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# Accounting

BUSINESS REPORTING FOR DECISION MAKING

7TH EDITION



LEY

# Accounting: business reporting for decision making

SEVENTH EDITION

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# PREFACE

While this new edition of *Accounting: business reporting for decision making* covers both preparer and user issues of business reporting, it predominantly explores and reinforces the principles of financial and management accounting from a user perspective. Accounting is presented as a decision-making tool for business rather than as a record-keeping function.

In developing this new edition of the text, we have carefully considered the positioning of the chapters and the flow of the learning objectives, and we believe that the order of the topics presented will suit the sequence of topics covered in most accounting courses. In the majority of chapters, we have used JB Hi-Fi Ltd either as an illustrative case or as a basis for the chapter's exercises or problems, which provides students with interesting real-world examples to which they can relate and understand.

This text is most suitable for introductory accounting units that focus on financial decision making in business, rather than the preparation of financial reports. It is also highly suited to first-year units in accounting in business degrees, MBA introductory accounting units and accounting service units.

## Key features

The text has several unique features.

- References to JB Hi-Fi Ltd's annual report enhance the understanding of the concepts covered in the chapters. Each of the chapters on financial reporting provides a step-by-step illustration of the components of the financial statements and how to prepare and use the financial statements.
- The interrelationship between accounting information, business decisions and sustainable business practices is considered.
- Running cases are integrated throughout the text focusing on two small businesses — a service provider and a manufacturer.

## Learning toolkit

Each chapter contains the following pedagogical tools to support you with your studies.

- *Learning objectives* at the start of each chapter highlight the learning targets for the chapter.
  - *A chapter preview* introduces the major topics to be covered in each chapter.
  - *Value to business* vignettes positioned at the end of each main section in the text reiterate key issues and processes presented in the chapter.
  - *Illustrative examples* located throughout the chapter aid in the conceptual understanding of the content. Examples provide a worked solution and explain the process.
  - *Decision-making examples* located throughout the chapter emphasise the decision-making process (rather than computation) and provide students with experience in financial decision making.
  - *A summary of learning objectives* is provided at the end of each chapter. After each learning objective, a short summary of the key points covered under that learning objective in the chapter is provided.
  - A list of *key terms* is provided in alphabetical order at the end of each chapter.
  - *Apply your knowledge* provides an exam-like question to test student knowledge of the chapter overall.
  - *Self-evaluation activities* provide a worked solution as a model for the workings of the exercises that follow.
  - *Comprehension questions* review the chapter content and help students understand the key concepts. Questions include multiple-choice questions, fill-in-the-blanks and review.
  - *Exercises* test student knowledge of the concepts presented in the chapter and develop analytical, comparative, communication and reporting skills. They are graded according to difficulty: ★ basic, ★★ moderate and ★★★ challenging.
  - *Problems* build knowledge and skill development and are graded according to difficulty: ★ basic, ★★ moderate and ★★★ challenging.
  - *Decision-making activities* focus on developing awareness of accounting information and various generic professional skills. They cover a range of scenarios such as communication, preparing presentations, teamwork, financial interpretation, internet-based research and ethical issues.
-

## Executive summary — key features of each chapter

Chapter	Key features
<b>Chapter 1</b> Introduction to accounting and business decision making	<ul style="list-style-type: none"><li>• Introduces the process of accounting and illustrates the difference between bookkeeping and accounting</li><li>• Outlines the role of accounting for various decision makers</li><li>• Discusses the role of accounting information in the business planning process</li><li>• Provides examples of the differences between financial and management accounting</li><li>• Discusses business sustainability, its key drivers and principles</li><li>• Describes sustainability reporting and disclosure (including integrated reporting)</li><li>• Explains what is meant by digital disruption and how new technology is influencing the accounting profession</li></ul>
<b>Chapter 2</b> Accounting in society	<ul style="list-style-type: none"><li>• Identifies the sources of company regulation in Australia</li><li>• Explains the current standard-setting framework</li><li>• Evaluates the role of the <i>Conceptual Framework</i></li><li>• Examines corporate governance guidelines and practices</li></ul>
<b>Chapter 3</b> Business structures	<ul style="list-style-type: none"><li>• Defines the four different forms of business structure (sole trader, partnership, company and trust)</li><li>• Outlines the advantages and disadvantages of each of the business structures</li></ul>
<b>Chapter 4</b> Business transactions	<ul style="list-style-type: none"><li>• Explains the differences between business transactions, personal transactions and business events</li><li>• Describes the concept of duality and illustrates the impact of the application of duality to the accounting equation and worksheet</li><li>• Provides examples of common errors on the worksheet</li></ul>
<b>Chapter 5</b> Statement of financial position	<ul style="list-style-type: none"><li>• Explains the nature and purpose of the statement of financial position</li><li>• Outlines the criteria for identifying assets and liabilities</li><li>• Illustrates the classification and format of the statement of financial position</li><li>• Describes possible limitations of the statement of financial position</li></ul>
<b>Chapter 6</b> Statement of profit or loss and statement of changes in equity	<ul style="list-style-type: none"><li>• Explains the reporting period concept and the differences between accrual accounting and cash accounting</li><li>• Outlines the criteria for identifying income and expenses</li><li>• Illustrates the classification of items in the statement of profit or loss</li><li>• States the relationship between the statement of profit or loss, the statement of financial position, the statement of comprehensive income and the statement of changes in equity</li></ul>
<b>Chapter 7</b> Statement of cash flows	<ul style="list-style-type: none"><li>• Explains the purpose of a statement of cash flows</li><li>• Illustrates the direct method of preparing a statement of cash flows and explains the purpose of reconciling profit with cash flows from operating activities</li><li>• Provides the steps to analyse the statement of cash flows</li></ul>
<b>Chapter 8</b> Analysis and interpretation of financial statements	<ul style="list-style-type: none"><li>• Explains the nature and purpose of financial analysis</li><li>• Describes ratios relative to profitability, asset efficiency, liquidity, capital structure and market performance</li><li>• Explains the limitations of ratio analysis</li></ul>
<b>Chapter 9</b> Budgeting	<ul style="list-style-type: none"><li>• Illustrates the key steps in the budgeting process</li><li>• Links the budgeting process to strategic planning</li><li>• Describes the different types of budgets and outlines the components of a production and cash budget</li></ul>
<b>Chapter 10</b> Cost–volume–profit analysis	<ul style="list-style-type: none"><li>• Looks at cost behaviour and its impact on profit planning</li><li>• Illustrates the concept of CVP analysis and outlines the key assumptions underlying CVP analysis</li><li>• Explains how to analyse make or buy decisions and special orders</li></ul>

(continued)

(continued)

