ACCG308 Summary Notes

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❑ Week 1 : Introduction to Entrepreneurship

· *Entrepreneurship : What it is*

- *Activities of setting business(plans) and taking financial risks*
- *Pursuing opportunities without regarding to the resources under control (Someone else's money!)*

· *Empirical evidences of entrepreneurship*

- *Case Study of Mahaweli, Sri Lanka → Households with Entrepreneur/Management skills have become successful*
- *Entrepreneur Skills : 1) Use of non-owned resources 2) Use of relationships(networks) 3) Delayed Consumption*
- *Managerial Skills : Efficacies in allocating resources (Using time/resources in the most efficient/effective way)*

· *6 Elements of successful entrepreneurship*

1) Profit oriented 2) Honesty 3) Qualified 4) Thorough 5) Commitment 6) Flexible

· *Business Plans : Why?*

- *Entrepreneurship is based on the creation of benefits from resources that are NOT under control*
- *Assuring of certainty → Efficacy of planning improves as the data/information become more reliable*
- *3 primary functions of business plans → 1) Symbolism 2) Learning 3) Efficiency*
  - *= 1) Symbolism : Symbolises the commitment / that the business & its people are reliable for the stakeholders*
  - *= 2) Learning : Facilitation of deeper understanding towards the market/ventures*

- *Components of a business plans*
  1) *Executive Summary : An introduction / overview of the business*
  2) *Business Opportunity : Industry analysis (Mega-trends : Sustainability.. / Competitors / SWOT)*
  3) *Sales and marketing strategy : 4P's (Product, Price, Place, Promotion)*
  4) *Operational strategy : Management personnel & supplier information / operational risks disclosure*
  5) *Financial plans : Profit/loss forecast, Capital Structure forecast, Capital budgeting, Initial capital requirement*

· *Elements of successful business plans*

- *Feasibility : Are the plans based on realistic assumptions?*
- *Financial resources (Financing decisions) : How to procure the capital required?*
- *Securing of debts (Solvency matters) : How to pay the external creditors?*
- *Human resources : Having the right number of right people*
- *Business relationships : Managing value chain networks from suppliers to the customers*
- *Operational plans : How to successfully manage the day to day operations?*

· *Key aspects of a business plan*

❑ Equity Accounting

· Equity Accounting : AASB 128

- Measurement and recording of changes in the investments in associates; subsidiaries' post-control equity
- Recognising the relationships based on the indication of control and the significant influence
- Two methods : Cost method VS Equity method
- Primary concerns : 1) Initial Recognition of the investment 2) 5 Subsequent changes in the equity
- New account : Investment to the associates (Asset); Revenues from the associates (P/L)

· Significant Influence VS Control

- Control : Parent-subsidiary relationship; Power to 'Govern' the financial and operating policies for own benefits
  = When shares owned greater than 50%; 'Presumed' to be a parent company
  = Equity accounting → Cost method for the investor's own F/S; Equity method for the consolidated F/S

- Significant influence : Investor-associate relationship; Power to 'Participate' in the decision-making process
  = General indication is presumed when shares owned 20% < x < 50%
  = NOT a conclusive factor; considering other facts that impose the intention of the investor
  = Equity accounting → Equity method ONLY in the investor's financial statements

· Cost Method VS Equity Method

- There are NO differences during the initial recognition stage (Investment in associates / Cash)
- Changes arise during the subsequent changes in the equity
  = Equity method : Changes recognised in the "Investment in associates" account
  = Cost method : Changes are NOT recognised in the "Investment in associates" account

· Equity accounting : 2 Easy Steps

1) Initial Recognition : Acquisition of the associates' equities to the significant interest
   = Value recognition is same as the subsidiary control; FVINA – FV Consideration
   = Goodwill is calculated but NOT recognised; simply disregarded (Criticisms to AASB128)
   = Bargain Purchase Gain is recognised as part of the associates' next P/L
   = Same entries for both Cost & Equity methods

Date	Transaction	Dr	Cr
30/06/16	Investment in Associates	10,000	
	Cash at Bank		10,000
	(Initial recognition of the associates' shares acquired)		

Figure 12.1) Equity accounting – Initial recognition; recognition of associate's equity

2) Subsequent Changes : The 5 different 'elements' that impose changes in the associate's equity
   → NET Profit / Dividends / Post-acquisition equity changes / Intercompany profits / Investment impairment

2.1) NET Profit of the associates
   = Increment of investment values as the associate's total equity increase
   = Equity method → as described in 12.2.1; NO entry for the cost method

Date	Transaction	Dr	Cr
30/06/16	Investment in Associates	3,000	
	Revenues from the Associates		3,000
	(30% owned associate; NET Profit $ 10,000)		

Figure 12.2.1) Equity accounting – Subsequent changes; Recognition of profits of the associates