Memorandum

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| to: | the management, Christchurch Ltd. |
| from: | Name of the Student |
| date: | 7 september 2018 |
| subject: | AASb Standards and accounting requirements for investment alternatives |

This memo is in reference to the potential investments that the management of Christchurch Ltd. is planning to involve in future. The memo explains the accounting requirements for each of the potential investment options along with their relevant accounting standards as per AASB.

The Australian Accounting Standards Board (AASB) is an Australian Government agency that develops and maintains financial reporting standards applicable to entities in the private and public sectors of the Australian economy.

As we know that the management has 4 potential options to invest in future. Let us examine each of them and their accounting requirements individually to understand which one is the best suited for the organization.

1. ***Buying 10% of the issued shares of Greymouth Ltd as a long-term investment-*** According to paragraph 12 and 27 of AASB 134 - Presentation of Financial Statements (Australian Accounting Standards Board [AASB], issued 2015, operative Jan, 2018), there are two ways in which the management can invest in the shares of Greymouth Ltd., either by purchasing the call option or by purchasing the put option on shares.

As we know that Greymouth Ltd. has been a successful company in the past 5 years Not just revenue and profits, but dividend payout ratio of the company has also been increasing in past few years, and is expected to increase in future as well.

According to AASB 134 - Presentation of Financial Statements, it is required by standards that the management has to disclose every relevant transaction involved in buying of shares. The method of buying the shares- either put or call, the offer price of buying the shares, the actual buying price as on the date of transaction, date of redemption and any other information which is material and required to be known to the users of financial statements.

1. ***Buying 40% of the issued shares of Wellington Ltd as a long-term investment-*** This situation is very similar to the Greymouth Ltd., as the percentage of share proposed to be bought is 40% which is a very substantial percentage but not enough to make the company the individual decision maker.

According to paragraph 12 and 27 of AASB 134 - Presentation of Financial Statements (Australian Accounting Standards Board [AASB], issued 2015, operative Jan, 2018), it is required by standards that the management has to disclose every relevant transaction involved in buying of shares. The method of buying the shares- either put or call, the offer price of buying the shares, the actual buying price as on the date of transaction, date of redemption and any other information which is material and required to be known to the users of financial statements.

In addition to this, as per the principle of contingency, the management should forecast the anticipated costs and revenues related to both of these projects to make required provisions for any future contingencies.

1. ***Purchase the assets and liabilities of Nelson Ltd for cash.*** According to paragraph 4 to 39 of AASB 3 – Business Combinations (Australian Accounting Standards Board [AASB], issued 2015, operative Jan, 2018). Purchasing the entire assets and liabilities of any company results in acquisition of the company. The AASB 3 of Australian Standards state the guidelines involving all the stages of acquisition which includes identifying the costs of acquisition, determining the date for acquisition, recognizing and measuring the identifiable assets to be acquired, the liabilities to be assumed and any non-controlling interest in the acquiree’s business­­­­­­­.

As per paragraphs 11 and 12, as on the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in Wellington Ltd. As per para 9, the date on which the acquirer obtains control of the company is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of Wellington Ltd. —the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

Apsrt from this, the management also needs to recognise and measure a liability (or asset, if any) related to the Wellington’s employee benefit arrangements in accordance with AASB 119 Employee Benefits. Further, the management will record acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received. However, the costs to issue debt or equity securities shall be recognized in accordance with AASB 132 and AASB 9.

1. ***Purchase 80% of the issued shares of Hastings Ltd as a long-term investment-*** This is a similar case of investment in shares of another company but as the purchase comprises of 80% of the equity, it will result in domination of ChristChurch Ltd. in Hastings Ltd. board of directors, voting rights, profit share and business decisions. It will not be wrong to say that the company will become a dominant owner with the maximum share of equity amongst the shareholders.

As per AASB 10- Consolidated Financial Statements and AASB 12- Disclosure of Interests in Other Entities, once the company decides to invest and get the ownership of majority of equity in Hastings Ltd. , it has to be treated as an associate firm and the financial statement of Hastings need to be disclosed along with the Churchchrist financials.

Thanks,

Name of the student

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The accounting standards that have not been examined in the unit but I consider them important to understand and implement in future as an accountant are-

1. ***AASB 133 (Earning per share)-*** This accounting standard states the basis of calculation and presentation of earning per share, to analyze the company’s performance in the current reporting period as compared to the company’s performance in the previous reporting periods as well as to analyze company’s performance with other competitor firms in the ame industry. Moreover, this standard is very important because the shareholders of the firm are the most interested in the earnings of the company on the basis of which they will be paid the dividend. Not just the shareholders, but for all the users of accounts to know the performance of the firm in a period is of utmost importance and EPS is one of the ways to represent that performance through ratio or percentage.
2. ***AASB 123 (Borrowing Cost)-*** This standard comprises of one of the most important aspect of financial costs of the firm. Borrowing cost are the costs related to the funds borrowed by the company for production, acquisition, trading or investment purposes. This is one of the major cost that company incurs in its operations. Thatswhy it is really important for an accountant to understand the standards to calculate and record this cost.