Assessor Declaration: I declare that I believe that the evidence that I have assessed for this Task is this students own work and that I have conducted a fair, valid, reliable and flexible assessment. In addition I have provided appropriate feedback.	Assessor Name: ______________________ Assessor Signature: __________________________ Date: ___/____/____

Attachment 1

Case study

You have recently been appointed as the business manager of Houzit Pty Ltd having been a store manager for the past three years. Houzit Pty Ltd is a 15 store retail chain located in Brisbane. Houzit is the leading homewares retailer, catering to the growing need for furnishing new and renovated dwellings in the greater Brisbane area.

The assortment on offer of bathroom fittings, bedroom fittings, mirrors and decorative items together with the recently added lighting fixtures has positioned Houzit as a leader in homewares retailing in Australia. Houzit has grown over the past five years from a single store to the current chain. Houzit prides itself on superior after sales service which has been a key reason for the continued growth in sales and corresponding profit increases. Today Houzit employs over 150 staff.

Houzit Pty Ltd is a proprietary limited company (ACN 34 765 234 02) registered with the Australian Securities and Investment Commission. The registered address is with Houzit's solicitors (Langs Lawyers, 535 Queen Street, Brisbane, QLD 4000) and the principle place of business is 505 Boundary Street Spring Hill Brisbane QLD 4000.

Computer software requirement

The current accounting information system has not adequately provided sufficient analysis of revenue and expenditure and has made it difficult to make informed estimates of future profits. Estimates have relied on the 'gut feel' of the experienced traders on the board and of the senior managers. The board sees the need to apply more analysis to past results that they believe could be done with the introduction of state-of-the-art computer software.

Houzit Pty Ltd wants to upgrade their existing accounting system which will manage the company accounts more efficiently in the long run. They request that the new system you recommend to them to be compliant with all legislative and statutory requirements for small to medium businesses.

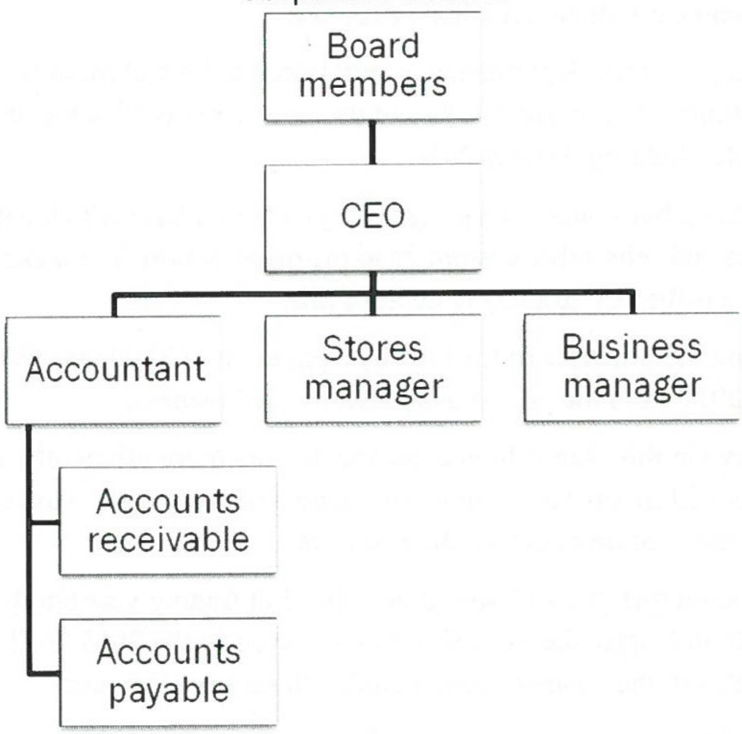
None of Houzit's products are GST free. However, the accounting information system records the GST collected as well as the input tax credits earned on the purchases of stock and assets. These amounts are reported and paid in accordance with the business activity statement (BAS) schedule determined by the Australian Tax Office.

They have 100 fulltime and 50 part-time staff, but only 10 of the staff will have or need access to the financial system. Some employees are paid on a salary sacrifice arrangement that attracts fringe benefits tax. The staff with access to the financial system wants software that is a single purchase with no ongoing licence fees, and a plan to keep using if for the next 3–5 years, while the organisation continues to grow. They are anticipating that within five years they will have over 250 full-time staff, and at least 20 staff will require access to the financial system by then.

The payroll system deducts withholding tax from the employees and remits this along with the firm's pay as you go (PAYG) installment each quarter as reported on the firm's business activity statement. The income tax return for the company and its annual statement are completed by the firm's accountant. Taxes and fees due are paid by the due dates. Financial records are kept at Houzit's principle place of business.

