

ACCT3102 EXTERNAL REPORTING CASE STUDY

This assignment information should be read in conjunction with the material provided in relation to the lecture for Topic 6: Case Study Development and Communication.

Case Study	
WORD LIMIT	1,000 words (excludes Appendix, Reference List, In-text tables which provide summary calculations only) Note: The word count must be specified on the cover page of your assignment
WEIGHTING	20% (40 marks)

CONSULTATION IN RELATION TO THE CASE STUDY

To ensure consistency of information, ALL questions relating to the case study must be submitted on the Blackboard *Discussion Board Case Study Thread*. Questions will be answered promptly when using this platform. We will not be answering questions in relation to this assessment item in consult or via email. The only exception to this will be during the Case Study Lecture.

Case Study

The following business situation, which commonly arises in practice, has been presented to your firm for advice.

Tarzan Ltd (your client) has considerable assets and is earning strong profits but has limited cash reserves. Further, Tarzan Ltd has substantial long term borrowings. One of the conditions specified in the loan contracts with its major lender is that Tarzan Ltd's debt to asset ratio, defined by the lender as the ratio of total liabilities to total assets, cannot exceed 75%. Breach of this condition triggers loan default.

Tarzan Ltd is considering a proposal from East Finance Ltd as a means of funding an expansion opportunity. The proposal under consideration by Tarzan Ltd is the **sale-and-leaseback of existing land and building** following an offer made from East Finance Ltd. The terms of the sale-and-leaseback proposal are as follows:

On 1 July 2017, East Finance Ltd would purchase land and building from Tarzan Ltd for \$12,000,000. Tarzan Ltd would then lease back the land and building from East Finance Ltd, the terms of the contract for the lease back of the land and building being:

Term of the lease	10 years
Annual lease payments to be paid on the 1 July	\$1,500,000
First payment due	1 July 2017
Residual value of land at the end of the lease	\$2,439,525 (<i>not</i> guaranteed by Tarzan Ltd)
Interest rate implicit in the lease	8%
Remaining useful and economic life of Building	10 years

Tarzan Ltd measures land and buildings using the cost model. At the time of proposed purchase (1 July 2017), the relevant carrying amounts and fair values of the land and building are

	Carrying Amount	Fair Value
Land	\$6,500,000	\$8,400,000
Building	\$2,500,000	\$3,600,000

The building will be demolished at the end of the lease term (10 years), thus the residual value under the lease agreement is wholly attributable to the land but does *not* represent the estimated fair value of the land at the end of the lease. At the end of the lease, East Finance Ltd will sell the land for redevelopment and is certain of recovering the residual.

To assist with your analysis, Tarzan Ltd has provided you with forecast summary financial information as at 30 June 2017.

	30/6/2017
Current assets	480,000
Non-current assets (includes land and buildings)	14,500,000
Current liabilities	410,000
Non-current liabilities	10,675,200
Total equity	3,894,800

East Finance Ltd has indicated to the directors of Tarzan Ltd that they believe the sale-and-leaseback arrangement would be classified as an operating lease suggesting, therefore, that the proposal would not influence their current lending contracts. However, Tarzan Ltd has reservations regarding the suggested classification of the transaction by East Finance Ltd and have sought advice from your accounting firm to assist them verify how the proposal should be treated to ensure compliance with Australian accounting regulations and in deciding if the proposal should be adopted.

REQUIREMENTS:

You are required to **individually prepare a business advice** to the directors of **Tarzan Ltd** to address the following:

- An explanation of how the proposal would be treated to comply with the requirements of the appropriate Australian Accounting Standards;
- An analysis of the initial impact (i.e. 1 July 2017) and first-year end impact (i.e. to 30 June 2018) of the proposal;
- Your advice on whether the proposal would assist Tarzan Ltd in meeting their objectives; and
- The relevant general journal entries (using the template provided on Blackboard) for the proposal for the period 1 July 2017 to 30 June 2018 (**to be placed in the APPENDIX**).

The following professional writing protocols have been adopted by your firm for correspondence with all clients:

- All client correspondence is to be single line spaced on A4 paper with 2.5cm for all margins.
- Font to be used is Times New Roman font size 11.
- All calculations should be rounded to the nearest whole dollar amount/percentage.
- Financial (present/future value) tables, which have been provided in this document, are to be used for all lease calculations.
- Harvard referencing is to be adopted.

