ACCY368 INSOLVENCIES
Wollongong Campus, Spring Session 2002

SUBJECT PROGRAM

SUBJECT COORDINATOR:  Mrs Lee Moerman
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Phone:  4221-5575
Email:  lee_moerman@uow.edu.au

CONSULTATION:
TBA
Please note that emails will be answered during consultation times

SEMINAR
Tuesday 17.30 – 19.30
Room 67.102

SUBJECT DESCRIPTION

This subject deals with the causes and symptoms of financial failure and the types of insolvency administrations currently available under Australian Law.

While many of the accounting issues covered are equally applicable to unincorporated entities, the emphasis is on the analysis of corporate failure with references to Australian and overseas case studies. The subject draws upon accounting, management and legal issues and their interaction with political and social factors in the ‘creation’ of an insolvency and in the rehabilitation process.

SUBJECT OBJECTIVES

After the completion of this subject the student should be able to:

1. Identify causes and symptoms likely to lead to financial failure.
2. Identify and explain various creative accounting techniques which may mask the above symptoms from shareholders, creditors and other interested parties.
3. Identify and explain the role of the insolvency practitioner.
4. List and describe the various types of insolvency administrations available under Australian Law.
5. Understand and explain the use of insolvency procedures as a management strategy.
6. Understand the role of insolvency in an international context
7. Identify the role and impact of the accountancy profession and the effect in a wider social and political arena in insolvency and corporate collapse.
TEXTBOOKS

Tomasic R & Whitford K (1997) *Australian Insolvency and Bankruptcy Law*, Butterworths 2nd Ed


REFERENCES

The schedule of topics and readings includes references which are not on the textbook list. These and other relevant readings will be made available to students through the Resource Room, Building 40 Room 223.

Further research will be required and the following are suggestions only:

- Australian Bankruptcy Act 1966 and Rules, 11th Ed. CCH
- Australian Corporations & Securities Legislation, CCH
- Australian Society of CPA’s, CPA Programme Insolvency Module

The following websites may also be useful:

- [www.cch.com.au/default.asp](http://www.cch.com.au/default.asp) This site is a comprehensive site for CCH Publishing and has copies of the relevant legislation as well as media articles

APPROXIMATE WORKLOAD FOR THIS SUBJECT:

In line with the guidelines set out in the University of Wollongong Postgraduate Calendar, 1995, p.45 this subject, (which has a value of 6 credit point) has a workload 12 hours per week inclusive of seminar time.
SUBJECT REQUIREMENTS AND METHOD OF ASSESSMENT

The following are compulsory components of this subject. A failure to complete any of these components may result in a fail:
- attendance and active participation at seminars including report presentation
- submission of required class work including the report and exercise submitted on due date
- submission of essays in academically acceptable form and within the time and length limit specified
- case study presentation and submission on due date
- achievement of a minimum mark of 40% in the final examination

ASSESSMENT

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<th>Assessment Item</th>
<th>Marks</th>
<th>Submission</th>
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<td>Seminar Participation &amp; Report</td>
<td>10</td>
<td>Week 4 (report); Participation TBA</td>
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<tr>
<td>Essay</td>
<td>15</td>
<td>Week 7</td>
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<tr>
<td>Exercise</td>
<td>10</td>
<td>Week 10</td>
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<tr>
<td>Case Study &amp; Presentation</td>
<td>15</td>
<td>Week 12 (written case study);</td>
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<td>Presentation TBA</td>
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<tr>
<td>Final Exam</td>
<td>50</td>
<td>TBA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
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Method of Instruction

Students enrolled in this subject will meet once a week for a two hour session over a 13 week period, one of these periods (week 11) you can devote to finalising your group written submission. The main mode of presentation for this subject is by seminars complemented by student presentations and guest lectures. During seminars specific topics and related readings will be discussed as well as any other set work which students are expected to have prepared/read. All students in the subject are expected to participate in the seminar discussions.

Seminar Participation and Report

This component is worth 10% of the overall assessment. There a two aspects of the assignment First, students are required to submit a media article (this can be a newspaper article, radio transcript, video etc) relating to any aspect or topic presented in the subject with a written report for addressing the relationship to the topic and the relevance to an understanding of insolvency in a social and political context. Second, they are to present their findings for a brief discussion during the subject.

*Requirement:*
- Submit a report based on a media article relating to any aspect or topic presented in the subject with a written report:
  - two-pages
  - word-processed
  - 12 point font
  - 2cm margins
  - referenced using method as in *Accounting, Auditing and Accountability Journal*
  - appropriate School of Accounting and Finance cover sheet attached
- Present briefly and discuss media article with the class.

*Note:* Both the report and presentation to be completed for the overall mark. Failure to complete both will result in zero for this assessment

*Submission:*
- Report due in Week 4 and to be submitted in seminar on 13th August, 2002
- Presentation and discussion during any seminar before and including Week 9.
Essay

The essay is worth 15% of the total assessment.