Houzit have just upgraded their computers and have five new desktop PCs which will be used by the finance staff. They are current (for 2016) specification machines with i5 CPUs and 4Gb RAM each, and all have Windows 7 Professional and Norton's 360 installed with the professional version of Microsoft Office Small Business. Other staff will use their machines at various times, so it is important that the software requires a login to access data and that data stored by the software cannot be accessed in any other way.

Corporate details



Jim Schneider, the CEO, has asked you to prepare some financial budgets for the 2016/17 financial year as a preliminary overview of the financial year ahead.He asked you to first prepare a 12 months budget and then break it up over the four quarters. The areas he is particularly interested in seeing is:

1. Sales budget for 2016/17 by department by quarter.
2. Profit budget (including detailed expenses) for 2016/17 by quarter.
3. The cash flow result per quarter of the GST after adjusting the GST collected by the allowable GST tax credits.
4. The anticipated aged debtors summary at the end of each quarter.

The CEO wants to be given all the budgets, except for the aged debtors budget which the accountant and accounts receivable clerk can monitor. The CEO produced a summary of the current business plan that covered the budget year to highlight some of the key goals, objectives and strategies he would like incorporated into the budget.

Business plan summary

1. The anticipation that the coming financial year would maintain the same sales growth as the growth that took place between 2012/13 to 2015/16.
2. To budget for an increase in inflation to 4% per annum and that all costs subject to inflation should incorporate this particular increase.
3. A new car costing $97,466 including GST has been planned for in the coming period to replace the five year old vehicle currently used by the chairman. This fuel inefficient car will attract a luxury car tax.
4. Sales breakup over the departments is anticipated to be bathroom fittings 30%, bedroom fittings 25%, mirrors 15% and decorative items 10% together with the recently added lighting fixtures 20%.
5. Profits are to be built on securing a growing customer base which will generate loyalty sales and refer other customers to the organisation. The superior after-sales service is the key strategy to achieve this.
6. Reduction on the principle of the loan by a payment of $100,000 on the 31 December 2011 from the profits generated by the business.
7. One objective in this plan is to manage the debtors more efficiently in the current period. This will involve an analysis of the debtors to identify ways to reduce the amount of cash tied up in outstanding debtors.
8. The expectation that 2016/17 would be a difficult trading year but that the budget net profit should target the same result as achieved in the 2015/16. The strategy to achieve this in the business plan included three key elements:
    a. To reduce the expected gross profit rate by 1% on the 2016/17 result in the hope that lower prices on the products would help maintain the sales growth even in difficult trading conditions.
    b. To increase the advertising budget by $70,000 over the 2015/16 results in the hope that Houzit can secure a greater market share in a constricting

After going through the business plan summary, the CEO gave you the previous year's financial reports and asked you to speak with the accountant, Celina Patel, to get some of the figures and detailed expectations for the coming year.

You arrange a meeting with Celina Patel, Houzit's accountant, and she gives you the following insight into the historical expense relationships and the current statutory compliance liabilities.

Sales and profit budget information

Celina explained that the only budget she monitors on a day-to-day basis is the cash flow budget and the store manager is primarily responsible for the sales budget.

These are the notes you take at the meeting:

- The overall sales for 2016/17 target set by the business plan should be apportioned across the quarters in the same % as was achieved in 2015/16.
  This was:

Qtr 1	Qtr 2	Qtr 3	Qtr 4	2015/16
3,142,822	3,771,386	4,085,668	4,714,232	15,714,108

- Cost of goods sold is the inverse of the gross profit rate determined by the business plan and is determined by the quarterly sales budget.
- Accounting fees have been negotiated for the year at a fixed amount of $10,000 to be paid in equal amounts each quarter.
- The interest charges on the bank loan are anticipated at a reduced amount of $84,508 due to an agreed repayment of some of the loan principal. This is to be paid in equal amounts each quarter. eq val /4
- Bank charges are expected to be the same as 2016 and paid in equal amounts each quarter.
- Celina has requested that a new expense (store supplies) be recognised in the new budget that was previously included in with the cleaning expense amounts. Store supplies in the 2014/15 results was $3,500 of the cleaning expense and $3,605 of the 2015/16 result. Cleaning expense will then be lower but identify the real labour costs involved in the cleaning expense. 19261 15656 x 9 %
- Depreciation is expected to be the same as 2016 and allocated in equal amounts each quarter. 16282/
- Advertising is to be apportioned to each quarter based on the business plan.
- The following expenses are expected to increase by the determined inflation rate in the business plan summary:
  - Insurance – apportioned in equal amounts each quarter.
  - Store supplies – is calculated for each quarter using the same % as determined by the sales for each quarter.
  - Cleaning – is calculated for each quarter using the same % as determined by the sales for each quarter.
  - Repairs and maintenance – apportioned in equal amounts each quarter.
  - Rent – apportioned in equal amounts each quarter.