IMPORTANT NOTES

- **Ensure you use the most recent version of AASB 117 Leasing issued in August 2015.**
- You **must** cite the specific provisions from the relevant AASBs. *For example: AASB 102:11 or AASB 102 para. 11.* However, do not reproduce significant parts of the regulation as this would not be appropriate when presenting your advice to a client. The focus should be on interpretation and application of the standard, with a concise, well-structured analysis for your client with key referencing to critical elements of the appropriate accounting standards.
- A **'Formal Report'** structure with an Executive Summary and Table of Contents is **NOT** required given the brevity of the required information.
- This assessment must be the sole work of the individual student and not done in collaboration with other students. Students may discuss with one another the general principles of the Accounting Standards; however, you may not collaborate/discuss on the specifics of the proposal or how the Standards are relevant to the proposal.

Financial Tables

Present value interest factor of \$1 per period at i% for n periods, PVIF(i,n).										
Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756
3	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.658
4	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572
5	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497
6	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432
7	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376
8	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327
9	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284
10	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247

Present value interest factor of an (ordinary) annuity of \$1 per period at i% for n periods, PVIFA(i,n).										
Period	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647	1.626
3	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322	2.283
4	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.974	2.914	2.855
5	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352
6	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889	3.784
7	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288	4.160
8	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639	4.487
9	6.802	6.515	6.247	5.995	5.759	5.537	5.328	5.132	4.946	4.772
10	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216	5.019

Future value interest factor of \$1 per period at i% for n periods, FVIF(i,n).										
Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358
10	1.105	1.219	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.594

Marking Criteria and Rubric

Marks are allocated on the following criteria:

Section	Explanation	Marks
LG 3: Be creative analytical thinkers		
Identification Problem is identified and discussed within relevant context	Identifying Tarzan's objectives and how it could achieve these objectives.	5
Analysis Problem is analysed with integration of relevant research and data	Determine, using the appropriate accounting standard and accounting principles, the required accounting treatment for the proposal including the provision of AASB references and calculations.	5
Consideration & Conclusion Consequences are considered, discussed, and conclusion reached.	Provision of a complete analysis of initial (1 July 2017) to first year-end (30 June 2018) implications of the proposal on the objectives demonstrated with full calculations in table format.	5
Recommendation Solutions are proposed and justified	Determination of a recommendation based on evidence provided.	5
LG 1: Be knowledgeable within field of accounting		
Knowledge Journal Entries	Provision of accurate and complete general journal entries (including narrations) for the proposal for the period 1 July 2017 to 30 June 2018.	5
LG2: Have professional and effective writing skills		
Structure Written work is logically sequenced with sound paragraph structure, clear and easy to read	The structure and presentation of the case and suitability for needs of a client (professional audience). Includes compliance with formatting instructions.	5
Professionalism Writing is free of spelling and grammatical errors.	Writing is free of spelling and grammatical errors.	5
Research and Referencing Written work demonstrates the student's ability to do independent research and is appropriately referenced.	Referencing is evident and accurate.	5
Total		40

A detailed breakdown of each task section is provided on page 6 and 7.

