

ACCT11081
INTRODUCTORY FINANCIAL ACCOUNTING

Student Name: Chloe Adams (s0265715)
Term: Term 2, 2017
Assessment: Assignment – Steps Three to Six
Due: Tuesday 15 August 2017 11am

STEP THREE

BACKGROUND INFORMATION

The company I have been allocated is Virgin Australia.



Virgin Australia is part of the world-renowned Virgin Group that was established by Sir Richard Branson in 1970. The Virgin Group comprises of companies that operate in sectors ranging from mobile telephony to transportation, travel, financial services, media, music and fitness.

Virgin Australia entered the Australian aviation market for the first time in the year 2000 where the company had just one route, two aircrafts and a team of 200 people. Now, as you are most probably aware, Virgin is a global phenomenon running many domestic and international flights daily. In July 2017, Virgin Australia was named Best Domestic Airline by the National Travel Industry for the second consecutive year.

Virgin Australia currently has a fleet of 115 aircraft and flies to 52 destinations globally. Its headquarters is based in Bowen Hills, Brisbane (so pretty close to home).

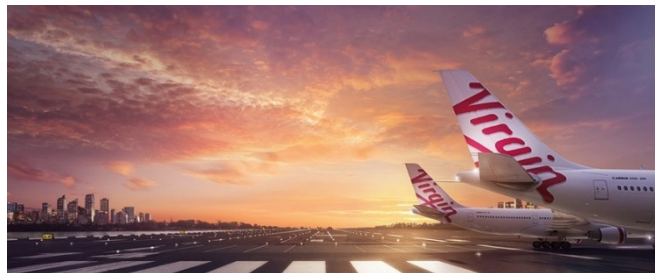
The Executive Team of Virgin Australia is made up of eight people. The Chief Executive Officer and Managing Director is Mr John Borghetti. The Board of Directors is made up of twelve people. Ms Elizabeth Bryan currently holds the Chairman position of this Board.

The following link will direct you to more history of Virgin Australia in a timeline like format. <https://www.virginaustralia.com/au/en/about-us/company-overview/virgin-australia-history/>

Background information was posted to my blog on 31 July 2017 – link to my post “Now You’re Flying” is as follows: <https://wordpress.com/post/chloe-adams47.wordpress.com/146>

IN THE MEDIA [\(Blog Post\)](#)

This following news article published by Sky News on 6 July 2017 gives details about the first Virgin Australia flight to land in Hong Kong in a bid to enter into the Chinese market. It also introduces the idea of competition in the industry.



<http://www.skynews.com.au/business/business/company/2017/07/06/first-virgin-australia-flight-lands-in-hk.html>

Emily Clark (digital journalist of ABC News) posted the following article on 30 July 2017 that gives an insight into the effect that global terror has on Australian airlines (including Virgin Australia). This is an issue that impacts airlines and also the consumers.

<http://www.abc.net.au/news/2017-07-30/how-terror-incidents-have-shaped-global-airline-security/8757450>

The following article published on 31 July 2017 by David Flynn discusses the rumour of Virgin Australia being privatised and therefore removed from the ASX Stock Listing. I found this to be an interesting read.

<https://www.ausbt.com.au/virgin-australia-to-be-privatised-here-s-what-it-would-mean>

KEY CONCEPTS AND QUESTIONS – 2016 ANNUAL REPORT

I've retrieved copies of the Company's Annual Reports, they can be found by clicking on the following:

- [Annual Financial Report for the year ended 30 June 2016](#)
- [Annual Financial Report for the year ended 30 June 2015](#)
- [Annual Financial Report for the year ended 30 June 2014](#)

I was relieved when I learnt that the company I had been allocated was Virgin Australia. This is because it is an Australian company whose reports are in Australian dollars and I knew exactly what industry the company operated in without having to research. The company I was allocated to in ACCT11059 was Renault Group. Renault Group worked in Euros which gave me a fright at the start. Both companies are similar in the fact that their operations relate to transportation (Renault being the manufacture of motor vehicles and Virgin Australia being aircraft).

When first working my way through the Shareholder's Section of the Virgin Australia website I came across two different reports for each financial year. One detailed as "Annual Report" and the other detailed as "Financial Annual Report". The Annual Report seemed to have a lot of bright, interesting photographs and not much information that appeared to contain financial information. The other report "Financial Annual Report" was less presentable (boring to review) however contained many more pages and information that contained financial statements. I soon realised that the "Financial Annual Report" for each year are the ones that I need to work with. This caused some initial confusion for me.

I found it interesting to read about the Directors' interests in the 2016 annual financial report (see below). I had previously never heard of the term "Options over ordinary shares" and wondered what this meant and why Mr Borghetti was the only company director to have this? I also noticed that Mr Borghetti has the most number of ordinary shares out of all the other directors. I researched this a bit and according to the Australian Investors Association company issued options are "are options issued by the company that give the holder the right to acquire a certain number of fully paid ordinary shares at a stipulated price at any time in the future up to the expiry date".

