

Current and Non-Current Assets as Part of the Regulatory Asset Base.  
(The Return to Working Capital: Australia Post)

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Overview

*Initially, the task was to examine whether working capital (current assets less current liabilities) is adequately remunerated in regulatory decisions such as those before the Australian Consumer and Competition Council (ACCC). Setting up the problem indicates that it is very difficult to treat working capital as an independent source or piece of capital requiring separate funding. Using the logic of the balance sheet, where assets are funded through various sources of finance creating a number of different financial obligations, it is the servicing of the financial obligations or cost of capital that is important.*

*In the context of servicing financial obligations, the task expanded to examine what might be included in equity capital or more precisely what is the capital at risk to providers of equity capital. In this context it became apparent that one component of capital that is at risk is the **provisions** for items such as workers compensation, other worker entitlements, and other liabilities (often unspecified but amounting to self insurance) which will ultimately fall on the equity holders and should be included as a cost of equity unless it is clear that the 'liability' has been contracted to another party. The manifestation of this approach is that such provisions become a component of equity capital.*

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## **Task**

The initial objective of the paper was to clarify and illustrate how working capital or net current assets are relevant to regulatory decisions in the context of the Australian Consumer and Competition Commission (ACCC) model and, importantly, how they should be taken into account in the price setting. However, the task evolved into a broader issue of identifying financial obligations, necessarily incurred by an entity, that are not or may not be separately funded and, therefore, ultimately rest with the equity-holders, the residual claimants to the revenue of the entity.

In the first instance, the paper will examine the issue of an entity's cost of servicing the funding of its financial obligations, from a theoretical point of view and then illustrate the issues in the context of Australia Post with some estimates of the relevant costs.

## **Regulatory Approach**

Regulatory regimes set prices consistent with an objective of ensuring that all the factors of production receive a "fair" compensation.

A common approach is to determine the annual revenue required to provide 'fair' compensation. This is assessed as the sum of:

- Economic costs of production.
- A return of capital invested to cover the depreciation of assets.
- Effective corporate taxes that are expected to be paid.
- A return to the providers of capital (debt and equity investors).

The last component requires an assessment of the market value of debt and equity, the amount of 'Investment' or 'Asset Base' (also referred to as the Regulatory Asset Base or RAB) of the entity and of a fair rate of return, or compensation, for investors providing these funds. Since the market value of 'Investment' is usually not known, in particular the market value of equity, it often estimated as a residual to the market value of assets less other obligations in the balance sheet. The paper describes the items that might be

included in ‘Investment’. The fair rate of return is estimated with reference to market data and this should be a weighted average of the fair return to debt and equity being the two components of investment. This process is not discussed because it is not the focus of the paper.

### **The Cost of Capital: An introduction**

The viability of any business activity or entity requires that the resources or factors production that are used to provide goods and/or services receive a return that is commensurate with the opportunity cost of those factors of production (labour and capital in all the various forms). In short, everything that goes into the production process must be paid for. The regulatory regime sets prices consistent with an objective of ensuring that all the factors of production receive a “fair” compensation. “Fair” compensation means the compensation is consistent with that which would be obtained in a well attended and competitive market (or a surrogate) for the factor, such a cost represents the opportunity cost of the factor of production.

An illustration of what is required to ensure fair and adequate compensation can be given by way of the standard financial statements of a company. The difference between these financial statements and the usual accounting statements is that these statements depict economic values as distinct from accounting values.<sup>2</sup>

Below in Table 1 is such a characterization of a standard Income (Profit and Loss) Statement.

Returning to the theme that all the factors of production are to be compensated fairly to ensure continuing production, let us examine the Income Statement:

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<sup>2</sup> The accounting number requires an audit trail and therefore tends to be more of an historical estimate or cost as distinct from the economist concept of an opportunity cost, which tends to be forwarding looking and is best reflected in current market prices. A forwarding looking approach is the only valid approach insofar as the value of any asset or investment is a function of what it can deliver in the future; the past in the context of value is only relevant insofar as it may reflect expectations about future events.

