycles by ship from Copenhagen to Melbourne. ‘On Your Bike Pty Ltd’ recognises the cost of the inventory converted into Australian dollars (AUD) as the sole expense for the determination of ‘cost of sales’. Any shipping costs, inventory insurance, wharfage charges and custom duties incurred by ‘On Your Bike Pty Ltd’ is treated as an operating expense.

Invoices sent by the Danish manufacturer are always accepted as true and correct. Stefan states ‘Danish people never make a mistake’.

The Periodic Inventory method of recording is used by the business. Some attempt is made to determine an inventory gain or loss and the final cost of sales and inventory assets are determined by using the Last-in-First Out (LIFO) method. No subsidiary records of inventory movements are kept by the business, i.e. inventory cards.

‘On Your Bike Pty Ltd’ banks with the Victorian Enterprise Bank Ltd and receives monthly bank statements. Staff read the statements to see the cash position and then store them in a folder to check some figures if needed. No further action is taken.

**Cash Management:**

When cash is received, the cash is placed in a draw and banked in most instances two days later. Cash often is left on the premises (in the building) over the Sunday when no trading takes place. Incidental expenses such as tea/coffee, water, fruit, and myki card payments are paid in cash by taking the money from the cash register. No record is kept of those amounts.

Accounts Receivables are recorded in an exercise book which is documented by date and not by the customer. The business has no accounts receivable policy. There are no terms of reference to which customers are extended a line of credit and what conditions are extended to that potential credit. No Statement of Account is sent to customers who have been extended credit (Accounts Receivable), no reminder calls are made by the business. Stefan, the complete optimist states ‘Honesty is the best policy’.

**Business Reporting:**

To date, there has only been three reporting period from the commencement of the business. Management has not been sure of the significance of the balance date 30 June, being the end of the financial year. Therefore, there was a lack of understanding on how this date impacts the performance of the business in terms of profitability, liquidity, and financial stability.

All property, plant, and equipment (PPE) is depreciated using the straight-line method.

There is no distinction in the depreciation method between different types of equipment. The property, plant and equipment are three (3) years old and is reported in the Statement of Financial Position (Balance Sheet) as a current asset.

‘On Your Bike Pty Ltd’ has an unsecured reducing balance loan. The cost of debt is 8% per annum, the principal amount is $100,000 and the term of the loan is ten (10) years. The total principal amount owing relating to the loan is classified in the Statement of Financial Position as a non-current liability.

The business does not forecast for potential bad debts. ‘On Your Bike Pty Ltd’ simply has no system in place. No budget documents are prepared and no investigation of any variance in the financial data is investigated and analysed.

**Observation:**

What has become evident from preliminary investigations is that all three shareholders lack education, understanding and experience of fundamental accounting processes, policy, and analysis. In addition, they lack the ability to foresee accounting process problems and struggle to suggest alternative strategies to combat financial difficulties. However, they are all intelligent and good lateral thinkers.

**First Stage Process: Business Practice & Alternative Accounting Policy: Internal Control & Accounting Policy – Part A and Part B**

**25% of total assessment:**

Required:

**Part A**

This stage requires you to identify 5 accounting and business problems relating to internal controls and accounting policy and explain why these practices may be a threat to the business.

**Part B**

Identify 5 detailed recommendations with supporting evidence and research to correct the problems cited in the First Stage, Part A.

**Second Stage Process: Business Practice & Alternative Accounting Policy: Property, Plant & Equipment**

**30% of total assessment**

**Building: Retail property – Display & Workshop**

Background:

The business commenced on 1 July 2017 and it was decided by the three shareholders to accept a 12-month rental agreement in their first year of business. Due to successful trading, the three shareholders decided to purchase an old building on 1 April 2018 and after renovations to trade from 143 Saxon Street North Melbourne property on 1 July 2018.

On Your Bike’s bank, Victoria Enterprise Bank Ltd recommended that the entity revalued the property on 30 June 2020.

Post-script:

The global pandemic COVID- 19 has greater impacted the City of Melbourne. The State Government decided to introduce Stage 4 Restrictions which has eroded the Retail Sector and the valuation of Commercial Properties.

<https://theurbandeveloper.com/articles/deteriorating-conditions-and-valuations-hit-property-markets>

**Property Details: 143 Saxon Street, North Melbourne**

|  |  |  |
| --- | --- | --- |
| Key Dates: | **Retail, Warehouse & Repair Shop** |  |
|  | * Date of Purchase: 1 April 2018 * Date of Operation after renovation 1 July 2018 |  |
|  |  | $ |
| Cost of purchase: | Building | 900,000 |
|  | Stamp Duty - Victorian Government | 25,000 |
|  | Legal Fees - Ryan & Ling Solicitors | 15,000 |
|  | Interior fit-out - Bespoke Builders | 300,000 |

**Notes relating to the property at 143 Saxon Street North Melbourne.**

* The property is located 2.5 kms from Melbourne’s Central Business District.
* The depreciation rate for the property is 5% per annum at cost as stated by the Australian Taxation Office (ATO).
* There has been no previous revaluation of 143 Saxon Street North Melbourne.
* Blackburn & Smyth, sworn valuers conducted a revaluation of the property, 143 Saxon Street North Melbourne and deemed that the fair value was $1,150,000 as at 30 June 2020.
* On Your Bike Pty Ltd has been recommended to adopt the Revaluation Approach (Net Method) for any revaluation calculation, recording and reporting in the financial statements as at 30 June 2020.
* The balance day is always 30 June.