Directors' interests

The relevant interest of each director in shares and options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange (ASX) in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Number of ordinary shares	Options over ordinary shares
Ms E Bryan	227,044	-
Mr J Borghetti	9,367,077	573,658
Mr D Baxby	108,572	-
Ms S Mostyn	250,000	-
Mr R Thomas	1,298,928	-
The Hon. M Vaile AO	60,000	-
Mr B Matheu	-	-
Mr JP Moorhead	-	-
Mr M Tan	-	-
Mr U Huttmeier (Alternate Director)	-	-
Mr Pee Teck Tan (Alternate Director)	-	-

The Virgin Australia Group recognised a statutory loss after tax of \$224.7 million, a \$130.9 million decrease compared to the previous year. This cannot be a good sign for the company. To me, this introduces the idea that the Company is faces some challenges. I have identified some of these main challenges to be the decrease in consumer demand, the increase in global terrorism threats and competition with other airlines (such as Qantas).

I think however that these challenges are felt by competing airlines also (they are not exclusively affecting Virgin Australia).

To help beat the competition challenge, Virgin Australia have focussed on customer service by improving and expanding guest lounges and terminals (Perth and Brisbane) and introducing new business class suites.

I was quite surprised to learn the many risks and uncertainties involved with the aviation industry. I guess this is because as a passenger of the aircraft, there is no need to know all of this “behind the scene” information. Some of these risks detailed in the annual report are as follows:

- Fuel price and foreign exchange trends
- Increase in airport, transit and landing fees, costs of ensuring air traffic security
- Competition from other airlines and from alternative means of transportation
- Government policy changes
- Losses associated with major safety or security incidents
- Severe weather conditions, terrorism

Soon after, I discovered that Virgin Australia has established the Audit and Risk Management Committee which is responsible for the internal controls, policies and procedures that the Group uses to identify and manage business risks. During the year, there were 8 Committee meetings. This seems to me like a good strategy in place to manage the Company’s exposure to risk. I found this document online that gives more information about the Audit and Risk Management Committee.

https://www.virginaustralia.com/cs/groups/internetcontent/@wc/documents/webcontent/~edi sp/doc_corp-gov-audit-risk-mgmt.pdf

I found it difficult to comprehend why no dividends were declared or paid during the financial year ended 30 June 2016. I wonder how this makes shareholders feel? I have not yet gotten my head around when/how/why a decision is made to pay dividends to shareholders.

During 2016, the Australian Taxation Office (ATO) issued a private ruling that altered when participation fees received for the Virgin Australia Group’s loyalty program are recognised for tax purposes. I have heard of a private ruling but don’t understand fully what it means. Something happened which caused amended tax assessments and the recording of an income tax benefit of \$201.9 million. I find this difficult to understand and seek to find clarity on this issue as it seems important.

The Virgin Domestic operations appear to be the area of its business that seem most important as during 2016, these operations were the main income earner (followed by Virgin International, Tigerair and Velocity Rewards Program).

The company's fleet of aircraft is a crucial area of the business as the group's main operations are the transportation of passengers and cargo on their aircraft. According to the annual report, Virgin Australia try to maintain their fleet to be as modern as possible. It seems obvious that a passenger could choose to travel with another airline if there is a difference in the age, appearance and cleanliness between the aircrafts. I understand that it would be a priority for Virgin Australia (and all airlines) to maintain an extremely high level of maintenance and safety work carried out on all aircrafts.

Some new terms to me that I've discovered in the remuneration section of the 2016 annual report are as follows:

STI = Short Term Incentives

LTI = Long Term Incentives

ROIC = Return On Invested Capital

OTP = On time performance

I found it heart-warming to read that Mr Borghetti (director) elected to receive 50 per cent of the annual director fee which is \$37,500 and elected to donate this annual director fee to charity.

Mr John Wigglesworth (what an interesting surname) of KPMG has signed off on the audit report for the 2015/2016 financial year. I remember from a previous subject that KPMG is known as one of the "big four firms". This makes me relieved to know that I am withholding information from previous terms.

COMMUNICATING WITH OTHER STUDENTS

To come

Evidence of comments on blogs, forum posts etc.

How did communicating with others help?