Chapter	Key features
<b>Chapter 11</b> Costing and pricing in an entity	<ul style="list-style-type: none"><li>• Defines and classifies cost objects into direct and indirect costs</li><li>• Provides illustrations of the allocation process for indirect costs</li><li>• Explains pricing issues for products and services</li></ul>
<b>Chapter 12</b> Capital investment	<ul style="list-style-type: none"><li>• Describes the different techniques to use when analysing capital investment decisions</li><li>• Explains the advantages and disadvantages of each of the capital investment techniques</li></ul>
<b>Chapter 13</b> Financing the business	<ul style="list-style-type: none"><li>• Explains and illustrates the different sources of finance for entities</li><li>• Discusses issues of managing debtors and inventories</li><li>• Describes new funding opportunities for business, such as crowdfunding, ICOs, angel investors and microcredit</li></ul>
<b>Chapter 14</b> Performance measurement	<ul style="list-style-type: none"><li>• Presents performance measurement techniques for an organisation</li><li>• Discusses characteristics of contemporary measurement systems</li></ul>

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# ABOUT THE AUTHORS

## **Jacqueline Birt**

Professor Jac Birt, BEd Melb, BBus RMIT, MBus RMIT, PhD ANU, CPA, is a Professor of Accounting at the University of Western Australia and also the current Head of Department of Accounting and Finance at the University of Western Australia. Prior to the University of Western Australia, she held appointments at the University of Queensland, Monash University, the Australian National University, the University of Amsterdam and the University of Melbourne. Jac's teaching and research is in financial accounting and accounting education. Her PhD focused on segment reporting and examined issues such as value relevance and voluntary segment disclosures. She has published in journals such as *Abacus*, *Journal of Business Ethics*, *Australian Journal of Management, Accounting & Finance*, *Accounting in Europe*, *Australian Journal of Adult Learning*, *Australian Accounting Review* and *Accounting Education*. Jac has been the recipient of the Pearson Education Accounting/Finance Lecturer of the Year Award and also the ANU Faculty of Economics and Commerce Award for Teaching Excellence.

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## **Judy Oliver**

Dr Judy Oliver has held appointments at Swinburne University, University of Tasmania and Victoria University. Judy has had responsibility for first-year accounting and management accounting units at both the undergraduate and postgraduate levels. Her research interests are in management accounting control systems and corporate governance. She has published in journals such as *Australian Accounting Review*, *International Journal of Quality & Reliability Management* and the *Journal of Accounting & Organizational Change*.

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**David Bond**

David joined the UTS Business School in 2003 and is currently a Senior Lecturer in the Accounting Discipline Group. He has published in journals including *Accounting & Finance*, *Journal of Accounting and Public Policy*, *Journal of Contemporary Accounting & Economics* and *Australian Accounting Review*. David is currently on the Board for the Accounting and Finance Association of Australia and New Zealand and the Sport Management Association of Australia and New Zealand. He has previously held the position of Academic Fellow at the International Financial Reporting Standards Foundation in London, as well as been a visiting academic at the London School of Economics. He has received a number of teaching awards, including an Australian Government Office for Learning & Teaching Citation.

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# Introduction to accounting and business decision making

### LEARNING OBJECTIVES

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After studying this chapter, you should be able to:

- 1.1** explain the process of accounting
  - 1.2** outline the importance of accounting and its role in decision making by various users
  - 1.3** explain the differences between financial accounting and management accounting
  - 1.4** explain the role of accounting information in the business planning process
  - 1.5** discuss the globalisation of financial reporting
  - 1.6** explain what is meant by digital disruption and how new technology is influencing the accounting profession
  - 1.7** describe business sustainability, outline its key drivers and principles, and compare key theories in the area
  - 1.8** describe sustainability reporting and disclosure (including integrated reporting)
  - 1.9** provide examples of exciting opportunities for careers in accounting.
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## Chapter preview

What is accounting's role in business decision making? How can you use accounting to plan a business? What are the opportunities for careers in accounting? These questions and more are answered in this first chapter of this text. People in all walks of life rely on accounting information to make daily decisions concerning the allocation of scarce resources. For example, a retired rugby player may rely on accounting information to help guide investment decision making on the allocation of his earnings as a professional sportsman; a student might use budgeting tools to help plan an overseas trip to Japan at the end of her university year; and knowledge of expected costs could help a construction company quote for a job on a large-scale, multimillion-dollar building project. All of these scenarios would benefit from the input of accounting information to help reach the best decision based on the available resources.

In recent years, the responsibilities of the accounting profession have changed dramatically. The Enron Corporation and Arthur Andersen financial scandals at the start of the millennium resulted in major changes to public expectations of the accountant and underlined the importance of good accounting practices in companies. Changes in the structure of business entities, including the growth of the multinational and diversified entity, have also had consequences for the accounting profession. Digital disruption through the emergence of new technologies is also impacting on many aspects of the business world and of course the skill set required for tomorrow's accountant. The next decade will present many opportunities and challenges for the profession.

The role of the accountant is continually evolving and comprises a lot more than just the rudimentary preparation of financial statements and the traditional work areas of management and financial accounting. Accountants can work in exciting new growth areas such as artificial intelligence (AI), analytics, blockchain technology, fintech, forensic accounting, sustainability accounting, procurement and insolvency.

In addition to explaining the importance of accounting information in decision making such as planning a business, this chapter outlines the globalisation of financial reporting, the role of professional accounting associations, digital disruption, and the emergence of new technologies and new careers in accounting.

## 1.1 The accounting process

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**LEARNING OBJECTIVE 1.1** Explain the process of accounting.

Many students embarking on a first course in accounting not only have the wrong idea about what the course content is going to be, but also have a misconception of what an accountant actually does! Some anticipate that the course will be about recording transactions in journals and ledgers; others think that the course is all about balancing the books. Some people associate accountants with repetitive tasks such as data entry and see the role as rather dull. There is, however, a lot more to accounting and the role of an accountant than this. In accounting, we learn not only how to record and report transactions, but also the purpose of the information created and the many uses of accounting information in everyday living and business. Accounting provides users with financial information to guide them in making decisions such as planning a business. An understanding of accounting and its various roles in decision making will equip you with some important tools and techniques for understanding a broad range of accounting and business issues. The accounting and business issues we will explore throughout this text include the following.

- What is the blockchain and how could it change the role of the accountant?
- What are the differences between financial and management accounting?
- What is an SME?
- What type of financial reports do business entities prepare?
- What is meant by sustainability accounting?
- What is meant by integrated reporting?
- What is the meaning of IFRS?
- What does it mean to be ethical in business?
- What is governance and does it apply to all business entities?
- What does business analytics mean and how does it impact on accounting?
- How has accounting changed since corporate collapses such as Enron?