**Table 1**  
**INCOME STATEMENT**

<u><b>Revenue</b></u>	<b>\$m</b>	<b>\$m</b>
No of units sold x price (regulated) plus sundry other income.		4500
<u><b>Expenses</b></u>		
Rent	20	
Employees	2000	
Suppliers (cost of goods sold)	2000	
Other	40	
Depreciation (Economic)	200	(4260)
<b>Earnings before Interest &amp; Taxes (EBIT)</b>		240
Interest	40	
<b>Earnings after Interest before Taxes (EAIBT)</b>		200
Taxes (effective rate 15%)	30	
<b>Earnings after Interest and Taxes (EAIT)</b>		170
<b>Earnings after Taxes before Interest (EATBI)</b>		210
<b>Net operating profit after taxes (NOPAT)</b>		204

1. Revenue will be ultimately determined by what the Regulator considers a fair price for the units sold and, therefore, it is very much a residual of the Regulator's analysis. Assuming that after an examination of expenses the Regulator has agreed that they reflect economic costs or opportunity costs of the relevant factors of production, then it is the price allowed by the Regulator times the number of units sold which will determine Revenue.
  
2. By way of example, the \$20m expensed for rent represents a fair market value for renting premises associated with or needed for production. Once the Regulator determines that those premises are needed for production he does not really need to investigate the rental payments since it is assumed the market for such rental accommodation is a deep and competitive.

3. Similarly with the amount paid to employees, it is by assumption that the amount spent on employees represents the going rates for employment costs in competitive markets (and to the extent that they are not competitive this is outside the jurisdiction of the typical price regulator).
4. It is also assumed that the cost of supplies is determined in a similar manner, as indeed, are other costs. To re-iterate earlier comments, it is assumed that all of these factors are necessary in providing the goods/services that are the subject of price regulation.

In short, the Regulator really does not have to investigate the rent, employee, cost of suppliers or other expenses in this Income Statement, assuming the services they render are needed for production of goods/services and their costs are determined in deep competitive markets.

5. Economic depreciation presents somewhat a greater hurdle for the Regulator since economic depreciation does not usually provide an estimate equal to the more easily determined accounting depreciation. Economic depreciation represents the change in the value of the fixed assets that are owned by the entity. Such depreciation could be a negative number i.e. not an expense, but a contribution to income if the value of fixed assets was increasing.
6. Subtracting the total of these expenses from the revenue gives us the Earnings Before Interest and Tax or EBIT, it is the amount that has to meet the requirements of providers of debt capital i.e. interest, the government i.e. taxes and finally the residual claimants or the providers of equity capital. Further, subtracting interest off this EBIT leaves an amount, the tax assessable earnings or EAIBT, which must be used to pay taxes and the equity capital or owners of the company.

7. The taxes which are paid out of the EAITB should represent the effective corporate tax that is paid. The estimate of the *effective* corporate tax is determined by subtracting the company tax collected from the entity but adding back the value of the franking credits to the equity holders. In effect, franking credits represent a withholding of personal tax at the company level insofar as they are rebateable against personal tax liabilities.
  
8. The remaining number is earnings after interest and taxes or EAIT, it represents the amount that is available to compensate the equity capital providers or owners of the entity. EAIT includes the value of the franking credits that will be used to reduce personal tax liabilities.

If we take the interest cost and divide it by the current value of the debt capital then we have the rate of return required on the debt capital ( $r_D$ ). Similarly, if we take the earnings after interest and taxes (EAIT) figure and divide it by the value of equity capital then we have the rate of return to compensate equity holders ( $r_E$ ). Finally, if we take the number represented by earnings after taxes but before interest (EATBI) and divide that by the total market value of debt and equity capital, we have a weighted average cost of capital or WACC. This WACC is expressed as a Vanilla WACC or a simple weighting of equity (E) and debt (D) by their respective proportions in the total assets (V) of the company, i.e.

$$\text{WACC} = \frac{\text{EATBI}}{V(= E + D)} = \frac{E}{V} r_E + \frac{D}{V} r_D$$

Adopting this approach we have taken into account the company taxes including any value of franking credits in the cash flows i.e. EATBI, as distinct from some of the methodologies where the tax shields of debt and the value of franking credits are ignored in the definition of cash flows and, instead, are taken into account in the discount rate or WACC definition.

The above definitions assume that taxes and their effect (tax shields afforded by debt and depreciation) are taken into account in the various definitions of income (net cash flows).

