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# Introduction

Treasury Wine Estates Limited is a multinational wine operating organization, the company has good growth in its net income, and this is the second continuous year when the net earning is touching the double figure. F18 (The financial year 2018) was a good year in all perspective for the company. The purpose of this assignment is to elaborate on the accounting policies and standard discussed and applied in company financial statements. Furthermore, the assessment will spotlight the conceptual framework in accordance with the measurement of instrument and accounting standards being applied. In addition, the written assignment will highlight the area relevant to the financial statement and information is being provided. The company has a good financial year in respect of profit and growth. Company has business all over the world such as America, Asia, Europe, Australia, and New Zeeland. The organization has an operation in more than 100 countries with 3500 employees, it has a vertical organizational structure and a very well-diversified portfolio. Company is operating into three segments which bring major revenue for the organization, souring and growing of grapes, production of wine and sales and marketing of wine.

# Descriptions of Accounting Concepts

Different companies use different accounting, policies, and standards to present their annual financial figures, according to their own country accounting rules or by following the international accounting standard which is issued by the IASB (International Accounting standard board) or IFRS (International financial reporting standard). This accounting principle helps the stakeholders to understand the financial statement for future decision making. Financial statements of the company for the year is F18 is published, the company use different tools and measuring instrument for reporting such as Australian standards for accounting and accounting standards on an international basis. Followings are the accounting concepts which are used for the presentation accounting results, (Weil, 2013).

## Revenue

Company has a different brand in their portfolio and distribution channels order their interest brand to company sales department. But this depends on the geographical area in which the company is operating, Organization has few direct customers. Management follows two streams for revenue recognition,

* Wine- Revenue from the wine segment is recognized once the risk and rewards are transfer to the customers, all duties and taxes are deducted at source then the net of revenue is recorded into financial statements. The company only record the revenue when economic benefits are probable.
* Bottling services- Revenue from the bottling services is recognized when the service is completed.

### The explanation of the accounting concepts

Revenue is recorded according to the IAS-18 (Revenue) standard criteria, according to this standard revenue is recorded when the risk and rewards are transfer and inflow of economic benefits are probable. But recently International Financial reporting standard issued a new standard about the recognition of revenue (IFRS-15). According to this standard revenue is recognized when the performance obligation is to fulfill. The new standard explains the concept to recognize the revenue in five steps, it is better for the company to shift on this model for the better understanding and reliability of the financial statement in the best interest of shareholders, (Tong, 2014.).

## Agricultural valuations

The organization recognized the fair value of grapes and olives in profit and loss statement and another comprehensive income statement in the same year of harvest. Fair value is recognized according to the IAS-13 Fair value measurement, the standard explains the recognition criteria very well. The material effect is recognized is financial statements in the same period, the company needs to provide more information about the class of assets, as according to the accounting standards each class of assets must be revalued if one asset is gone through fair value criteria.

## Finance income and Cost

Finance income such as interest is measured on an accrual basis by following the effective rate method, which is considered the cash inflows with the expected life by applying the specific rate of the time. This is following the IFRS-9 financial instruments.

Company has two types of interest cost, relevant to the finance is charged directly to the expenses into financial statement after applying the specific interest rate. The other cost which specifically occurs due to the major project of construction is recognized as a part of the asset after applying the specific criteria of the relevant standard.

Finance cost is calculated according to the relevant standard or the company policy, it must charge to profit and loss statement as a finance cost head. Similarly, the income relevant to the finance must be recorded in a financial statement (profit and loss) in a separate head. These finance cost must have details into the notes which are separately provided into financial statement.

## Employees Benefits

Employee’s benefits are recognized in the same year if it is relevant to the current year expenses, such as wages and salaries which is required to be paid in 12 months’ time, other benefits which are expected to be paid in future are recorded on the present value of future amount expected to be paid.

## Non-current assets (Property, plant, and equipment)

Long term non-current assets and equipment are recognized as a financial statement when the executed contract becomes unconditional. This is the company internal policy to recognize the non-current assets. Noncurrent assets are recognized according to the IAS-16 which provides clear guidelines about the recognization. The cost related to the assets such as purchasing cost, any other cost which is directly related to the assets and it has affected more than one year must be recognized as a part of the assets and it should depreciate according to the company policy for the same class of assets. Deprecation should be a charge to profit and loss statement as an admin expense if the asset is relevant to the admin staff, if it is relevant to the manufacturing, it should charge into the cost of manufacturing.

## Operating Leases

It is recognized as an expense in P&L statement, “other comprehensive income statement” on a straight-line basis over the lease life (Lease term). Lease arrangements are complex of the company as the company needs to determine the long-term contract of grapes and vineyard, and it depends on the use of specific assets or conveys a right to use. When the lessor retains all the substantial risk and rewards attached to the assets it is classified as an operating lease and lease expense is charged on a straight-line basis. When the substantial risk and rewards are taken by the group it is categorized like a finance lease.

# Conceptual framework, and the Issue of Measurement

The conceptual framework helps the user of financial statements to understand the information correctly, companies use a conceptual framework for the basic reasoning of financial information and financial reporting. The conceptual framework provides the guidelines to International Financial Reporting board to prepare accounting standards and it helps the companies to provide specific guidelines relevant to the financial statements reporting, (Ouchi, 1979).

## Early Adaption of leases

The organization adopts the new standard issued by the local body of Australia, the new standard does not require a classification test for lessees. The new standard is applicable form 1st Jan-2019 to onward for annual reporting. But it depends on the companies they can adopt new standard earlier.