- Telephone – is calculated for each quarter using the same % as determined by the sales for each quarter.
- Electricity – is calculated for each quarter using the same % as determined by the sales for each quarter.

- Fringe benefits tax is expected to be the same as 2016 and paid in equal amounts each quarter.
- Wages and salaries are calculated for each quarter using the same % as determined by the sales for each quarter.
- The statutory requirements are:
    - Superannuation is 9% of wages and salaries for each quarter
    - Payroll tax is 4.75% of wages and salaries for each quarter
    - Workers' compensation is 2% of wages and salaries for each quarter
    - Company tax is 30% of net profit before tax for each quarter.

Houzit Pty Ltd				
For 12 months ended				
Profit & Loss Actuals	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Revenue	7.9	7.4	7.4	
Sales	12,474,336	13,472,315	14,550,100	15,714,108
– Cost Of Goods Sold	6,860,901	7,409,773	8,002,555	8,799,900
Gross Profit	5,613,465	6,062,542	6,547,545	6,914,208
Expenses				
– Accounting Fees	5,500	6,500	8,500	9,000
– Interest Expense	45,000	65,000	96,508	90,508
– Bank Charges	1,200	1,300	1,580	1,600
– Depreciation	170,000	170,000	170,000	170,000
– Insurance	12,500	12,500	12,500	12,875
– Store Supplies	-	-	-	-
– Advertising	50,000	100,000	280,000	280,000
– Cleaning	12,560	15,652	18,700	19,261
– Repairs & Maintenance	40,250	52,600	60,000	61,800
– Rent	2,465,000	2,465,000	2,465,000	2,538,950
– Telephone	9,862	12,523	14,000	14,420
– Electricity Expense	22,500	23,658	25,000	25,750
– Luxury Car Tax	-	-	12,400	-
– Fringe Benefits Tax	26,000	26,000	26,000	28,000
– Superannuation	148,500	160,737	166,500	171,495
– Wages & Salaries	1,649,998	1,785,965	1,850,000	1,905,500
– Payroll Tax	78,375	84,833	87,875	90,511
– Workers' Compensation	33,000	35,719	37,000	38,110
Total Expenses	4,770,245	5,017,987	5,331,563	5,457,780
Net Profit (Before Tax)	843,220	1,044,554	1,215,982	1,456,428
Income Tax	252,966	313,366	364,795	436,928
Net Profit	590,254	731,188	851,188	1,019,499

Houzit Pty Ltd		
Statement of Financial Position		
As at 30 June	2014/15	2015/16
Assets		
Current Assets		
– Cash On Hand	50,000	55,000
– Cheque Account	144,842	160,314
– Deposits Paid	950,000	950,000
– Trade Debtors	850,000	975,000
– Merchandise Inventory	1,530,000	1,430,000
Total Current Assets		
Fixed Assets		
– Motor Vehicles At Cost	500,000	500,000
– Motor Vehicles AccumDep	(100,000)	(125,000)
– Furniture & Fixtures At Cost	1,950,000	2,250,000
– Furniture & Fixtures AccumDep	(650,000)	(770,000)
– Office Equip At Cost	400,000	400,000
– Office Equip AccumDep	(90,000)	(115,000)
Total Fixed Assets	2,010,000	2,140,000
Total Assets	5,534,842	5,710,314
Liabilities		
Current Liabilities		
– MasterCard	17,800	14,860
– Trade Creditors	780,000	679,000
– GST Collected	1,455,010	1,571,411
– GST Paid	(943,125)	(987,626)
– Superannuation Payable	100,000	120,000
– Luxury Car Tax Payable	20,920	-
– income Tax Payable	364,795	436,928
– PAYG Withholding Payable	65,000	44,872
Total Current Liabilities	1,860,400	1,879,445
Long-Term Liabilities	-	-
- Bank Loans	1,608,459	1,508,459
Total Liabilities	3,468,859	3,387,904
Equity		
- Owner/Shareholder's Equity	500,000	500,000
- Retained Earnings	850,000	1,565,982
- Dividends Paid	(500,000)	(1,200,000)

- Current Year Earnings	1,215,982	1,456,428
Total Equity	2,065,982	2,322,410

Internal auditor

Carl Kerns is one of the directors of the Board. Carl said that as a board member they are given the profit and cash flow budgets. He was appointed by the Board to conduct an internal audit of operations to look for weaknesses in the internal control system. His report uncovered the following processes that he believed needed to be strengthened.