A more conventional but less accurate method of accounting for any tax shields afforded by debt is to reduce the interest cost of debt by the tax shield, taking account of the value of imputation credits ( $\gamma$ ), in the cost of capital. The Net Operating Profit After Taxes (NOPAT) reflects the definition of income required for this definition of the cost of capital, i.e.

$$\text{WACC}^* = \frac{\text{NOPAT}}{V} = \frac{E}{V} r_E + (1 - T(1 - \gamma)) \frac{D}{V} r_D$$

The Income Statement as illustrated indicates the sources or how revenue has to be divided up to meet the various factors of production. For example, the \$2b expense to employees is a cost of employees' services to the extent that they have used that amount of employees' services in the production of the current or stated revenue. The \$0.2b allocated to depreciation reflects the depreciating asset value for the current period and the \$2b allocated to suppliers represents the costs incurred in supplying goods to the operating entity for the period.

The remaining claimants to the revenue are the providers of capital and government. We need to examine the adequacy of revenue to cover these various claimants including the residual claimant, the equity holders. We will illustrate the adequacy of the return to the various contributors to the assets base of the entity – we need to turn to a balance sheet where the values are again struck as economic or current market values.

The balance sheet represents the collection of assets required for the entity to efficiently and effectively deliver the number of units sold at the regulated price. The Financial Obligation side of the balance sheet represents the capital used to fund the assets. Of course, being a balance sheet, the value of the Assets has to be equal to the Financial Obligations.

**Table 2.**  
**Balance Sheet**

<b><u>Financial Obligations</u></b>			<b><u>Assets</u></b>	
<b><u>Current Liabilities</u></b>			<b><u>Current Assets</u></b>	
Trade Payables	700		Cash & Equivalents	600
Interest Bearing Loans	200		Trade Receivables	300
Provisions	110		Inventory	40
Other	20		Other	60
	1030			1000
 <b><u>Non-Current Liabilities</u></b>			 <b><u>Non-Current Assets</u></b>	
Interest Bearing Loans	400		Investment in Subsidiaries	800
Provisions	600		Land & Buildings	800
Net Deferred Tax	300		Plant & Equipment	500
	1300		Other	200
				2300
 <b><u>Equity</u></b>				
Including Contributed Capital & Retained Profits	970			
	970			
	<b>3300</b>			
			<b>3300</b>	

A question for a regulator or indeed any investor is to assess whether the various components of the revenue as illustrated in the Income Statement are sufficient to meet the financial obligations owed to those who provided the capital for the assets. The approach that should be taken is to examine the Financial Obligations as depicted in the Balance Sheet and then assess whether there has been adequate coverage of these obligations to ensure that the entity is correctly funded i.e. the revenue is sufficient to service the capital provided as finance for the assets of the entity. To assess the adequacy of the revenues to meet these financial obligations it is instructive to go down the list of financial obligations and to see the source of their payment and whether it is sufficient.

### ***Trade Payables***

This amount of \$700m is often shown as trade credit or accounts payable and it represents the “float”<sup>3</sup> of the purchases from suppliers and the payment by the entity to those suppliers at the time the balance sheet is struck. Further, insofar as the balance sheet is assumed to be a representative time period, this is a typical amount of “float” provided by suppliers to this entity. It is a form of short term capital provided by suppliers and the question that arises: Are these suppliers paid for the use of this capital and in what form, if there is the payment? Payment of such short term credit by suppliers will be reflected in the expenses incurred to suppliers i.e. the cost of goods sold will be greater to the extent that there is credit provided by suppliers than if the goods and/or services were supplied cash on delivery. That is, the difference between payment on delivery and normal credit terms can be expected to be reflective in the cost of supplies. Therefore the liability or short term capital represented by trade payables is assumed to be adequately covered insofar as the suppliers’ expenses are meeting a market test.

### ***Interest Bearing Loans***

The interest paid, as expressed in the expenses, should be the going rate of interest on loans of the type that the entity has borrowed. This of course may be different to the actual interest paid as the loans were fixed rate loans and interest rates may have risen so that the interest paid is less than the going rate, resulting in the decreasing the liability when the balance sheet figures are struck at market values. Gains or losses on the financial obligations side of course will be matched by that on the assets side and ultimately reflected in the value of equity. In short, it is current interest rates and current values of the loans that are relevant to how these particular financial statements have been struck.