Organization Group has a major part of assets is on leases $850.0 million, it has three types of the lease agreement, under one year, under five years and over five years. Due to the lease $87 million is the lease expenses which arise as an operating lease and charged to profit and loss statement. Company has some major changes in accounting of leases.

The previous standard considers the classification of lessees test, Organization is planning to and assessing the potential impact of the new standard on group financial statements. The group assets and liabilities need to recognize as an operating lease such as a vineyard, building, equipment, and vehicles. It might be a little difficult to provide a retrospective effect because the company needs to change all the financial statements in previous years. The new standard does not have any specific requirement about the retrospective effect.

## Assets Held For sales

Assets held for sales must be report separate in financial statements, all the assets must be recognized and categorized current assets. Depreciation of these assets must be stopped immediately once the criteria of Held for sales is fulfilling. The valuation of these assets must be at lower of carrying value of assets and fair value less cost of sales after considering the impairment loss. Any gain which arises subsequently must be but it should not be greater than the cumulative losses which are recognized previously. If the assets are still held for the sales at the reporting date it must pass the criteria of held for sales again. Organization group has an increase in held for assets from $36 million to $45.2 million. This increase arises due to the leaseback arrangement in supply assets in the US and Australian segment.

The company can face measuring issue at the reporting date as it is not easy to measure the current value in the market which is mentioned into statements.

* The asset must be available for sales immediately.
* The sales are being probable within a 12 month time period.

Loss of control is a significant issue that is required to assess, it should come under the criteria of IFRS-15 as it provides the information to the user about the timing, amount and uncertainty of Organization future cash flows.

## Intangible assets

The organization has three major intangible assets which are recorded into a financial statement and amortize according to guidelines of conceptual framework and accounting standard.

## Brand name and Licenses

The externally purchased brand name can be recognized at a cost but internally generate brand name does not allow to recognize into financial statement. Because internally generated brand name does not fulfill the criteria, the cost of internally generated assets cost can’t measure reliably. The total value of the brand name of Organization group is $937.8 million, American unit value has impairment loss of $2.2 million with translation effect it is $13.6 million. Rest of the other Unit hasn't increased in foreign currency translation.

## Goodwill

Goodwill arises from the purchase of business should be recognized, but not internally generated goodwill. The organization has a total value of goodwill is $129.1 million, which arise from three sectors, ANZ, America and Europe. It has also increased the effect of foreign currency translation which is directly relevant to the other comprehensive statement.

# Issues in recognition of Intangible assets

Intangible assets are coming under the IAS-38 but Organization is following the local Australian accounting principles, according to the standard assets should be recognized if the future economic benefits are probable form the assets and the cost of the assets can be measured reliably.

# Consolidation statements

The organization is operating in different countries, it is necessary for the organization to measure translation rate carefully, foreign currency translation gain or loss should be reported according to the guidelines of the accounting standards. Group financial statements must be consolidated according to the IFRS-10 consolidated statements. All the subsidiaries must have the same reporting date, if some companies have different reporting date according to their local laws, then the financial statement should be prepared by following the local laws as well as the same reporting date of the parent company.

# Fundamental Qualitative Characteristics

Information is available in the shape of notes of the financial statements is very important and critical for the better understanding of investors, investors are not well known to the financial jargon so they need very simple and reliable information for their decision making. It should be relevant to the current year. It is important for the company to provide analysis for a better understanding of the user of financial statements. Notes are not an integral part of the financial statements but these notes are very important for the understanding of the user, it provides the relevant information to the specific head of the financial statement, (Beest, 2009).

Faithful and relevance information and representation are the two major qualities which provide the confidence to the user to take their decision. The main purpose of the information is to facilitate the user in their decision making. If information is not complete or not relevant it is useless for the user to take part in their decision. It should be neutral, free from material errors and presented in a proper shape which helps the investors in their financial decisions.

The main purpose of the statements is to provide information about the entity value of expenses, total liabilities, assets, and capital investment.

## Enhancing Qualities

**Comparison**

Information is known as comparable information which is reported and measured in the same manner as different companies. It allows the user of financial statements to compare and identify similarities and economic events. It has also another type when companies use the same accounting tool to present the same type of information such as different companies have the same policy of revenue recognition or depreciation policy. These companies use the same accounting standards from period to period.

 **Verify.** It came when the same methods used to get similar results,

 **On time information.** Information should be available to the user of financial statements on a timely basis, rather than it is available when the capacity of influence is lost for decision. It is also effective when the information is available which is relevant for the decision making. In case information is not available it is useless for decision making.

 **Understandability.** Decision makers also obtain information from other resources, such as they discuss information with others for better understanding and usefulness. There must be a linkage between the decisions and the information is provided, so it is very important for the organization to provide information timely and accurately. Understandability increases when the information is properly classified and delivered accurately in its actual shape. It should present clearly and concisely. All these characteristics increase the enhancement of presentation.

# Conclusion

The organization uses different accounting tool to report their annual financial result. The organization is a multinational company which operates in different countries, management needs to focus more and more on accounting tools, accounting standard used in the financial statement must be properly disclosed into notes to the accounts. These standards help the user of financial statements for the future decision making, financial statements of Organization for the year-end 2018 has published. The conceptual framework helps the organization and IASB board to prepare accounting standards, it provides the guidelines to report the annual results. The information which is provided into the financial statement should be reliable and understandable. It should be free from jargons.

Financial statements must be complete within the limit of materiality which is set for each class of assets and liabilities, any information which is missing in the financial report can affect the decision of the shareholders towards their investments. It is important for the Organization to follow all the guidelines accounting standards to present the financial information, the information should be provided relevant and complete for a better understanding of users of financial statements.

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