The word 'account' derives from the Latin words *ad* and *computend*, which mean 'to reckon together' or 'to count up or calculate'. **Accounting** can be defined as the process of identifying, measuring and communicating economic information about an entity to a variety of users for decision-making purposes. The first component of this definition is the process of identifying business transactions.

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A **business transaction** is an event that affects the financial position of an entity and can be reliably measured and recorded. Business transactions include such events as withdrawals of cash by the owner(s), payment of wages and salaries, earning of fees revenue, purchase of an office photocopier, purchase of stationery, capital contributions by owners, incurring of interest on a bank loan and payment of quarterly GST (goods and services tax).

The second component of the definition is the measuring of information, which refers to the analysis, recording and classification of business transactions. This component identifies how transactions will affect the entity's position, and groups together similar items such as **expenses** and **income**. For example, the contribution of capital by the owners of an entity will have the effect of increasing the cash at bank (**asset**) of the entity and increasing the capital (**equity**) of the entity. The earning of fees revenue will have the effect of increasing the income of the entity and increasing the entity's assets. Depending on whether the fees earned were cash fees or on credit, the cash at bank or debtors of the entity, respectively, will increase. Throughout the accounting period, individual assets, expenses, income, equity and **liabilities** will be grouped (classified) together to summarise the information. For example, land, buildings, machinery, equipment and vehicles will be grouped together under the subheading 'property, plant and equipment' (PPE).

The final component is the communication of relevant information through accounting reports, such as the statement of profit or loss and the statement of financial position, for decision-making purposes for the various users. For example, the total of the PPE account will be reported on the statement of financial position. Different users require accounting information for making important decisions such as whether to invest in a business, what type of business structure would be appropriate, whether the entity should continue to manufacture a product or outsource this process to another entity, and whether the entity has the resources to pay its debts on time. All these decisions involve making the most of the scarce resource — money. The process of accounting assists users in the allocation of this scarce resource.

The practices of accounting and bookkeeping date back to ancient civilisations in China, Egypt, Greece and Rome, where families had to keep personal records of their receipts and payments. The title 'Father of accounting' belongs to the Italian mathematician Luca Pacioli, who in 1494 produced *Summa de Arithmetica, Geometrica, Proportioni et Proportionalita*, which included chapters based entirely on how to record business transactions using a double-entry system. Table 1.1 summarises the process of accounting.

**TABLE 1.1** The process of accounting

Identifying	Measuring	Communicating	Decision making
Transactions that affect the entity's financial position are taken into consideration. They must be able to be reliably measured and recorded.	This stage includes the analysis, recording and classification of business transactions.	Accounting information is communicated through various reports such as the statement of profit or loss, statement of financial positions and statement of cash flows.	Accounting information is used for a range of decisions by external and internal users.

**VALUE TO BUSINESS**

- Accounting is the process of identifying, measuring and communicating economic information about an entity for decision making by a variety of users.

## 1.2 Accounting information and its role in decision making

**LEARNING OBJECTIVE 1.2** Outline the importance of accounting and its role in decision making by various users.

Accounting information is an important part of our everyday decision-making processes and, as summarised by this excerpt from the Jenkins Report (AICPA 1994, ch. 1), everyone is:

affected by business reporting, the cornerstone on which our process of capital allocation is built. An effective allocation process is critical to a healthy economy that promotes productivity, encourages

innovation, and provides an efficient and liquid market for buying and selling securities and obtaining and granting credit.

Prospective and current investors, employees, consumers, regulatory bodies, government authorities and financial institutions are just some of the many individuals and groups that are interested in accounting information and require accounting to help them make decisions relating to the allocation of scarce resources.

Individuals and entities need accounting information to assist in making decisions, such as planning a business, and subsequent capital investment decisions. Planning a business is introduced later in this chapter and the appendix to this chapter provides more in-depth coverage of the main aspects of the business planning process. Accounting information is designed to meet the needs of both internal users and external users of such information. Accounting information is extremely valuable to an entity's owners or management (i.e. **internal users**). It is used to help owner(s)/managers achieve the following.

- Make decisions concerning the operations of a business entity. The information that owners or managers require is usually detailed enough to assist them in initial management planning processes, such as determining the appropriate sales mix and price of goods, forecasting profits and determining the capacity of assets such as plant.
- Evaluate the success of the entity in achieving its objectives. This is done by comparing the performance of the entity against budgets and assessing how well employees have achieved their set targets.
- Weigh up various alternatives when investing the resources of the business entity.

**External users (stakeholders)** include such parties as employees, shareholders, suppliers, banks, consumers, taxation authorities, regulatory bodies and lobby groups, all of whom have their own information needs. They have a 'stake' or interest in the performance of the entity. Accounting information is used to help external users achieve the following.

- Current shareholders of an entity will seek accounting information to help them evaluate whether the entity's managers have been appropriate stewards or custodians of the entity's assets. They will examine entity reports to glean how effectively management have invested the assets of the business entity and whether they have made appropriate business decisions on behalf of the investors. This is known as the stewardship function of management. The information in an entity's annual report can explain to the investors what areas of business the entity has expanded into and what the entity's strategic plan is for the next 12 months, 5 years, 10 years.
- Prospective investors will seek information from entity reports to determine whether or not a particular entity is a sound investment. Information such as the financial structure of the entity (level of debts versus level of equity), current financial performance and future growth prospects can help such external users to determine whether capital growth is expected for the entity.
- Suppliers and banks are interested in gauging the entity's ability to repay debt and the level of risk associated with lending funds to it. Statements such as the statement of cash flows and the statement of financial position enable them to evaluate whether the entity has sufficient funds to meet debt repayments and to cover interest expense.
- Employees are most concerned about the future prospects of the entity. Is there a likelihood that the entity will expand, consequently creating additional job opportunities? Is there a possibility of promotion? Or, if the entity is performing poorly, are jobs at risk? What is the remuneration of the highest paid executives and what are the financial details of the employee share ownership plan? Particular sections in the annual report such as the chief executive officer's (CEO's) report, directors' report, statement of comprehensive income and statement of cash flows will provide useful information to the employees of the entity.
- Government authorities such as the Australian Taxation Office (ATO) will be interested in the reported profit for the year and the associated GST paid, in order to calculate the amount of tax to be paid or refunded in a particular financial year. Regulatory bodies such as the **Australian Securities and Investments Commission (ASIC)** will seek to identify whether the business has complied with requirements of the **Corporations Act 2001 (Cwlth)**; for example, whether a **disclosing entity** has complied with the Australian Accounting Standards.

Table 1.2 summarises the accounting information required by different stakeholders for their decision making.