Topic:

“Corporate accounting does not do violence to the truth occasionally, and trivially, but comprehensively, systematically, and universally, annually and perennially” [Clarke, et al, 2001, 260].

Critically discuss this statement in light of the corporate collapses experienced in Australia from the 1960’s through to today. Your discussion should include an exposure of the accounting profession’s, including auditors’, position in terms of duty, interests and power relations within the prevailing social and political environment.

Presentation

- Essays should be approximately 1500 words long. Any essay above 2000 words will be given a greatly reduced mark.
- The essay must be typed or word-processed using double-line spacing with a 2 cm margin.
- The essay must include a synopsis and a list of references or a bibliography. Referencing guidelines are as in Accounting, Auditing and Accountability Journal
- Essays that do not comply with these presentation requirements will be substantially penalised.
- Essays must have the appropriate School of Accounting and Finance cover sheet

Plagiarised essay, which includes copying the work of another student, will receive a mark of zero. Sources of ideas, quotes etc. must be properly acknowledged and referenced. (The University’s policy on plagiarism is outlined at www.uow.edu.au/student/calendar/rules/plagiarism.html

Submission:

- Essay due in Week 7 and to be submitted in seminar on 3rd September, 2002
Exercise

The exercise is worth 10% of the overall assessment and is an individual assessment.

Question

Billabong Landscaping Ltd is a company of which the only members and directors Chris and Wendy Cutting. The company specialises in the construction of decorative retaining walls and pool fencing and landscaping. Since the establishment 18 months ago, the company has not had a steady success and is now in the following situation:

(\)$

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>(3 937)</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
</tr>
<tr>
<td>Mackie and Associates</td>
<td>1 420</td>
</tr>
<tr>
<td>Overton Pty Ltd</td>
<td>960</td>
</tr>
<tr>
<td>Inventory</td>
<td>2 380</td>
</tr>
<tr>
<td>Non Current Assets</td>
<td></td>
</tr>
<tr>
<td>Machinery &amp; Tools</td>
<td>2 200</td>
</tr>
<tr>
<td>Motor Vehicle</td>
<td>8 500</td>
</tr>
<tr>
<td>Building</td>
<td>10 000</td>
</tr>
</tbody>
</table>

| Current Liabilities                                |      |
| Accounts Payable                                   |      |
| ABC Hardware                                       | 5 300 |
| Ross Nursery                                       | 1 960 |
| Sprite Fountains                                   | 740  |
| Macs Sand & Soil                                   | 2 190 |
| Non Current Liabilities                            |      |
| Bank Loan (XYZ)                                    | 85 950 |

Despite their trading difficulties, Chris and Wendy have recently paid themselves an $8000 dividend following the revaluation of the company premises up to $10 000. The revaluation was done by Wendy’s aunt. The premises consist of a garden shed in the owner’s backyard at their home in Kiama.

(i) Advise XYZ Bank which has its loan secured by mortgage.
(ii) Advise the creditors generally on the viability of a scheme of arrangement. What policy issues would be relevant? Would your answer be different if the tax office was an additional creditor for $5 200? Would the same issues be relevant if voluntary administration was being considered?
(iii) Advise the liquidator (when appointed) with respect to the recently paid dividend.
(iv) Further advise the liquidator if:
   i. Chris’ part time employee, Graham, has been paid $1 320 owing to him. This payment occurred after the appointment of the liquidator.
   ii. Wendy has been paid $5 000 as her role as office administrator.
   iii. Chris bought the company work vehicle this week for $3 500.
   iv. There is only enough money recovered in the course of the liquidation to pay creditors having first priority.

[Exercise adapted from Hannah, 1998]
**Presentation**

- Approximate length is two-three pages
- The exercise must be typed or word-processed using double-line spacing with a 2 cm margin.
- The exercise must include a synopsis and a list of references or a bibliography. Referencing guidelines are as in *Accounting, Auditing and Accountability Journal*
- Exercises that do not comply with these presentation requirements will be substantially penalised.
- Exercises must have the appropriate School of Accounting and Finance cover sheet

**Submission**

- Exercise to be submitted in Week 10 during the seminar on 8\textsuperscript{th} October

**Case Study**

The case study is worth 15\% of the total assessment. There are two elements to this assessment (please note that both elements must be completed to obtain a mark).
This assignment requires students to choose a company that is or has been insolvent and complete the two elements described below. Students can choose any company but are expected to discuss their choice with the lecturer prior to starting their assignment. Students can chose a case from overseas or in Australia and are not restricted to recent events only.

1. **Case Study presentation**:
   Students will be asked to form groups of 2-3 students and to elect a suitable time within the seminar period, to present a case study in insolvency. The presentation will last approximately 30 mins.
   The presentation will be assessed on:
   - a demonstrated understanding of key issues relating to the collapse, including any accounting manipulations and management action/inaction.
   - evidence of extensive reading
   - creative, innovative presentation
   - achievement of active participation from the remainder of class
   (if presenters require any equipment additional to that normally provided in the lecture room, they will have to make arrangements themselves)

2. **Written submission of the case study**: all written submissions will be due in the same week.
   The written submission must include/achieve the following:
   - integration of the issues in the case study with the topics covered.
   - identification of creative accounting techniques used and how such techniques were utilised
   - identification, where possible, of the roles/involvement of the accountancy profession (external and internal) in the financial disaster.
   - identification of other factors that were used to legitimise many of the transactions, and in some cases, the organisations themselves.
   - identification of a point in the history of the collapse where you think some sort of insolvency administration would have been warranted and why
   - a summary of your findings.
Presentation

- Case study should be approximately 1500 – 2000 words long.
- The case-study must be typed or word-processed using double-line spacing with a 2 cm margin.
- The essay must include a synopsis and a list of references or a bibliography. Referencing guidelines are as in Accounting, Auditing and Accountability Journal.
- Case studies that do not comply with these presentation requirements will be substantially penalised.
- Essays must have the appropriate School of Accounting and Finance cover sheet.

Submission

- One copy only of the written submission must be handed in per each group of students.
- Written case study to be submitted in Week 12 during the seminar on 22nd October.

SUBMISSION AND RETURN OF WORK

Seminar assignments, essays and case study must be submitted during the lecture/seminar session on the due week. Submissions by fax will not be accepted. Submission by mail must be post-dated on or before the due date and it is up to the student to ensure that submissions by mail are received. You must keep a copy of any work submitted.

It is a requirement of this subject that non-racist and non-sexist language be used.

All submitted work must include a completed copy of the School of Accounting and Finance cover sheet attached to this outline the bottom acknowledgement section of which will be signed by the subject co-ordinator and returned to the student/s. Work will be returned to students during seminar times no later than two weeks from submission (for work submitted on or before the due date only).

LATE SUBMISSIONS/ REQUESTS FOR EXTENSION

Late submission of any of the components, if accepted, will delay your feedback and incur a penalty of 10% of the available mark per day. Requests for extensions must be received on or before the due date. It is the students responsibility to advise administration of requests for special consideration and the submission of appropriate documentation. Thu University policy regarding special consideration is at www.uow.edu.au/student/calendar/specialconsideration.html.

DISABILITY ISSUES

If a student with a disability requires reasonable accommodation in this subject, s/he is strongly advised to discuss the issues early in the session with one of the following people: the Disability Liaison Officer in Student Services or the Faculty Disability Officer. Students may also wish to notify the subject co-ordinator.
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<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Readings</th>
<th>Presentation</th>
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<tbody>
<tr>
<td>1</td>
<td>23/7</td>
<td>Introduction</td>
<td>Ch. 1 Mc Robert</td>
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<td>Chap. 1 Tomasic &amp; Whitford</td>
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<td>2</td>
<td>30/7</td>
<td>Theories of Corporate Collapse</td>
<td>Ch 2 &amp; 3 McRobert</td>
<td>Reid –Murray</td>
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<td></td>
<td></td>
<td></td>
<td>Argenti*</td>
<td>(Sykes 1988)*</td>
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<td>Ch 1 Sykes 1996*</td>
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<tr>
<td>3</td>
<td>6/8</td>
<td>Theories of Corporate Collapse</td>
<td>Ch 4 &amp; 6 McRobert</td>
<td>Bond</td>
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<td>Norgard*</td>
<td>(Sykes 1996)*</td>
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<td>4</td>
<td>13/8</td>
<td>Ronnie Hoffman</td>
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<tr>
<td>5</td>
<td>20/8</td>
<td>Creative Accounting</td>
<td>Ch. 5 McRobert Walker, R*</td>
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<td>Ch 2-11 Naser*</td>
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<td>6</td>
<td>27/8</td>
<td>Creative Accounting</td>
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<td>7</td>
<td>3/9</td>
<td>D. Vrkic</td>
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<td>8</td>
<td>10/9</td>
<td>Receiverships, Arrangements &amp; Reconstructions</td>
<td>Ch 2-5 Tomasic &amp; Whitford</td>
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<td>9</td>
<td>17/9</td>
<td>Voluntary Administration &amp; Liquidations</td>
<td>Ch 6-11 Tomasic &amp; Whitford</td>
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<td>8/10</td>
<td>Accounting Profession</td>
<td>V. Arnold et al*</td>
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<td>Employee entitlements</td>
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<td>Hines, R*</td>
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<td>Kerr, D.*</td>
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<td>11</td>
<td>15/10</td>
<td>Work on Case Studies</td>
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<td>Strategic Bankruptcy</td>
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<td>Castleman (1979)*</td>
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<td>Reading for Patricks</td>
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* In Commerce Resource Room