Anna Towan – REX airline, aviation industry, AUD company, talked about studies in general and plan to work together,

CHLOEADAMS47 July 31, 2017 at 5:33 am

REPLY →



Hi Anna! I am also studying externally. I was pretty excited to read that your allocated company is also in the aviation industry!!!! I have been allocated VIRGIN AUSTRALIA 😊 How about that? I am happy that this time round I was allocated an Australian company. I'm not quite sure why or if it will make a difference, I just find working on AUD seems more pleasing to me. I really loved reading your background information, the way you write makes it easy for a non-lover of reading (me) continue reading, so thanks. To be completely honest, I had never heard of REX before your blog. I guess there is no real need to know about this airline considering they do not commute from our small town of Rockhampton. I liked your inclusion of images and comparisons to other airlines (even Virgin Australia). In comparison, the fleet size of REX is 52 and the fleet size of Virgin Australia is 115. I found the identical table that you included by doing a quick Google Search - thanks for that idea. P.S Good on you for taking on the role of Deputy Chair of the Student Representative Council!! I did click on the link you provided and went to the "Our Members" section but I could not find you on there? Please correct me if I'm having a blind moment.. When I find some spare time, I will go back and learn about the Student Council. Good luck & regards, Chloe Adams.

★ Liked by [1 person](#)

Danielle Bradley – Breedon Group – construction



July 31, 2017 at 5:15 am
chloeadams47

Your comment is awaiting moderation.

Hi Danielle. I thoroughly enjoyed reading through your recent blog posts and learning about your allocated company, Breedon Group (that I had previously never heard of). I was like you and hoped that my company was Australian and as I opened the "find my company" spreadsheet I learnt I was lucky to get Virgin Australia (which I think everyone would know). You have gone into a lot of depth and shown that you have spent a massive amount of time researching your company - good job. I think our companies are similar in the fact that they appear to be of a "boyish" type industry (eg construction/aviation). I'm sure you would agree that you'd prefer to be allocated a company like ASOS or Billabong (if you have a love for shopping like me). I was surprised when reviewing the Annual Report for Virgin Australia, how little I actually knew about the aviation industry and just how huge the industry is! Can you believe that Virgin Australia was established in 2000, had a measly two aircraft and only 200 staff members?! Now look at them!! I look forward to following the progression of your assignment throughout the subject. Thanks again for the great read, you sure do have a knack for writing these posts! Good luck & regards, Chloe Adams

★ Like

Rebecca Ramsay – forum post – unable to comment on blog – NZ Technology company – Rakon Ltd

Billy Van Moolenbroek - AV Jennings, housing and development company



chloeadams47

July 31, 2017 at 3:50 pm



Hey Billy. First of all, thanks for uploading your draft assignment so early. I am finding that not many students (including me) have done this yet so it's hard to communicate with others until they do. I am like you and feel glad/relieved that I have been allocated an Australian company this time round. My company is Virgin Australia (SCORE!). In ACCT11059 I had Renault Group, a European car manufacturing company. The first thing I asked myself is "what does a housing and development company do?". I was hoping that your draft assignment would help me understand and yes it did, so thank you! I think 85 years is a long time to be around – so they must be doing something right! I liked that you included diagrams and also mentioned the key terms/acronym meanings you have learnt so far, I have done something similar in my draft assignment. I thoroughly enjoyed reading your Chart of Accounts/Income Statement section – you are right that living is expensive!!! Keep up the good work. Chloe Adams.

★ Like

STEP FOUR

I have uploaded my excel spreadsheet as a separate document.

I enjoyed completing this task however I felt a bit uncomfortable at first about including my personal information in an assignment (especially one that will be peer-reviewed).

I was glad to see that at the end of the month of July 2017, we were in a profitable situation. This is important to me at the moment as my partner and I are focussing on less spending and more saving in order to purchase our first home. Recording and classifying different transactions gave me a good insight as to where our wages are going. I think this is a good tool for budgeting as it forces us to gain an understanding of what are general and necessary living expenses and what are unnecessary purchases. I realise now that we might be spending a little bit too much on takeaway food.

I can't say that I will be expanding upon this record keeping process for my personal transactions however I think the preparation of the income statement if I was to do it each month would give be beneficial for my personal finances.

The chart of accounts that I have used is very similar to the example provided in the assignment instructions. I decided to include more detail in my classifications, for example, I split up food and electricity where others might have included this in a general living expenses account. I have also included my vehicle registration in the chart of accounts. I think this is important for when people are running two or more vehicles (we are not at the moment) to track the expenses for each. I hear of the accountants at work doing this when working on client files. It was important for me to separate rent expense to a separate account. This is so if we were to take this information to our bank, they can see how much rent we pay on a regular basis (to support our case to be granted a home loan).

I have noticed an improvement in the skills I have using Microsoft Excel. I am finding that I'm quicker at entering data and also using the relevant formulas. I'm excited about this!

STEP FIVE

Trial balance – to come

STEP SIX

Peer reviews – to come

Please see below copies of the feedback forms that were emailed to the following students:

PEER FEEDBACK SHEET: ASSIGNMENT STEPS 3 – 5	
Feedback to	STUDENT NAME & EMAIL
Feedback from	Chloe Adams
Date	DATE
Step 3 Background information on company Comments/KCQs Discussion with others	
Step 4 The recording process	
Step 5 Trial balance Discussion	
Overall	

Comments about feedback that I received:

Comments about feedback process: