**FAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA**

* (\*) What were the company’s total revenues for the year under review?
* State the composition of the revenues of the company, allocate according to products, locations,  activities, etc where possible.
* (\*) What are the bases of revenue recognition adopted by the company? Are they appropriate?
* (\*) Looking at the revenue and profit before tax in the three years presented in the annual report,  would you say the company have had a good year? Provide evidence to justify your conclusion.
* (\*)Draw up a common-sized statement for the year under review. Comment on the result.

1) Total revenue 2014: 1,163.9m (Q1:284.8 Q2:296.3 Q3:293.3 Q4:289.5)

2) Composition: Fare further broken down to train, bus and mrt. Non-Fare revenue further broken down to renal, advertising, engineering services, other services, taxi.

3) Bases of revenue recognition:

Revenue recognition Passenger revenue Passenger revenue from MRT and LRT systems and public bus services is recognised at the end of the ride.

SMRT recognises revenue for passengers when they have arrived at their destination (end of ride).

Taxi rental and rental revenue Rental revenue receivable under operating leases is recognised in the income statement on a straight-line basis over the terms of the leases.

SMRT recognises rental revenue under operating leases as part of income statement on a straight-line basis over the terms of the leases.

Lease incentives granted are recognised as an integral part of the total rental income to be received.

SMRT recognises the incentives granted as a part of their total rental income receivable.

Advertising revenue is recognised on an accrual basis over the terms of the contract. Sales of goods Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyers.

SMRT recognises advertising revenue based on the contract in accrual basis.

SMRT recognises sales revenue when the significant risks and rewards of ownership have been transferred to the buyers.

Revenue excludes goods and services or other sales taxes and is after deduction of any trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods. Engineering and other services Revenue from short-term workshop and other services is recognised upon completion of services rendered. Revenue from engineering consultancy and project management services is recognised when services are rendered. Revenue from operating and maintenance services is recognised over the period during which the service is provided. Provision for foreseeable losses, on contracts not yet completed, is made as soon as such losses are determinable

The basis of revenue recognition are appropriate. And they adhere to the international accounting standards board(IASB).

4) Good or bad year: Just be looking revenue alone, it seems that SMRT is doing well overall, as the value has been increasing since 2012, however when we look at the profit portion, we realise that despite the revenue growing each year, the profits are actually decreasing by the years. From 2012 to 2013, the profit decreased by 36.7m while from 2013 to 2014, the profit decreased by 21.7. The decrease is slightly smaller than the previous year which means that the company is cutting on the costs.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Revenue($m) | Profit($m) | After Tax($m) |
| 2012 | 1,163.9 | 84.2 | 61.5 |
| 2013 | 1,119.5 | 110.2 | 83.2 |
| 2014 | 1,057 | 146 | 119.9 |

5) Common-sized statement:

Common-sized statement:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Non-current assets | |  | 1728725 |  | Non-current liabilities | | |  | 705111 |
| PPE |  |  | 79.22% |  | Interest-bearing borrowings | | |  | 37.771% |
| Intangible asset | |  | 0.66% |  | Provisions | |  |  | 0.002% |
| Investments in subsidiaries | | | - |  | Deferred tax liabilities | | |  | 15580800.000% |
| Interest in associate | | | 2.54% |  | Fuel equalisation account | | |  | 1.677% |
| Other investments | |  | 1.00% |  | Deferred grants | |  |  | 3.852% |
| Total current asset | |  | 83.41% |  | Total non-current liabilities | | |  | 55.483% |
| Current assets | |  | 343787 |  | Current liabilities | |  |  | 565741 |
| Inventories | |  | 4.07% |  | Interest-bearing borrowings | | |  | 12.31% |
| Trade and other receivables | | | 4.77% |  | Trade and other payables | | |  | 27.95% |
| Other investments | |  | 0.24% |  | Provisions | |  |  | 3.96% |
| Fixed deposits with banks | | | 0.42% |  | Current tax payable | |  |  | 0.31% |
| Cash at banks and in hand | | | 7.09% |  | Total current liabilities | | |  | 44.52% |
| Total non-current asset | | | 16.59% |  | Total Liabilities | |  |  | 1270852 |
| Total asset | |  | 2072512 |  |  |  |  |  |  |

* Im not sure what a common-sized statement is but this is what I did after I went to google

Considering your company’s operating circumstances, which do you think is the best way to

finance its purchase of long-term assets; through internally generated funds, shareholders’

contributions, or through long-term borrowings? Why? – GUOXI

1. Internally generated funds – to use own company cash after profits to fund, also can be from depreciating equipment and facilities since depreciation reduces tax, more cash to spend.

However, this means that company will have a reduce cash or cash equivalent items on hands and the company might not be able to jump on into good opportunities when it comes. Also the money could have been spent on investment to generate greater returns.

1. Shareholder’s contributions – to give more shares to shareholder in return for cash

Company might lose its autonomy power if too many shares are given out to shareholders which might not be favourable for the company. However, it is a good way to get cash although the share might be worth more in future. Which means that the company will forego the future additional cash that can be acquired from the sale of shares. Also the company has to pay more yearly dividends pay out as shareholders now have more shares.

1. Long-term borrowings – incurs interest expense 🡪 higher overall spending

When borrowing from banks, company will incur interest rates payable yearly which is around 5-6%, when the money borrowed is large, the amount of interest payable incurred will also be substantial. It is a good way to get cash as this does not impair the cash flow of the company nor does it bring about any negative impact on the company other than the cash aspect.

To have the least amount of impact on SMRT, I believe that SMRT should pay for long-term assets from their internally generated funds as generally SMRT is into public transport in Singapore and there would not be much ‘opportunities’ for them to capture since the market is sufficiently saturated and they only have 1 major competitor in the market. Also, since the money can make taken from depreciating equipment and facilities, it would not reflect heavily on their financial reports as depreciating equipment and facilities can cushion the huge sum. As compared to shareholder’s contribution, this is better as it is better for the company to keep the shares more for themselves than to shareholders to prevent the shareholders from controlling the company with the huge amount of shares in hand. Also, the yearly dividend paid is quite a substantial amount and if the shareholders decide to hold on to the shares, the company would have to keep pay them at an increased rate. In future, when the shares are of higher value after the purchase of equipment (investment) they can than sell some of the stocks out for cash when they need it. The cost of borrowing is relatively high as well, since the average corporate interest is at 5% and it would cost quite a bit when the amount borrowed is large. The interest payable incurred would not be beneficial to the company who has such large amounts of cash on hands.