- Issue. While the overall customer base is increasing from year to year, there may be internal control issues relating to how these new customers are secured.
- issue. Some discounts that were being given to customers were recorded as a net amount on the invoices and gave no indication of the discount from standard prices.
- issue Some cash registers in the stores were not reconciling the cash in drawer with the register printout.
- issue. Not all timesheet overtime amounts were being authorized by the line manager.
- issue. Service invoices for some items of equipment were not signed or linked to a purchase order. There was no check that the work had actually been carried out.
- issue Not all assets in the stores had unique codes fixed to the asset.
- There were minimal feedback lines of communication from the shop floor to head office, particularly when an error in the budgeting report process was recognized.
- Debtor reconciliations were not done monthly and sometimes not at all.
- In busy times the cashiers who operated the registers were also asked to do their own reconciliations and banking. Sometimes the cash was held in the store for a day or two.
- Job roles were not clearly defined so that responsibilities and liability can be identified.
- There was little rostering of duties and cash receipts were not pre-numbered.

Of particular concern to Carl was the directive given by the board to ensure that audit trails were created and maintained. These included:

- Signing the timesheets for employees under the authority of a department manager.
- Maintenance of a numbered cash receipts book.
- Using sequenced cheques as a systematic way of evidencing all monies paid out.
- Ensuring proper coding of evidenced transactions against appropriate general ledger account and cost centre.
- Ensuring reconciliations between company books and third party bank statements are performed.

GST cash flow budget

Statutory requirements for GST are 10% of the recorded amounts in sales. The only capital purchase planned for the year is the luxury car for the chairman. Those expense payments on which 10% GST was paid include the following:

- Cost of goods sold:
  - Accounting fees
  - Insurance
  - Store supplies
  - Advertising
  - Cleaning
  - Repairs and maintenance
  - Rent
  - Telephone
  - Electricity expense.

The GST amount payable each quarter is the difference between the GST collected from sales and the GST paid - format as per policy and procedures.

Standard formats

CASH FLOW ANALYSIS - GST	2016/17	Qtr 1	Qtr 2	Qtr 3	Qtr 4
GST Collected	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Less GST Paid	1000 x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
GST Payable	Calculation	Calculation	Calculation	Calculation	Calculation

Debtors ageing budget

The historical records show that the debtors balance at the end of each quarter is usually about 20% of the quarter's sales. At any time in the debtors balances 1% of the total debtors is overdue 90 days and over, 5% is 60 days overdue, 10% is 30 days overdue and the balance of the total debtors is current. The aged debtors' budgets are only distributed to the accountant and the accounts receivable clerk.

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Houzit Budgeting Policy and Procedures

Budget development process

The standard process for developing budgets will follow the following steps:

1. Establish the budget objective.
2. Gather prior period data.
3. Discuss prior period information and anticipated changes in the budget period with stakeholders.
4. Research relevant external information.
5. Incorporate identified trends to determine assumptions and parameters.
6. Prepare budgets in standard formats.
7. Submit budgets for approval.

Budget objectives

Houzit prepares budgets to meet various company objectives. Budgets are prepared:

- For a specific expansion of the business activities:
  - Business case to be prepared covering a cost-benefit analysis, market research report and summary profit and investment expectations
- To outline a specific debt reduction initiative:
  - Company-wide summary of profit expectations, planned debt and equity funding arrangements, capex plans summarised
- Annually to cover the next financial year:
  - For the 12 month period from the beginning to the end of the financial year
  - Budget to include four quarter milestones in line with seasonal trends identified from prior year data
  - Initial preparation includes a preliminary overview of the financial year ahead
  - Sales budget for next year to be prepared by department by quarter
  - Profit budget (including detailed expenses) for the next year to be prepared by quarter
  - Cash flow effect of the GST payable per quarter to be prepared (scheduled compliance payment date is the 21st day after the end of the quarter)
- To satisfy the statutory requirements relating to the current and short-term solvency of the company:
  - Three monthly rolling forecast of cash flows to be prepared
- To qualify the strategic plans for the next 3–5 years planning cycle:
  - Profit and capex budget to be prepared.

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Budget variances and schedules

- Key performance indicators that should be closely monitored and reported on include variances to:
    - Total sales
    - Gross profit (GP) %
    - Wages and salaries as a % of total sales
    - Total expenses as a % of total sales
    - Net profit in dollars
    - Net profit as a percentage.
- Budget variances will be reported using the standard format provided in this policy and procedures document.
- Budget variances must be completed within five working days of quarter end.
- Actual results for the month will be provided by the accounting information system.
- An analysis of the variance between the actual and the budget must include $ and % variance.
- Report with explanations and recommendations to be complete within seven working days of quarter end and be given to the CEO.
- Analysis and investigation of variances will include the following priority:
    1. Establish the primary causes for variances to key performance indicators of total sales, gross profit % and net profit $.
    2. Establish reasons for those individual items in the variance report that represent the greatest $ variance.
    3. Establish reasons for those individual items in the variance report that represent the greatest % variance.
- Schedules relating to compliance due dates must be prepared and monitored by the accountant. Managers supplying information to the accountant regarding the compliance schedule must submit it at least five working days prior to the due date deadline.