ACCT3102: Case Study Marking Rubric

Task	Mark	Outstanding 5	Very Good 4	Meets Expectations 3	Below Expectation 2	Well Below Expectation 1
Identification Problem is identified and discussed within relevant context	5	You clearly and correctly identified Tarzan's key objectives, supporting these with a relevant discussion on how they can be achieved.	You identified Tarzan's key objectives, but only partially discussed how these can be achieved.	You identified Tarzan's key objectives; but have not provided a coherent explanation regarding how these can be achieved.	You have partly identified Tarzan's key objective/s, and have provided a coherent explanation regarding how these can be achieved.	You have not identified Tarzan's key objectives and/or how these are to be achieved.
Analysis Problem is analysed with integration of relevant research and data	5	Evidence of rigorous research of the relevant accounting standards, demonstrated by correct identification with all calculations correct and integration of all/most of the correct references to the relevant sections of the accounting standard.	Evidence of rigorous research of the relevant accounting standards, demonstrated by correct identification with all/most calculations correct, may lack integration for the decision from all/most of the correct references to the relevant sections of the accounting standard.	Evidence of sound research of the relevant accounting standards undertaken in addressing key issues, demonstrated by partially correct identification with most calculations correct and/or some of the correct references to the relevant sections of the accounting standard.	Limited evidence of research of the relevant accounting standards undertaken in addressing key issues, demonstrated by partially correct identification , with relevant supporting calculations.	Inappropriate and/or insufficient references used demonstrated by incorrect identification with supporting calculations and few correct references to relevant sections of the accounting standards Insufficient analysis of relevant accounting standard requirements.
Consideration & Conclusion Consequences are considered, discussed, and conclusion reached.	5	Conclusion/s clearly demonstrated with all correct calculations carried forward from decision in previous sections and includes initial and year-end impacts.	Conclusion/s clearly demonstrated with mostly correct calculations carried forward from decision in previous sections and includes initial and year-end impacts.	Conclusion/s demonstrated with mostly correct calculations carried forward from decision in previous sections and includes either initial or year-end impacts.	Analysis demonstrated but with major calculation errors and/or inconsistent with decision in previous section and may not include either initial or year-end impacts.	Analysis not demonstrated with calculations incorrect.
Recommendation Solutions are proposed and justified	5	Proposed solutions are comprehensively justified; they have relevance to the problems with links to the objectives. Highly relevant and correct recommendation drawn, with all relevant assumptions, data and evidence considered, including quantified objectives for each proposal.	Proposed solutions are well justified; they relate to the problem with links to the objectives. Correct recommendation drawn, with useful assumptions, data and evidence considered, including quantified objectives for each proposal. May have some minor exclusions.	Some useful solutions proposed, though not all of these are clearly linked to the objectives and/or justified. Correct recommendation, with minor errors in consideration and use of assumptions, data and/or evidence. Decision given based on part of the objectives.	Though not always relevant or justified, some proposed solution/s have been made. Incorrect recommendation due to major errors in consideration of assumptions, data and/or evidence. Qualitative decision given based on part of the objectives.	Proposed solutions and justification for these are inappropriate and/or missing and/or not linked to the objectives. Incorrect or absent recommendation with little if any reference to relevant assumptions, data and evidence.

Task	Mark	Outstanding 5	Very Good 4	Meets Expectations 3	Below Expectation 2	Well Below Expectation 1
Knowledge Accuracy of journal entries	5	At least 85% of the journals are correct.	At least 75% of the journals are correct.	At least 50% of the journals are correct.	Less than 50% of the journals are correct.	Less than 30% of the journals are correct.
Structure Written work is logically sequenced with sound paragraph structure, clear and easy to read	5	Report is very well structured. Presented in a very professional manner targeted towards communication with the client with very good use of tables. Full compliance with word limits and formatting instructions. Fluent writing style with expression highly suited to set task.	Report is well structured with the occasional minor formatting error. Presented in a professional manner targeted towards communication with the client. Compliance with word limits and formatting instructions. Mostly fluent writing style with expression appropriate to set task.	Report is adequately structured, though it occasionally lacks a degree of professionalism (such as minor formatting errors and/or inappropriate use of headings). Provision of information is mostly suitable for the needs of the client. May have some non-compliance with word limits and/or formatting instructions. Writing style sometimes lacks the clarity of expression but meaning is still apparent.	Report is adequately structured in part, though it lacks a degree of professionalism and/or lacks consideration regarding provision of information suitable for the needs of a client. There is some non-compliance with word limits and formatting instructions. Writing style often lacks clarity of expression, which impacts on the readability of your work.	Presentation and lack of structure detracts from the professionalism of the report. Very little concern regarding provision of information suitable for the needs of a client. Compliance with word limits and formatting instructions has been ignored. Writing style is not suited to the set task.
Professionalism Writing is free of spelling and grammatical errors.	5	Grammar, spelling and punctuation are accurate.	Grammar, spelling and punctuation are mostly accurate with only minor errors evident.	Grammar, spelling and/or punctuation reflect mostly minor, with the occasional major, errors.	There are some serious grammar, spelling and/or punctuation errors which impact on the readability of some parts of the report.	Grammar, punctuation and/or spelling is extremely poor, significantly impacting on the readability of the report.
Research and Referencing Written work demonstrates the student's ability to do independent research and is appropriately referenced.	5	Referencing is complete and accurate.	Referencing is mostly complete and accurate.	Referencing is usually accurate/complete, with the occasional minor oversight.	Some attempt at referencing but details are missing and/or references overlooked.	Referencing is absent and/or unsystematic.
TOTAL	40					