If there are any non-interest bearing loans then one would need to look at how such loans are being paid, in effect, look for where the opportunity cost of providing such credit lies. This is equivalent to how we have treated the trade payables above. The trade payables,

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<sup>3</sup> The time period between the collection of goods/services and their payment.

in a sense, is a non-interest bearing loans where the “interest” is the difference between the cash on delivery versus normal trade terms.

### ***Provisions***

Provisions can take many forms, they can reflect annual leave, long service leave, and if the company is a self-insurer, workers compensation and other forms of liabilities to employees and other risks, often unstated, that the entity must meet. Since ‘Provisions’ will effectively be a charge against equity to meet future obligations of the entity, the value of the ‘Provision’ should be added to the equity figure and earn a commensurate rate of return to equity. If the provision was not ‘struck’ the amount would be available to equity holders and, therefore, the ‘opportunity cost’ of provisions will usually reflect the opportunity cost of equity.

An example of the approach can be illustrated by examining annual or long service leave. Such leave reflects the leave that is owed but not yet taken at the time the balance sheet was struck. The liability for such leave is ultimately the responsibility of equity. Similarly with self insurance such as worker’s compensation, the future liability is ultimately met by equity, although any ‘premiums expensed’ in the Income Statement should be netted off against compensation paid in any one period, in much the same way as depreciation is netted off against the value of the asset in the balance sheet.

The principle is clear. To the extent that a liability exists for which payment cannot be separately identified and paid to another party (to the entity), then it will become a liability of the equity holders. Most of the provisions in the financial statements fall into the “equity” category, insofar as the provisions resemble an equity reserve, they become a liability or responsibility of equity and represent an opportunity cost to equity. If it were not for the provision we could have paid out a greater amount to equity. However, there are some like the provision for trade credit where we can argue that the cost is being borne by suppliers in the price they charge for goods/services, i.e. insofar as the credit cost to suppliers is higher than the cash cost, implicitly the suppliers are charging for the credit. If a separate party cannot be identified as meeting the opportunity cost of holding

assets to meet the provision it should be presumed it is the equity-holders (the residual claimants).

### ***Equity Valuation***

When there is no independent market valuing the equity of the entity or valuing the effect that the Regulator's decision will have, the value of the equity cannot be determined accurately until a decision is known. In such circumstances, the only way to value equity is as a residual to the other liabilities or financial obligations of the balance sheet. What is required is to value the assets of the balance sheet, subtract the liabilities at current market values, and the residual, by definition, has to be equity. Provisions which are not separately funded out of normal expenses are ignored when assessing the liability values because they become as part of the equity obligation. Therefore, in the example above the provisions (Current and Non Current) of some \$710m should be added to the equity value of \$970m to become \$1.68b, to this will also be added a further \$300m to reflect the Net Deferred Tax liability, a total of \$1.98b for equity.

### **Working Capital**

It should be noted that Working Capital did not appear as a separate capital item requiring funding. Working Capital is defined as current assets less current liabilities or net current assets. It was noted above that while the assets are expected to generate revenue they are not part of the entity's Financial Obligations; the revenue they generate serves to meet the entity's Financial Obligations. For example, cash is a current asset and could be expected to generate at least 'at call' rates of interest which will be part of the Revenue figure and Revenue is to service all Financial Obligations. Therefore, current assets are not restricted to servicing those obligations constituting current liabilities. The only relevance in 'matching' current assets and current liabilities as a measure of working capital is the liquidity each represents and a positive working capital (positive net assets) usually implies the entity can meet transaction obligations as they arise.

### **Asset Base or Investment**

Another way of expressing the same proposition is to define the Asset Base as comprising equity and interest bearing debt. Investment can then be assessed by following the guidelines already presented with reference to the Income Statement and Balance Sheet in Tables 1 and 2. It should be apparent from Table 2 that Investment can be expressed as assets less other (than equity and interest bearing debt) financial obligations but not those financial obligations for which equity is likely to be charged such a certain provisions. Consequently, current assets should be added to fixed asset to arrive at total assets (often termed the “regulatory asset base”) with current liabilities being part of financial obligations deducted to determine investment. The purpose of the calculation is to assess investment rather than build in a return for current assets per se since there is a return on this funding, in large part, usually built into the credit based pricing of sales.

