

AUE2602

Corporate Governance in Accountancy

Topic 3

Business Cycles

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Define tomorrow .

UNISA



Dates to remember

- Assignment 1: Due **13 April 2018** (5%)
- Assignment 2: Due **13 April 2018** (15%)
- Remember the submission of either assignment allows you entry into the exam and will be used in calculating your year mark

Learning outcomes

- Identify the different business cycles
- Relate transactions and balances in the statement of financial position and statement of comprehensive income to the various business cycle

TOPIC 1:
CORPORATE
GOVERNANCE
AND
STATUTORY
MATTERS

TOPIC 2:
INTERNAL
CONTROL

Topic 4:
The revenue
and receipts
cycle

Topic 5:
The payments
and
acquisitions
cycle

The
accounting
system

Topic 8:
The finance
and investment
cycle

Topic 7:
The payroll
and personnel
cycle

Topic 6:
The inventory
and production
cycle



Financial Statements

- Business cycle activities result in financial records
- Financial records are summarized in a company's financial statements
- Here is an extract from the annual financial statements of Pioneer Foods for the year ended 30 September 2017, for example:

(source: <http://www.pioneerfoods.co.za/content/uploads/Annual-Financial-Statement-2017.pdf>)

STATEMENT OF FINANCIAL POSITION

as at 30 September 2017

	Notes	2017 R'000	2016 R'000
ASSETS			
Non-current assets		7 447 775	7 011 690
Property, plant and equipment	12	5 356 965	4 763 380
Intangible assets	13	814 941	782 384
Biological assets	14	–	16 017
Investments in joint ventures	15	665 006	769 810
Loans to joint ventures	15	35 737	74 564
Investments in associates	16	198 410	16 877
Loan to associate	16	7 593	–
Derivative financial instruments	19	203 059	439 670
Available-for-sale financial assets	17	138 092	128 295
Trade and other receivables	20	15 433	16 783
Deferred income tax	26	12 539	3 910
Current assets		5 504 651	6 518 816
Inventories	18	3 033 085	3 212 500
Derivative financial instruments	19	50 995	57 612
Trade and other receivables	20	1 981 843	2 245 913
Current income tax		7 939	2 000
Cash and cash equivalents	21	430 789	1 000 791
Assets of disposal group classified as held for sale	54	20 019	–
Total assets		12 972 445	13 530 506

STATEMENT OF FINANCIAL POSITION

as at 30 September 2017 (continued)

	Notes	2017 R'000	2016 R'000
EQUITY AND LIABILITIES			
Capital and reserves attributable to owners of the parent		8 027 254	7 867 316
Share capital	22	23 340	23 249
Share premium		2 554 299	2 406 235
Treasury shares	22	(1 186 401)	(1 187 756)
Other reserves	24	213 104	253 275
Retained earnings		6 422 912	6 372 313
Non-controlling interest	28	25 011	–
Total equity		8 052 265	7 867 316
Non-current liabilities		1 645 388	2 344 814
Borrowings			
B-BBEE equity transaction third-party finance	25	433 141	449 612
Other	25	265 583	883 675
Deferred income tax	26	674 388	582 382
Share-based payment liability	29	159 845	317 984
Provisions for other liabilities and charges	27	112 431	111 161
Current liabilities		3 274 792	3 318 376
Trade and other payables	30	2 388 864	2 037 618
Current income tax		24 733	30 353
Borrowings	25	811 199	653 464
Loan from joint venture	15	14 540	26 040
Derivative financial instruments	19	2 562	16 060
Dividends payable		598	615
Share-based payment liability	29	32 296	60 961
Accrual for forward purchase contracts on own equity	30	–	493 265
Total liabilities		4 920 180	5 663 190
Total equity and liabilities		12 972 445	13 530 506