Required:

1. Determine the historical cost of the property at 143 Saxon Street North Melbourne as at 1 July 2018. Any commentary needs to be supported by AASB 116 Property, Plant & Equipment.
2. Complete the three (3) revaluations of 143 Saxon Street North Melbourne as at 30 June 2020 adopting the Revaluation Approach (Net Method). The Fair Value DOES NOT CHANGE for each revaluation. The Fair Value as at 30 June 2020 is $1,150,000.

* First Revaluation – Depreciation rate 5%
* Second Revaluation – Depreciation rate 7%
* Third Revaluation – Depreciation rate 3%

For each revaluation, the following tasks must be completed

1. Calculation of depreciation on a per annum basis
2. Depreciation schedule identifying the period, depreciation amount, accumulated depreciation and carrying amount.
3. Determination of a Revaluation surplus or Loss on Revaluation.
4. General Journal entries to record the revaluation as at 30 June 2020
5. Report the revaluation – Income Statement and Balance Sheet.

Assignment Suggestions: *It is highly recommended that this task should be first completed in excel spreadsheet and then pasted into the word document – Report. It is far better than to use word tables. Any decision you make is your choice.*

**Third Stage Process: Introduction Accounting Policy: AASB 15 Revenue from Contracts with Customers**

**30% of total assessment**

‘On Your Bike Pty Ltd’ has been advised to introduce an accounting policy that reflects the Australian Accounting Standards.

Whilst the management and principal shareholders – Stefan, Bung, and Monique has some grasp of accounting policy and recording, it has become obvious that they need your initial assistance.

You have recommended the introduction of AASB 15 ‘Revenue from Contracts with Customers’ commencing with the first sales invoice on the 14 July 2019.

*(Disregard GST for this invoice).*

The company ‘On Your Bike Pty Ltd’ has commissioned you to provide technical background, detailed calculations and recording general journal entries at (i) the time of the sale and (ii) on the return of the invoice in accordance with AASB 15 ‘Revenue from Contracts with Customers’.

**AASB 15 Revenue from Contracts with Customers – New Company Policy**

1. The perpetual method of inventory recording is now adopted by the entity from 1 July 2019.
2. Based on historical sales patterns, the estimate in expected value of return is 10% of revenue.
3. The return policy is 14 days from the date of the sales invoice.
4. A full refund will be granted, if the inventory Danish bicycles *Avenue, Principia, Kildemoes, and Winther* and smaller fold-up bicycle brands *Von Bachhaus, Velorbis and Biomega* are unused and saleable as new.
5. No costs are expected with the returned inventory Danish bicycle models.
6. An estimate of return probability is to be evaluated at the end of each period. Any change is to be adjusted and liability with these being recognised against the cost of sales and revenue, respectively.

Required:

On Your Bike Pty Ltd requires you to write a detailed technical report in relation to the following sections of AASB 15 Revenue from Contracts with Customers

Model:

Five (5) – step model framework to identify when revenue should be recognised.

5 Steps:

Step 1. Identify the contract(s) with a customer

Step 2. Identify the performance obligation in the contract.

Step 3. Determine the transaction price.

Step 4. Allocate the transaction price to the performance obligation in the contract

Step 5. Recognise revenue when (or as) the entity satisfies the performance obligation.

Required:

1.Your report analysis should examine each of the following points listed below, quoting the paragraph section number, the relevant paragraph quotation and linking that information to the source document; sales invoice OYB 432 dated 14 July 2019 to Ascot After School Program.

* Recognition,
* Identifying Performance obligations,
* Distinction goods and services,
* Satisfaction of performance obligation,
* Measurement – Determining the transaction price, and
* Variable consideration.

of AASB 15 Revenue from Contracts with Customers

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **On Your Bike Pty Ltd** |  |  |  |
|  | **143 Saxon Street, North Melbourne** |  |  |  |
|  | **Sales Invoice** | **Invoice Number** | **Date:** | 14.7.2019 |
|  |  | OYB 432 |  |  |
|  | **Customer** |  |  |  |
|  | **Ascot After School Program** |  |  |  |
|  | **PO BOX 895** |  |  |  |
|  | **Melbourne** |  |  |  |
| **Code** | **Details** | **Qty** | **Unit Price** | **Total Sales** |
| DBP 3 | *Principia Danish Bicycles* | 5 | $400 | $2,000 |
|  |  |  |  |  |
|  |  | Total |  | **$2,000** |
|  | Terms: 2/7, Net 30 Days |  |  |  |

Required:

2.Journalise Sales Invoice OYB 432 assumes that AASB 15 Revenue with Contract with Customers has been adopted on 14 July 2019. *All calculations need to be shown as an appendix to support the value shown in the general journal entry.*

*Notes*

* *No GST Recorded*
* *Sales is a 100% up mark-up of the cost of sales*

Required:

3.Journalise Sales Invoice OYB 432 on Return of the Product assume that AASB 15 Revenue with Contract with Customers has been adopted. *All calculations need to be shown as an appendix to support the value shown in the general journal entry.*

**Resources**

**Library Referencing – APA 6th**

<http://library.unimelb.edu.au/cite>

**Accounting Standards**

AASB 116 Property, Plant & Equipment

<https://www.aasb.gov.au/admin/file/content105/c9/AASB116_08-15_COMPdec16_01-19.pdf>

AASB 15 Revenue from Contracts with Customers

<https://www.aasb.gov.au/admin/file/content105/c9/AASB15_12-14_COMPsep18_01-19.pdf>

**Marking of this Assessment.**

This assessment will be marked via a Marking Rubric which will be sent to all students two weeks before the submission of the Group Assignment.

Stage 1 Process: 25%

Stage 2 Process: 30%

Stage 3 Process: 30%

Evidence of research, bibliography, supporting evidence and report structure: 15%