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**TABLE 1.2 Stakeholders and the accounting information they need for their decision making**

Stakeholder	Accounting information and decision making
Shareholders	Information to assess the future profitability of an entity, the future cash flows for dividends and the possibility of capital growth of investment.
Banks	Information to determine whether the entity has the ability to repay a loan.
Suppliers	Information to determine the entity's ability to repay debts associated with purchases.
Employees	Information concerning job security, the potential to pay awards and bonuses, and promotion opportunities.
Consumers	Information regarding the continuity of the entity and its ability to provide appropriate goods and services.
Government authorities	Information to determine the amount of tax that should be paid and any future taxation liabilities or taxation assets.
Regulatory bodies	Information to determine whether the entity is abiding by regulations such as the Corporations Act and Australian taxation law.
Community	Information to determine whether the entity is contributing positively to the general welfare and economic growth of the local community.
Special interest groups	Information to determine whether the entity has considered environmental, social and/or industrial aspects during its operations.

**VALUE TO BUSINESS**

- Internal users are the owner(s) or management of an entity who use accounting information to assist with various decision-making activities.
- External users (also known as stakeholders) are groups outside an entity that use accounting information to make decisions about the entity.

## 1.3 Financial accounting and management accounting

**LEARNING OBJECTIVE 1.3** Explain the differences between financial accounting and management accounting.

In a typical accounting degree, you will undertake studies in both financial accounting and management accounting. **Financial accounting** is the preparation and presentation of financial information for all types of users to enable them to make economic decisions regarding the entity. **General purpose financial statements (GPFS)** are prepared to meet the information needs common to users who are unable to command reports to suit their own needs, while **special purpose financial statements** are prepared to suit a specific purpose and do not cater for the generalised needs common to most users. This information is governed by the **generally accepted accounting principles (GAAP)**, which provide accounting standards for preparing financial statements. Financial accounting is also guided by rules set out in the Corporations Act and the **Listing Rules** of the **Australian Securities Exchange (ASX)**. Financial accounting is traditionally based on historical figures that stem from the original transaction; for example, the purchase of a building for \$500 000 would be shown in the financial statement (the statement of financial position) as an asset of \$500 000. Even though the \$500 000 may not reflect the current market value of the building, the building is still shown at its **historical cost**, which is the original amount paid for the asset.

The **financial statements** consist of the entity's statement of cash flows, statement of financial position and statement of profit or loss (for companies, the statement of profit or loss and other comprehensive income and the statement of changes in equity). The **statement of cash flows** reports on an entity's cash inflows and cash outflows, which are classified into operating, investing and financing activities. The **statement of profit or loss** reflects the **profit** for the entity for a specified time period. (Profit is the excess of income over expenses for a period.) An entity's assets and its liabilities at a point in time are reported in the **statement of financial position**. Financial statements will suit a variety of different users, such as the management of the entity, investors, suppliers, consumers, banks, employees, government bodies and regulatory authorities.

**Management accounting** is a field of accounting that provides economic information for internal users, that is, owner(s) and management. The core activities of management accounting include formulating plans



and budgets, and providing information to be used in the monitoring and control of different parts of an entity. Management accounting reports are bound by few rules and are therefore less formal. Because management accounting reports are prepared for and tailored to suit the needs of management, they can provide any level of detail. For example, if the human resources manager requires information on the number of employees who have opted to make additional superannuation contributions, then a report can be produced. Management accounting reports must be up to date and can be prepared at any time for any period. For example, a sales manager in the entity may demand information on the current day's sales by the end of that day.

Ultimately there will be an interaction between financial accounting and management accounting, because management accounting will provide economic information for internal users that is then reflected in the financial accounting statements for external users. One such example of the interaction between financial and management accounting is in the area of segment reporting by large and diversified companies. Large and diversified companies must disclose segment information as part of their accompanying notes to their financial statements. Reporting on segments assists users in helping to understand an entity's relative risks and returns of individual segments of the entity. The operating segments are reported according to how an entity is organised and managed, and hence this is known as the management approach. Therefore, management accounting determines the operating segments and financial accounting reports these operating segments to the various users of financial statements. Illustrative example 1.1 shows the reportable operating segments for the Qantas Group. As you can see, the revenue and results for the Qantas Group have been disaggregated into the operating segments of Qantas Domestic, Qantas International, Jetstar Group, Qantas Loyalty, etc. There are also additional breakdowns for depreciation and amortisation, operating leases and so on.

#### ILLUSTRATIVE EXAMPLE 1.1

### Operating segments for the Qantas Group

#### (ii) Analysis by operating segment<sup>1</sup>

2018 \$m	Qantas Domestic	Qantas International	Jetstar Group	Qantas Loyalty	Corporate	Unallocated Eliminations <sup>4</sup>	Consolidated
<b>REVENUE AND OTHER INCOME</b>							
External segment revenue and other income	5 535	6 515	3 646	1 386	18	(40)	17 060
Inter-segment revenue and other income	438	377	121	160	—	(1 096)	—
<b>Total segment revenue and other income</b>	<b>5 973</b>	<b>6 892</b>	<b>3 767</b>	<b>1 546</b>	<b>18</b>	<b>(1 136)</b>	<b>17 060</b>
Share of net profit/(loss) of investments accounted for under the equity method	4	4	7	—	—	—	15
<b>Underlying EBITDAR<sup>2</sup></b>	<b>1 473</b>	<b>1 005</b>	<b>890</b>	<b>402</b>	<b>(182)</b>	<b>(13)</b>	<b>3 575</b>
Non-cancellable aircraft operating lease rentals	(76)	(64)	(132)	—	—	—	(272)
Depreciation and amortisation	(629)	(542)	(297)	(30)	(13)	(6)	(1 517)
<b>Underlying EBIT</b>	<b>768</b>	<b>399</b>	<b>461</b>	<b>372</b>	<b>(195)</b>	<b>(19)</b>	<b>1 786</b>
Underlying net finance costs					(182)		(182)
Underlying PBT					(377)		1 604
<b>ROIC %<sup>3</sup></b>							<b>22.0%</b>

1. Qantas Domestic, Qantas International, Jetstar Group, Qantas Loyalty and Corporate are the operating segments of the Qantas Group.
2. Underlying EBITDAR represents underlying earnings before income tax expense, depreciation, amortisation, non-cancellable aircraft operating lease rentals and net finance costs.
3. ROIC % represents Return on Invested Capital (ROIC) EBIT divided by Average Invested Capital (refer to Note 1(C)).
4. Unallocated Eliminations represents unallocated and other businesses of Qantas Group which are not considered to be significant reportable segments including consolidation elimination entries.

Source: Qantas Airways Ltd 2018, p. 59.



Qantas is widely regarded as the world's leading long-distance airline and one of the strongest brands in Australia.

The main differences between financial accounting and management accounting are summarised in table 1.3.