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2017

	Notes	2017 R'000	2016 R'000
Revenue	45	19 575 045	20 599 725
Cost of goods sold		(14 419 077)	(14 516 747)
Gross profit		5 155 968	6 082 978
Other income	3	153 595	138 967
Other gains/(losses) – net	3	(11 301)	30 785
Sales and distribution costs	4	(2 450 921)	(2 436 090)
Marketing costs	4	(329 573)	(265 154)
Administrative expenses	4	(728 896)	(661 011)
Other operating expenses	4	(632 679)	(572 547)
Items of a capital nature	5	(56 957)	21 343
Operating profit		1 099 236	2 339 271
Investment income	6	22 214	46 765
Finance costs	7	(196 805)	(167 256)
Share of profit of joint ventures	15	53 901	98 032
Share of profit of associated companies	16	6 407	2 348
Profit before income tax		984 953	2 319 160
Income tax expense	8	(258 802)	(628 987)
Profit for the year		726 151	1 690 173
Other comprehensive income/(loss) for the year			
Items that will not be reclassified to profit or loss:			
Remeasurement of post-retirement medical benefit obligations		1 566	935
Items that may subsequently be reclassified to profit or loss:			
Fair value adjustments to cash flow hedging reserve		115 746	(118 370)
For the year		(60 165)	134 684
Current income tax effect		17 518	(36 747)
Deferred income tax effect		(672)	(965)
Reclassified to profit or loss		220 924	(299 086)
Current income tax effect		(63 949)	85 624
Deferred income tax effect		2 090	(1 880)
Fair value adjustments on available-for-sale financial assets		4 037	(1 161)
For the year		8 203	1 633
Deferred income tax effect		634	110
Reclassified to profit or loss		(4 800)	(8 332)
Reversal of fair value adjustment against fair value reserve		–	5 428
Share of other comprehensive income of investments accounted for using the equity method		15 946	(28 686)
Movement on foreign currency translation reserve			
Currency translation differences		7 636	(55 158)
Total comprehensive income for the year		871 082	1 487 733

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2017 (continued)

	Notes	2017 R'000	2016 R'000
Profit for the year attributable to:			
Owners of the parent		726 003	1 690 173
Non-controlling interest		148	–
		726 151	1 690 173
Total comprehensive income for the year attributable to:			
Owners of the parent		869 693	1 487 733
Non-controlling interest		1 389	–
		871 082	1 487 733
Earnings per ordinary share (cents)	9	390.3	912.1
Diluted earnings per ordinary share (cents)	9	366.0	846.9

Business cycles

- For each cycle, explain and apply
 - The actions in the cycle;
 - The functions in the cycle; and
 - The documents in the cycle.
- Understand the risks in each cycle;
- Understand the mitigating internal controls for the transactions in the cycle; and
- Understand the internal controls for the cycle in a computerised environment.

Example: Revenue and Receipts Cycle

Jackson & Stent 2016: 10/10

RECEIVING CUSTOMER ORDERS (ORDER DEPARTMENT)		
FUNCTION	DOCUMENTS / RECORDS	RISKS
To record orders from customers and initiate action to fill them.	Customer order Internal sales order (ISO) Price lists	Orders may be accepted from a non- account holder

CONTROL ACTIVITIES INCLUDING BRIEF EXPLANATORY COMMENTS
<ul style="list-style-type: none">• No orders to be accepted, if customer is not an approved customer – inspect approved customer list.• Order clerk to request customer's account number• Order clerk to sign all ISOs to indicate performance of control activities

The table above is incomplete and is just an illustration as to how you should study each function within a cycle, you will find the complete table in your textbook!

Weakness vs. Risk vs. Internal Control

- What is a **weakness**?
- What internal controls are absent? What is the company currently doing wrong?
- What is a **risk**?
- What is the consequence of the weakness? What can go wrong? What are the possible financial implications?
- What is an **internal control**?
- What should be implemented to mitigate these risks?

Weakness vs. Risk vs. Internal Control

The following is a brief description of a **function** in an everyday credit sales transaction of Big Clean:

Once an order from an existing client is received, it is immediately recorded on an internal sales order (ISO) by the order clerk and sent to the warehouse for picking and despatch by the warehouse clerk.

Weakness: The order is not checked against the approved customer list by the order clerk before accepting the order.

Risk: Sales might be made to an unapproved customer and may result in the customer not paying his account.

Internal control: The order clerk should confirm the customer is approved by checking if the customer is on the approved customer list.



QUESTIONS?