MA99 EDUCATION

Finance: Summary 03

NSW BUSINESS STUDIES STAGE 6 SYLLABUS 2010 FOR HSC 2027 AND 2028

Every case fact is from Wesfarmers' or Qantas' FY2026 reports (both released 27 August 2026) unless another source is named. Read it the week before an assessment, not the term before one.

1. The topic on one page

DOT POINT	KEY POINT	CASE FACT TO QUOTE
Strategic role	Finance decides what happens next; accounting records what happened	Wesfarmers judges divisions on return on capital, not revenue growth
Objectives	Profitability, growth, efficiency, liquidity, solvency. They conflict	Wesfarmers: underlying NPAT up 8.3%, operating cash down 6.5%
Short vs long term	A return now can cost flexibility later	Wesfarmers' $1,703m distribution; net debt up 25.1%
Interdependence	Every function spends money finance has to find	Kmart capex $136m to $256m for supply chain
Internal finance	Retained profits: cheap, not free	Wesfarmers' retained earnings rose only $61m on NPAT of $2,874m
Debt, short term	Overdraft, commercial bill, factoring	Wesfarmers drew $1,119m on revolving facilities
Debt, long term	Mortgage, debenture, unsecured note, leasing	Wesfarmers $1,057m notes to 2032; leases $7,070m
Equity	New issue, rights issue, placement, SPP, private equity	Qantas $1,360m placement at $3.65, June 2020
Institutions	Banks, investment banks, finance cos, super funds, life insurers, unit trusts, ASX	ASX Listing Rule 3.1: "must immediately tell ASX"
Government	ASIC enforces reporting; company tax shapes returns	Wesfarmers effective tax rate 28.5% (computed)
Global influences	Economic outlook, availability of funds, interest rates	RBA cash rate 3.60% to 4.60% in 2026
Planning	Needs, budgets, records, risks, controls; match term to purpose	Wesfarmers FY2027 net capex guidance $1.3bn to $1.5bn
Monitoring	Income statement (period), balance sheet (date), cash flow (period)	Wesfarmers revenue $47,274m; total assets $28,884m
Ratios	Seven named; compare over time, to standards, to peers	Section 2 below
Limitations	Normalised earnings, capitalising, valuing assets, timing, debt repayments, notes	Coregas $772m received the day after balance date
Ethics	Name the practice, the example and the control	Qantas excluded $236m from underlying profit
Cash flow	Distribution of payments, early payment discounts, factoring	Wesfarmers' $733m supplier finance program
Working capital	Control current assets and liabilities; leasing; sale and leaseback	Seven Bunnings properties sold for $379m
Profitability	Cost controls (fixed, variable, cost centres); revenue controls	Kmart EBT margin 5.5% (FY2022) to 9.4% (FY2026)
Global finance	Exchange rates, interest rates, payment methods, hedging, derivatives	Qantas hedge offset about $400m of a $1,010m fuel shock

2. The seven ratios, with real results

RATIO	FORMULA	WESFARMERS FY2026 (FY2025)	QANTAS FY26
Current	current assets ÷ current liabilities	9,811 ÷ 8,774 = 1.12:1 (1.19)	5,711 ÷ 13,226 = 0.43:1
Debt to equity	total liabilities ÷ total equity	20,907 ÷ 7,977 = 2.62:1 (2.05)	25,530 ÷ 1,504 = 17.0:1
Gross profit	gross profit ÷ sales	16,189 ÷ 47,274 = 34.2% (34.5), a proxy	not reported
Net profit	net profit ÷ sales	2,874 ÷ 47,274 = 6.1% (6.4)	1,289 ÷ 25,516 = 5.1%
Return on equity	net profit ÷ total equity	2,874 ÷ 7,977 = 36.0% (31.8)	1,289 ÷ 1,504 = 85.7%
Expense	total expenses ÷ sales	43,067 ÷ 47,274 = 91.1% (91.5)	23,404 ÷ 25,516 = 91.7%
AR turnover	sales ÷ accounts receivable	47,274 ÷ 2,247 = 21.0 times (22.3)	not calculated
Collection period (derived from AR turnover, not an eighth ratio)	365 ÷ AR turnover	17.3 days (16.4)	not calculated

All $m, computed by MA99 from the annual reports. Wesfarmers reports no cost of sales, so gross profit is revenue less “raw materials and inventory”. AR uses gross trade receivables. Wesfarmers’ own reported ROE is 35.5 per cent (rolling average equity).