**TABLE 1.3 Differences between financial accounting and management accounting**

	Financial accounting	Management accounting
<b>1. Regulations</b>	Bound by GAAP. GAAP are represented by accounting standards (including those issued by both the Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB)), the Corporations Act and relevant rules of the accounting associations and other organisations such as the ASX.	Much less formal and without any prescribed rules. The reports are constructed to be of use to managers.
<b>2. Timeliness</b>	Information is often outdated by the time statements are distributed to users. The financial statements present a historical picture of the past operations of the entity.	Management reports can be both a historical record and a projection (e.g. a budget).
<b>3. Level of detail</b>	Most financial statements are of a quantitative nature. The statements represent the entity as a whole, consolidating income and expenses from different segments of the business.	Much more detailed and can be tailored to suit the needs of management. Of both a quantitative and a qualitative nature.
<b>4. Main users</b>	Prepared to suit a variety of users including management, suppliers, consumers, employees, banks, taxation authorities, interested groups, investors and prospective investors.	Main users are the owner(s)/managers in the entity, hence the term management accounting.



## VALUE TO BUSINESS

- Financial accounting provides information for external parties to make economic decisions regarding an entity and can be used by management for internal decision making.
- Management accounting is the creation of reports for use by management in internal planning and decision making.
- Differences between financial and management accounting include accounting rules, timeliness, level of detail and range of users.

## 1.4 Role of accounting information in business planning

**LEARNING OBJECTIVE 1.4** Explain the role of accounting information in the business planning process.

Accounting plays a crucial role in the business planning process. Starting and planning a business is a demanding task. Whether an individual or a group of investors buys an existing business or begins a brand-new business entity, there are many issues to deal with. One of the most important questions that faces prospective business owners is what type of business structure will suit the business. Will the business be a for-profit entity with the primary objective of making a profit from the resources the owners control in order to increase their wealth? Alternatively, is the entity's objective to maximise the services provided from the resources they control? This second type of entity is known as a not-for-profit entity. Examples include sporting clubs, hospitals and charities. Profit-oriented business structures include sole traders, partnerships and companies. Most business entities are classified as SMEs (small to medium-sized enterprises). Small businesses are entities with annual revenue between \$2 million and \$10 million. In Australia, more than 97 per cent of entities are SMEs and they employ approximately 44 per cent of the workforce. Larger business entities such as JB Hi-Fi Ltd, Qantas Group and BHP Group Ltd are listed on the ASX. In New Zealand, companies such as Air New Zealand Ltd, Fisher & Paykel Healthcare and The Warehouse Group are listed on the New Zealand Exchange (NZX) and have special reporting requirements. The business structures chapter will consider each form of business structure and the type of decision making that goes into the business planning process in order to choose the right form of business.

When contemplating commencing a business, an effective way to deal with the complex issues that arise is to draw up a business plan. Accounting has many inputs to this process, particularly in the area of financial projections. A business plan is a written document that explains and analyses an existing or proposed business. It explains the goals of the firm, how it will operate and the likely outcomes of the planned business. A business plan can be referred to as a 'blueprint', similar to the plans an architect would prepare for a new building, or a draft or specification that an engineer would prepare for a new machine.

### Benefits of a business plan

There are a number of benefits to be gained from developing a business plan. The business plan provides a clear, formal statement of direction and purpose. It allows the management and employees of an entity to work towards a set of clearly defined goals in the daily operations of the business. It also assists the business entity in evaluating the business.

### Operation of the business

As stated, accounting information provides managers and owners with the tools they require to make decisions regarding the daily running of the business entity and whether the goals set by the business entity in the planning process are being achieved. For example, the owner/managers will be able to see if they are selling the correct products and work out the right product mix to achieve their sales targets. The chapter on costing and pricing in an entity includes a systematic consideration of cost behaviour and the subsequent impact on profit planning. Cost-volume-profit analysis assists management in understanding how profits will change in response to changes in sales volumes, costs and prices. Accounting information also provides key information relating to large asset purchases by a business entity. Entities regularly make decisions to invest in new assets or new projects and need to determine which particular investments offer the highest returns and produce the requisite cash flows. The capital investment chapter provides a comprehensive discussion of the role of accounting information in capital investment decision making.

## Evaluation of the business plan

Accounting information provides management with the tools necessary to evaluate the business plan and encourages the management and owners to review all aspects of the operations. The evaluation process, along with the decision-making process, allows a more effective use of scarce resources such as staff, equipment and supplies, and improvement in coordination and internal communication. Strategic planning and budgeting will be discussed in detail in the budgeting chapter. In the evaluation process, results are compared to budgeted results so that both favourable and unfavourable variances can be detected. Management can then take action if necessary to make changes to the entity's operating activities to ensure that it stays on track with the original business plan. Management may also modify the entity's original goals. Further information on the business planning process and an illustration of a business plan for the fictitious company Murphy Recruiting Pty Ltd are provided in the appendix to this chapter.

### VALUE TO BUSINESS

- Accounting information plays a major role in business planning and in evaluating the business planning process.

## 1.5 Globalisation of accounting

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**LEARNING OBJECTIVE 1.5** Discuss the globalisation of financial reporting.

Even though the vast majority of our business entities are SMEs, our larger entities have become bigger, more diversified and multinational. Consider the National Australia Bank (NAB), which reports its operating segments as Australian Banking, NAB Wealth, NZ Banking, UK Banking, NAB UK Commercial Real Estate and Corporate Functions & Other. In 2018, NAB reported a profit of \$5.6 billion and total assets of \$806.5 billion. In 1996, its reported profit was \$2.1 billion and total assets were \$174 billion (approximately a fifth of the size of its assets 22 years later!). As entities become more diversified and multinational, they require more complex accountancy and auditing services. Accountants must ensure that they remain up to date with the local GAAP and global accounting standards. Currently, more than 166 countries worldwide prepare their financial statements following global accounting standards. These accounting standards are known as **International Financial Reporting Standards (IFRS)**.

## 1.6 Digital disruption and the impact on accounting

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**LEARNING OBJECTIVE 1.6** Explain what is meant by digital disruption and how new technology is influencing the accounting profession.

Digital disruption has been defined as 'New technologies and business models that impact, transform or re-invent existing goods and services, industries and business activities. It's a change that can be positive or negative, and can drive substantial changes across the economy' (Queensland Government Chief Information Office 2018). The business world has changed considerably over the past couple of decades, and in the next decade there will be more industry disruption and transformation (Birt et al. 2017). In recent years we have seen the emergence of the fintech industry, Big Data and data analytics, cloud computing, mobile phone technology, AI and social media, and all of these have consequences for the accounting profession.

Fintech companies include many aspects of finance, for example, borrowing money, foreign currency, e-commerce and government payments, and the growth of this sector is impacting on accounting systems and processes. With the streamlining of certain accounting processes due to the introduction of new technologies there will be less need for traditional accounting services, but at the same time there are additional opportunities for accountants in managing the regulatory, tax and financial implications of the fintech industry (ACCA 2016).