For example, from Table 2, Investment would be assessed as \$2.58b derived as:

Total Assets		\$3.30b
<i>Less</i> Trade Payables	\$0.70b	
Other	0.02	<u>(\$0.72)</u>
Investment		<b>\$2.58b</b>

This corresponds with the components of investment in the ‘revealed’ Balance Sheet of debt (interest bearing loans) of \$0.6b and equity (adjusted for the not separately funded provisions of \$1.01b) of \$1.98, a total of \$2.58.

If Table 1 is viewed as prospective, the vanilla WACC can be assessed from the information in it and in Table 2 as 8.1%. For regulatory purposes, this WACC would be assessed from market data because the Income Statement of Table 1 would be an output of the process rather than an input. For our illustrative purposes, if the 8.1% was externally derived and applied to ‘Investment’ then a required EATBI of \$0.21b would be determined. The regulatory process would then build up to required revenue of \$4.5b from separate estimates of the components in the income statement.

A number of items in this illustration would need to be assessed as matters of fact before the regulated price would be based on the Balance Sheet as shown. This includes consideration of whether the Investment in Subsidiaries was a necessary asset to deliver the regulated services and whether the interest received from Cash & Equivalents would be offset from the required revenue or excluded from the asset base and treated as a surplus asset.

### **The Financial Obligations of Australia Post**

In order to set a fair price, the price regulator must take into account what is a fair rate of return to the equity holders of the company – the residual claimants to revenue. Where there is a non contractual financial obligation or where liabilities are not expensed or are not adequately expensed, i.e. we cannot identify a separate party to the liability, then the liabilities will become an obligation of equity, there is no one else to be held accountable for the liability. In these circumstances the liability will become a charge on or a cost to equity and conversely if they are over expensed or over funded. Because the liabilities or provisions are not contractually set they become, ultimately, the responsibility of equity holders and therefore could be expected to attract a capital charge comparable to that of equity.

The means of addressing the problems of over- or under-funding would be to add any explicit expense of such a provision in the accounts to the income attributable to equity holders and similarly in the context of the balance sheet, add the corresponding financial obligation to the capital base of equity holders. In this way the costs of such provisions or liabilities will be met as part of the total return required to equity holders, conceptually it is recognizing that it is often difficult to differentiate what is ultimately equity and what it is a claim against equity and it is usually easier to aggregate the two so that the decision and the separation is not required.

In order to address this issue we will examine in more detail the expenses for Australia Post and any corresponding provisions.

### ***Employee Expenses***

The employee expenses are under Note 3 to the accounts and include wages, superannuation, payroll tax, leave and other entitlements, including separation and workers compensation plus other expenses. To the extent that the employee expenses of wages, superannuation and leave entitlements meet the current payments for such claims and they are recognized in the through expenses in the Income Statement, they do not constitute a liability of shareholders (or the entity). However, to the extent that there are future liabilities they must be met ultimately from equity-holders then the provisioning for such liabilities really constitutes an equity reserve. The effect or value of such provisioning will be discussed under that heading.

### ***Suppliers***

Costs are likely to meet the full cost of trade credit and therefore these amounts can be ignored when assessing the return required to the equity holders of the company.

### ***Depreciation, amortization and the net loss(profit) of the disposal of assets. Net foreign exchange losses and write down are from impaired assets.***

These would be picked up in a balance sheet which is set on market basis and not on an historical cost basis and therefore these amounts can be ignored.

### ***Trade and Other Payables*** (Note 18 to the Accounts).

The amounts expressed here are going to be typically met from the suppliers' costs so the cost of trade creditors is met through Expenses.

### ***Interest bearing loans and borrowings.***

These are contractually set with third parties and therefore will become part of the formal costs of debt dealt with in that context and, therefore, do not need to be discussed in the context of liability accruing to equity holders.

## Provisions

“Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation when a reliable estimate can be made of the amount of the obligation.” (Australia Post, Notes to the Accounts, page 79).