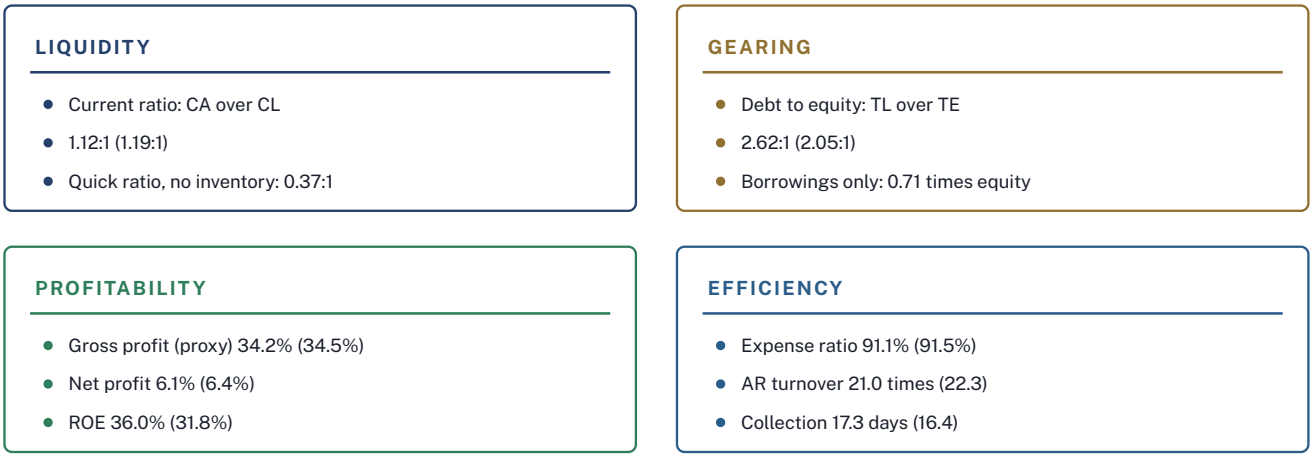


Figure 1 · The seven ratios in four groups, on Wesfarmers' FY2026 figures, FY2025 in brackets. Source: computed by MA99 from Wesfarmers, 2026 Annual Report.

3. Case facts to quote

Wesfarmers, FY2026 (year to 30 June 2026)

- Revenue $47,274m, up 3.4%. NPAT $2,874m, down 1.8% statutory, up 8.3% underlying (FY2025 underlying $2,653m after $273m of significant items).
- EBIT $4,493m; finance costs $476m (lease interest $309m); interest cover 9.4 times.
- Operating cash flow $4,272m (FY2025 $4,568m); net capex $779m; free cash flow $3,493m (4,272 less 779, computed by MA99; Wesfarmers reports $3,992m on its own measure, which also counts other investing cash flows such as the Coregas sale proceeds); cash realisation 91%.
- Borrowings $5,646m: bank $2,696m, bonds $2,950m; unused facilities $1,725m; average cost of debt 3.75%; about 42% variable.
- Net financial debt $5,295m (up 25.1%); debt to EBITDA 1.9 times (S&P threshold 3.0 times); Moody's A3, S&P A-.
- Dividends 222 cents fully franked (payout 87.6%); $1.50 distribution paid 4 December 2025 ($1,703m); no new equity raised.
- Sustainability linked bonds $1,985m outstanding; both targets met, so no coupon step-up.
- Hedges US$2,525m of purchases; AUD/USD 0.69 (2025: 0.65). Aims to hedge 100% of foreign currency capex.
- Equity only $7,977m, reduced by a negative $5,860m demerger reserve from the 2018 Coles demerger.
- Mt Holland expansion approved 22 July 2026: Wesfarmers' capex share $645m to $715m, first product targeted 2030.

Qantas, FY26 (year to 30 June 2026)

- Revenue and other income $25,516m, up 7.1%. Statutory profit after tax $1,289m, down 19.7%. Underlying PBT $2,064m.
- Current ratio 0.43:1, because $7,295m of current liabilities (55.2%) is revenue received in advance. Excluding it: 0.96:1.
- Liquidity $13.3bn ($3.3bn cash, $2.1bn undrawn facilities, $8.0bn unencumbered assets; the parts are rounded, so they add to $13.4bn). Debt has "no financial covenants". Moody's Baa2.
- Equity $1,504m after COVID losses and about $2.3bn of buy-backs (FY23 to FY25); debt to equity 17.0:1; reports ROIC of 32.2% instead.
- Net capex $3,968m against operating cash flow $3,893m; net free cash flow negative $75m.
- Secured $3.8bn for FY27: $0.5bn ten year bond, $1.6bn secured debt up to 15 years, $1.7bn revolver.
- Fuel shock: gross impact about $1,010m, hedging benefit about $400m, other mitigations about $190m, net about $420m.
- 1H27 hedging: 85% of fuel, 96% of US dollar aircraft capex; options preferred, in a "declining wedge".
- June 2020: $1,360m placement at $3.65 a share (25% of shares on issue); SPP raised only about $71.7m (FlightGlobal).