In today's world, the amount of data that is produced is phenomenal. It is very hard to quantify exactly how much data is produced every day, but the unit of measurement at the moment is quintillion bytes! Ninety per cent of the data in the world has been generated in the past two years alone, and this is only going to increase. It is important for accountants and other business professionals to have the skills to

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understand data analytics. Accountants need to be able to blend data from different sources (e.g. company reports, ASX data, government data, economic data), use analytical tools to draw insights from the data, make decisions based on the data and communicate their findings to other parties such as management, the board and investors. There are many business analytical tools that assist accountants, for example Excel and Tableau.

Blockchain technology supports cryptocurrencies such as Bitcoin. Bitcoin is a digital currency that allows for online payments to be made without going through a financial institution (Raymaekers 2014). A blockchain is a structure of data that represents a financial ledger entry (Hassell 2016). The blockchain's data is partitioned into blocks and these blocks are linked together using cryptographic signatures. The blockchain creates many opportunities and challenges for the accounting profession. Some of the current accounting and audit roles will diminish, as there will be less need for accountants and auditors to perform the transaction processing, reconciliation and control type tasks. However, there will be new opportunities for auditors in overseeing and auditing the blockchain.

AI is having an impact on many industries. Traditionally robots have been used in the manufacturing industry, but in recent years there has been adoption of robotic technology in the healthcare, agriculture and food-preparation industries. In auditing, drones are performing audits in remote areas that are difficult to access and would otherwise be too expensive or unsafe to send a human to.

## 1.7 Business sustainability, drivers, principles and theories

**LEARNING OBJECTIVE 1.7** Describe business sustainability, outline its key drivers and principles, and compare key theories in the area.

Generally, a growing environmental and societal awareness has put pressure on entities to consider their non-financial impacts. More specifically, entities need to account for all resources used (labour, material, energy, forests, water, air etc.) and all outputs produced (products/services, carbon emissions, waste etc.). To cope with this expectation, new frameworks and techniques are being developed and adopted under an overarching theme of **business sustainability**. But what is business sustainability?

An often-cited definition of sustainability was put forward by Brundtland (1987):

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organisation on the environment's ability to meet present and future needs.

Many reasons have been put forward in relation to the need for a focus on sustainability. Ceres (2010) suggests there are four key drivers of sustainability. These are outlined in figure 1.1.

**FIGURE 1.1** Key drivers of sustainability

### Competition for resources

The world's population is projected to increase to more than 9 billion people by 2050. Rising living standards will result in both expanded markets for goods and services, and unprecedented demands on the planet's natural resources. Many of the resources once considered renewable — like forests and fresh water — have become finite when we consider that human demands are growing more quickly than the ability of natural processes to replenish them. While the exhaustion of commodities can be monitored and measured, the impact of depletion on ecosystems is harder to gauge and often impossible to remedy. With resource depletion comes the risk of conflict as people struggle to meet their basic needs. Take water — population growth, economic development and climate change are straining access to fresh water globally. By 2025, two-thirds of the world's population will live in water-stressed countries, posing significant risks to the economic and social stability of entire regions and to the corporate operations in those regions.

### Climate change

Our current fossil-fuel based economy has led to a growing concentration of greenhouse gases in the atmosphere that is driving more extreme weather events, more severe and frequent cycles of drought and flood, and rising sea levels. These phenomena are being met with new policies and regulations, including those designed to limit and put a cost on carbon emissions. Businesses need to plan for a policy environment increasingly hostile towards carbon emissions and for the costs of adaptation to climate change. A large number of businesses and investors have come together to call on governments at the national and global levels to implement comprehensive climate policy. These groups include the Business for Innovative Climate and Energy Policy (BICEP), US CAP, Prince of Wales Corporate Leaders Group on Climate Change, Investor Network on Climate Risk (INCR) and Institutional Investors Group on Climate Change (II GCC), among others. These businesses recognise the opportunity to profit from technologies that reduce emissions and create solutions to global warming.

### Economic globalisation

The integration of national economies into the global economy brings opportunities for business, but often with significant risks. More and more companies operate in or source from multiple countries with wide disparities in enforced environmental and social standards. Whatever the local enforced standard, many stakeholder groups demand, at a minimum, that companies meet international expectations.

### Connectivity and communication

Advances in digital communication over the last two decades have reduced not only the time it takes to build a reputation, but also the time it takes to destroy one. Communication is increasingly disaggregated across multiple social networks. Facebook has over 65 million users and is growing by more than 200% per year. Twitter, while having a 'mere' 7 million users, has shown year-to-year growth of over 1000%. Using these types of tools, it has never been easier for people to track a company's sustainability performance and to widely disseminate their perspectives on it. We have entered an era of 'radical transparency'.

*Source:* Ceres 2010, p. 8.

Widespread acceptance of the need for entities to become sustainable has led to a number of scholars, professional groups and corporations developing guidelines and principles to help shape the business sustainability movement. Table 1.4 presents the nine principles of business sustainability performance as outlined by Epstein and Roy (2003).

**TABLE 1.4** Principles of business sustainability performance

1	<b>Ethics</b>	The company establishes, promotes, monitors and maintains ethical standards and practices in dealings with all company stakeholders.
2	<b>Governance</b>	The company manages all of its resources conscientiously and effectively, recognising the fiduciary duty of corporate boards and managers to focus on the interests of all company stakeholders.
3	<b>Transparency</b>	The company provides timely disclosure of information about its products and services, and its activities, thus permitting stakeholders to make informed decisions.
4	<b>Business relationships</b>	The company engages in fair trading practices with suppliers, distributors and partners.
5	<b>Financial return</b>	The company compensates providers of capital with a competitive return on investment and the protection of company assets.
6	<b>Community involvement/ economic development</b>	The company fosters a mutually beneficial relationship between the corporation and the community in which it is sensitive to the culture, context and needs of the community.
7	<b>Value of products and services</b>	The company respects the needs, desires and rights of its customers, and strives to provide the highest levels of product and service values.
8	<b>Employment practices</b>	The company engages in human resource management practices that promote personal and professional employee development, diversity and empowerment.
9	<b>Protection of the environment</b>	The company strives to protect and restore the environment and sustainable development with products, processes, services and activities.

*Source:* Epstein and Roy 2003, p. 37.

## Theories of business sustainability

The nine principles of business sustainability performance illustrate the heightened interest in business sustainability that has grown out of the expectation that corporations need to be socially responsible. This responsibility is assessed and examined through a number of theories including corporate social responsibility, **shareholder value**, stakeholder theory, stewardship theory and legitimacy theory. These theories are outlined briefly in the following sections.