4. Sources, limitations and strategies with their examples

LIMITATION	REAL EXAMPLE
Normalised earnings	Wesfarmers FY2025: $2,926m statutory, $2,653m underlying
Capitalising expenses	Wesfarmers borrowing costs $202m including capitalised interest; $167m expensed
Valuing assets	Target impairments $1,266m (FY2016), $306m (FY2018), $525m (FY2020)
Timing issues	$772m of Coregas proceeds received 1 July 2025, in FY2025 receivables
Debt repayments	Only the notes show maturities: $1,057m due 2032, EUR600m due 2033
Notes to the statements	$733m of payables in a supplier finance program (Note 11)

STRATEGY	REAL EXAMPLE
Leasing	Wesfarmers lease liabilities $7,070m; Qantas owns more than 86% of its fleet

STRATEGY	REAL EXAMPLE
Sale and leaseback	Seven of 15 former BPI Bunnings properties sold for $379m, FY2026
Inventory control	Wesfarmers inventory days 73.6 to 77.0; Kmart RFID and AI forecasting
Cost control	Qantas transformation $455m in FY26; Bunnings shelf labels and rostering tools
Revenue control	Kmart price cuts on 2,500+ items; Qantas International premium cabin revenue up 15%
Hedging	Qantas options on fuel; Wesfarmers hedges US dollar purchases centrally
Derivatives	Wesfarmers cross-currency swaps on EUR bonds; Qantas options and collars

PAYMENT METHOD	RISK SITS WITH
Payment in advance	Importer (safest for the exporter)
Letter of credit	Banks, for a fee
Bill of exchange	Shared: exporter holds documents until payment or acceptance
Clean payment	Exporter (used where parties trust each other)

5. What to do with it

Four ratio sentences you can reuse

Liquidity. Wesfarmers' current ratio fell from 1.19:1 to 1.12:1 as payables rose $370m and receivables fell $570m, but $1,725m of unused bank facilities means it can meet its obligations.

Gearing. Debt to equity rose from 2.05:1 to 2.62:1 because the December 2025 distribution cut issued capital by $1,249m and was funded partly by $1,119m of borrowing; interest cover of 9.4 times and ratings of A3 and A minus show the risk is low.

Profitability. ROE rose from 31.8 to 36.0 per cent while NPAT fell 1.8 per cent, because equity shrank 13.2 per cent. Higher ROE bought with higher gearing is risk, not skill.

Efficiency. The expense ratio improved from 91.5 to 91.1 per cent as employee costs fell from 14.97 to 14.68 per cent of revenue.

The five sentences that carry most of the marks

A profitable business can still fail, because profit is not cash.

Say the direction of a ratio, not just its value: fell from, rose to.

ROE can rise because equity shrank or gearing rose, which is risk and not skill.

Match the term of the finance to the purpose of the finance.

Hedging is a decision about risk, not a forecast.

The five mistakes that cost the most

Quoting one ratio with nothing to compare it against.

Reading a current ratio below 1:1 as a crisis without asking what the current liabilities are (Qantas).

Calling retained profits a free source of finance.

Mixing statutory and underlying profit: Wesfarmers' $2,874m is up 8.3 per cent on FY2025 underlying profit ($2,653m) but down 1.8 per cent on FY2025 statutory profit ($2,926m), so say which baseline you are using (Wesfarmers FY2026 results; percentages computed by MA99).

Recommending a strategy without naming what it costs the business.

> If you can only do one thing before the exam, learn to write the direction of a ratio and its consequence in the same sentence.

About this resource

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Scope

NSW Business Studies, Year 12. Written to the NSW Business Studies Stage 6 Syllabus 2010, Finance, for students sitting the HSC in 2027 and 2028. A new Business Studies syllabus is first examined in HSC 2029. Every worked context uses real, sourced case studies (Wesfarmers and Qantas), with figures dated and sourced; any business in a practice stimulus that is not real is labelled hypothetical, and every number was recomputed from its inputs before printing.

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