### Corporate social responsibility

**Corporate social responsibility (CSR)** refers to the responsibility an entity has to all stakeholders, including society in general and the physical environment in which it operates. Many reasons have been proposed as to why entities do act in socially responsible ways. Some commentators believe entities act in a socially responsible manner because there is ultimately some benefit to their profits. For example, by acting in the best interests of society generally, an entity may be able to seek higher prices or sell a greater volume of product, and therefore achieve the goal of maximising owner wealth. Others believe entities want to limit interference from governments or other groups and therefore do the minimum needed to retain control over their industry. Still others suggest managers are motivated simply by the desire to do the right thing and that there is no economic motive behind acting in a socially responsible manner. Motives aside, there is increasing acceptance that an entity has a responsibility to all stakeholders — not just the owners — and that the entity will be better off in the long term by acting in a socially responsible fashion.

The thought surrounding business sustainability was brought together by quite divergent groups working contemporaneously on issues that concerned them about the environmental and social impacts of business activity. These groups include John Elkington, an English environmentalist and the founder of Sustainability, who put forward the triple bottom line approach to corporate performance; Ceres, which was formed in the aftermath of the Exxon Valdez oil spill disaster in 1989; the International Union for Conservation of Nature (IUCN), which was concerned for the biosphere; and the Greenpeace movement. These are all examples of associations working to change the culture and shift the thinking about the role of business in contemporary society. Elkington tells the story in his famous book, *Cannibals with forks*, of a UK director attempting to explain the sustainability imperative to a US board in the early 1990s. He describes the event as one where metaphorical blood was spilled as the US board viewed the sustainability theme as a plot to transfer US knowledge to other countries and in support of communist ideals, thus undermining principles of capitalism. Suffice it to say that the view on sustainability has changed since that time, with many entities considering their obligations to a wider stakeholder audience.

A corporation usually has a large number of **stakeholders**, who are individuals or groups that have an interest in the entity's affairs. They include shareholders (the owners), employees, creditors, suppliers, governments and other interested parties (such as unions and environmental groups). Despite recognition that corporations should consider wider stakeholder interests, there is still a fundamental question regarding an entity's ultimate responsibility. Does the entity have a responsibility to consider all of them equally?

### Shareholder value

In the Australian and New Zealand legal context, the responsibilities of a board of directors are set out, respectively, in the *Corporations Act 2001* and the *Companies Act 1993*. This legislation, together with the constitution of an entity, generally acknowledges the owners (shareholders) of the entity to be the primary focus. It is through the provisions of a company's constitution and the Corporations Act (Australia) and the Companies Act (NZ) that shareholders give power to the directors to make decisions and to act on their behalf. The legislation and a company's constitution set out various requirements, such as the need to publish financial reports and hold annual general meetings. It is the shareholders who vote at the annual general meeting and the shareholders who choose the directors. A well-known theory called **agency theory** is used to describe the relationship between the owners (shareholders) and managers of an entity. The shareholders appoint managers as their agents to run the business on their behalf. Given this separation of control between owners and managers, the owners need to set up mechanisms to ensure that managers make the decisions that they themselves would have made had they been in control. To this end, it is commonly accepted that a central part of business sustainability is to ensure the maximisation of shareholder value.

### Stakeholder theory

Critics of shareholder value claim that many stakeholders other than shareholders invest in entities. **Stakeholder theory** holds that the purpose of an entity is to work for the good of all stakeholder groups,

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not just to maximise shareholder wealth. Employees, governments, customers and communities all have an interest in the affairs of the entity. Estes (1990, p. C1) argues that:

These forgotten investors are owed an accounting because they, too, invest by committing valuable resources, including not only money but their work, their careers, sometimes their lives to the corporation.

### Stewardship theory

Related to stakeholder theory is **stewardship theory**. This theory suggests that the motive for serving on a board goes beyond a perspective of pure self-interest. This motive may be guided by a code or company purpose, or directors may see themselves as stewards of a particular interest. It is generally under this banner that there has been an increase in the number of independent non-executive directors on boards, thus serving the interests of a large number of small shareholders, or the community and the environment. At times, key suppliers or debt providers may take a place on a board to help protect their relevant interests. No matter what the interest, they are stewards of some greater good, not just shareholder wealth. However, it may go beyond this, as summarised by Peter Weinberg (a former Goldman Sachs executive):

Serving on a board is like taking on a position in public service . . . It is not (and should not be) a wealth creation opportunity but a chance to play a role in the proper workings of our marketplace (Nordberg 2008, p. 43).

### Legitimacy theory

Another theory considered in the economic and sustainability realm is **legitimacy theory**. The basic tenet of this theory suggests that entities, to remain legitimate, must operate within the bounds and norms of society. In other words, society allows an entity to operate (to pursue its objectives and rewards) so long as the entity acts in a socially acceptable manner. Proponents of legitimacy theory call this the ‘social contract’. The social contract represents the explicit and implicit expectations that society holds about how organisations should conduct their operations. An organisation must be responsive to these expectations, as they change over time. Sanctions, a reduced demand for products or a limitation on available resources could be some consequences of breaking the social contract. Proponents suggest that organisations will seek to legitimise their actions through the information they supply to the community, including that information contained in the financial statements. In other words, managers are motivated to ensure the community perceives them to be operating within societal norms.

## 1.8 Reporting and disclosure

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**LEARNING OBJECTIVE 1.8** Describe sustainability reporting and disclosure (including integrated reporting).

Integral to business sustainability is reporting. A company is required to issue an annual report that includes GPFs. The practice of issuing a voluntary business sustainability report (along with the annual report) is becoming widespread. In 2000, *A framework for public environmental reporting: An Australian approach*, released by the federal government agency Environment Australia, outlined the benefits of environmental reporting as:

- improving stakeholder relations
- creating market opportunities
- increasing control over environmental disclosure
- satisfying a mandatory or signatory reporting need
- gaining the confidence of investors, insurers and financial institutions
- triggering internal improvement in environmental performance
- gaining external recognition/awards.

Top senior finance professionals known as the Group of 100 cited the organisational benefits of sustainability reporting as:

- reputation and brand benefits
  - securing a ‘social licence to operate’
  - attraction and retention of high-calibre employees
  - improved access to the investor market
  - establishing position as a preferred supplier
  - reducing risk profile
-

- cost savings
- innovation aligning stakeholder needs with management focus
- creating a sound basis for stakeholder dialogue.

These lists illustrate the importance of reporting and disclosing environmental and social performance.

In New Zealand, the *Environmental Reporting Act 2015*, which outlines a reporting framework, was passed into law in September 2015 after a lengthy consultation process commencing in 2011. This highlights the importance of environmental reporting.

A number of frameworks have been proposed by governments and professional associations to help with the content of such reports, and a number of indices help to measure an organisation's performance in sustainability. For example, the Australian SAM Sustainability Index (AuSSI) has been used since 2005 to identify companies committed to good sustainability outcomes. Internationally, the Global Reporting Initiative (GRI) is a widely accepted and used reporting framework. The work and leadership of Ceres and the United Nations Environment Programme (UNEP) led to the formation of the GRI and the development of the *Sustainability Reporting Guidelines*. From 1 July 2018, the Guidelines were replaced with the GRI Standards. The **GRI Standards** (which can be accessed at [www.globalreporting.org](http://www.globalreporting.org)) contain four main parts:

1. Universal Standards, which are applicable to every entity preparing a sustainability report
2. Economic Standards, which are used to report on an entity's material impacts related to economic topics
3. Environmental Standards, which are used to report on an entity's material impacts related to environmental topics including:
  - Materials
  - Energy
  - Water and Effluents
  - Biodiversity
  - Emissions
4. Social Standards, which include Employment, Labour/Management Relations and Occupational Health and Safety.

The GRI Standards also include criteria to be applied by an entity in order to prepare its sustainability report 'in accordance' with the Standards, based on two options, the 'core' option and the 'comprehensive' option. Regardless of the option chosen by the entity, the focus of preparing the report is on the process of identifying any material economic, environmental and social aspects that would substantially influence the assessment of decisions of stakeholders.

## Triple bottom line

The GRI Standards include performance indicators from the economic, environmental and social dimensions. These three dimensions are commonly accepted as the three 'pillars' of sustainability and are known as the **triple bottom line**. They are also frequently depicted in interlocking cycles, as shown in figure 1.2. Sometimes referred to as 'people, planet and profit', 3BL or TBL, the three concepts have been used widely to discuss and disseminate information regarding business sustainability.

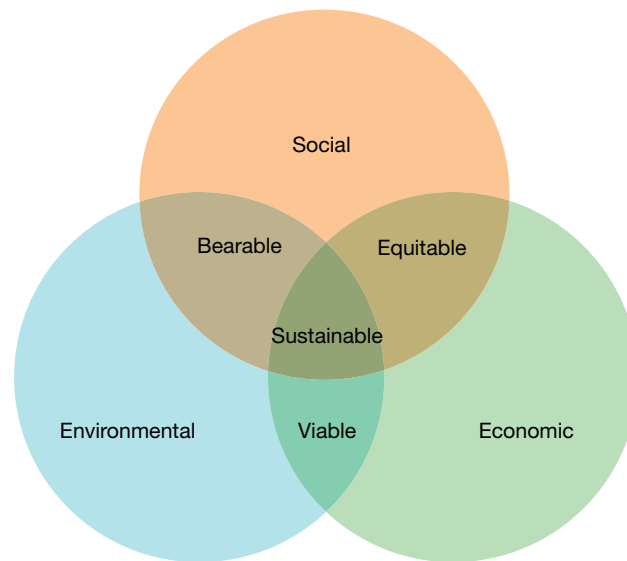
Traditionally, business entities report their financial performance. Depending on the entity structure, this is required by law to help with capital funding applications, to lodge tax returns and to generally assess the financial performance of the entity. The business structures chapter will discuss the different business entities and their reporting requirements. However, the TBL approach advocates expanding the reporting of an entity's performance to include social and environmental performance. The underlying concept is in line with stakeholder theory as discussed earlier. That is, an entity exists to bring about interactions and transactions with various stakeholders on economic, environmental and social levels.

Economic performance is the traditional profit and return on capital performance. More recently, economic performance has been defined as the economic value created by the entity over a particular period of time. This is the profit minus the cost of the capital employed. All entities must turn a profit and deliver an adequate return on the capital employed in order to remain sustainable. It is this bottom line that captures the conventional concept of performance and the focus of the owners of the entity.

Environmental performance refers to an entity's activities relating to natural capital and whether its activities are environmentally sustainable. Natural capital falls into two main areas: 'critical natural capital and renewable, replaceable, or substitutable natural capital' (Elkington 1998, p. 79). So the environmental bottom line captures the effect an entity's operations have on natural capital and whether this is sustainable.



**FIGURE 1.2** Triple bottom line reporting framework



*Source:* Adams 2006.

Social performance refers to both human capital (the employees'/community's health, skills and education) and society's wealth creation potential (Elkington 1998). Fukuyama (1995) describes social capital as 'the ability of people to work together for common purposes in groups and organizations'. He argues that 'trust' in one another is a central element in social prosperity and that those organisations which trust one another and accept a common set of ethical norms will do business more efficiently and gather a greater variety of positive social relationships than those organisations which do not trust. As a result, doing business will be cheaper and the synergies from more positive social relations will help create sustained wealth. Examples of social capital are paying fair salaries to workers, not exploiting supplier relationships, providing safe working conditions and ensuring products/services are safe for consumers.

Inherent in the TBL framework is the trade-off between the three dimensions, and the need for environmental and social issues to be defined in accordance with financial viability. Critics of TBL contend that most social and environmental phenomena cannot be easily quantified. TBL and sustainability reporting in Australia and New Zealand is a growing trend despite lagging behind international levels (see [www.kpmg.com.au/portals/0/ras\\_sustainability\\_reporting\\_aust200710.pdf](http://www.kpmg.com.au/portals/0/ras_sustainability_reporting_aust200710.pdf)). The GRI Standards are widely adopted to assist reporting across the TBL. The process of TBL reporting includes identifying stakeholders and the scope of the report, selecting appropriate indicators, data collection, measurement and verification, and finally the report presentation.

## Beyond sustainability and towards abundance

Recently there has been a move to go beyond the concept of sustainability, which is seen by some as insufficient, and instead look at how we can improve the world around us. Critics argue that the focus on scarcity and lack is driving the creation of inappropriate business models and the inappropriate use of resources. The economy-of-scale thinking that developed during the Industrial Revolution may simply not be appropriate for today's ecological priority. Small-scale development, including encouraging SME development, would help serve regional communities and would be a more environmentally friendly way of strengthening economies.

The concept of abundance encourages businesses to embrace both literal abundance (what nature provides 'in abundance') and functional abundance (where scarce material is cycled endlessly via redesigned industrial models). Governments, businesses and people know that our current churn rate of limited natural resources is unsustainable, no matter how much measuring and reporting are done. However, switching to using resources that are naturally abundant makes good business sense. In natural systems, wastage due to abundance becomes feedstock for other parts of the system. Examples include green power, using hemp to make body panels on cars and using bacteria to extract precious metals from waste. Abundance thinking discourages the use of scarcity in determining 'price' as recommended by the basic economic supply and demand model. Price does not equate to value. Proponents argue that the use of