Note 20 to the accounts sets out the Provisions, both current and non current. It is the Provisions, as we indicated above, that need to be examined as to whether or not they should be charged against equity because they are not adequately or separately funded. Amongst the current provisions that are likely to finish up as a cost to equity holders are workers compensation (as discussed), separation and redundancy payments, insofar as these are not adequately compensated amongst expenses.

20. PROVISIONS	Consolidated		Corporation	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>CURRENT PROVISIONS</b>				
Annual leave	174.3	172.5	171.3	170.3
Long-service leave	31.1	34.4	30.4	34.0
Workers' compensation	31.2	24.9	31.2	24.9
Separations and redundancies	6.0	18.5	6.0	18.4
Other employee	23.0	24.8	22.1	24.6
<b>Balance at 30 June 2006</b>	<b>265.6</b>	<b>275.1</b>	<b>261.0</b>	<b>272.2</b>
<b>NON-CURRENT PROVISIONS</b>				
Long-service leave	258.6	236.2	258.3	235.5
Workers' compensation	89.5	98.6	89.5	98.6
Make good <sup>ii</sup>	48.0	49.4	46.0	47.5
<b>Balance at 30 June 2006</b>	<b>397.1</b>	<b>384.2</b>	<b>393.8</b>	<b>381.6</b>
<b>Total provisions</b>	<b>662.7</b>	<b>659.3</b>	<b>654.8</b>	<b>653.8</b>

<sup>ii</sup> P management's best estimate of the cost to restore a square metre of floor space and is dependent on the nature of the building being leased.

Movements in provisions

It is likely that the total (\$654.8) of the Provisions of the Corporation in 2006 above are an obligation of equity and therefore the capital tied up in the Provision has an opportunity cost to equity at the cost of equity capital.

## Australia Post's Asset Base

Defining Australia Post's Asset Base as those assets required for the efficient delivery of the services provided by Australia Post, funded by Australia Post out of its debt and equity. The purpose in examining the Asset Base rather than simply work off the

Financial Obligations side of the 'Balance Sheet'<sup>4</sup> is to estimate the value of the Investment (debt plus equity capital) that requires servicing where no independent value of equity can be set other than as a derivative from the assets. The approach involves estimating the value of assets *less* identifiable financial obligations which are not interest bearing debt or equity *less* those 'assets' which are not required for the provision of goods/services that are the subject of the regulation.

Assuming the Balance Sheet represents current values:

	Note	Consolidated		Corporation	
		2006 \$m	2005 \$m	2006 \$m	2005 \$m
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	31	641.5	568.7	630.3	565.9
Trade and other receivables	6	339.5	360.5	313.4	341.7
Inventories	7	42.8	67.6	42.8	67.6
Accrued revenues		100.5	68.2	102.3	68.2
Other current assets	8	52.7	49.8	50.7	47.3
<b>Total current assets</b>		<b>1,177.0</b>	<b>1,113.8</b>	<b>1,139.5</b>	<b>1,090.6</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	9	230.1	226.1	243.9	238.9
Investments in controlled entities	10	0.0	0.0	77.6	72.3
Investments in jointly controlled entities	11	297.7	285.7	263.6	263.6
Superannuation asset	12	1,351.3	983.6	1,351.3	983.6
Land and buildings	13	739.9	709.5	739.5	707.3
Plant and equipment	13	512.4	515.9	500.0	503.2
Intangible assets	14	155.5	126.2	91.2	70.3
Investment property	15	95.6	89.8	95.6	89.8
Deferred income tax assets	5	243.2	239.2	240.4	237.6
Other financial assets	17	4.9	5.0	4.9	5.0
<b>Total non-current assets</b>		<b>3,630.6</b>	<b>3,078.9</b>	<b>3,607.0</b>	<b>3,071.5</b>
<b>Total assets</b>		<b>4,807.6</b>	<b>4,192.7</b>	<b>4,746.5</b>	<b>4,162.1</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	18	695.8	641.1	678.9	636.7
Interest-bearing loans and borrowings	19	231.3	1.5	230.2	0.0
Provisions	20	265.6	275.1	261.0	272.2
Income tax payable		17.2	31.8	16.3	31.2
<b>Total current liabilities</b>		<b>1,209.9</b>	<b>949.5</b>	<b>1,186.3</b>	<b>940.1</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	19	302.7	531.8	301.1	530.0
Provisions	20	397.1	384.2	393.9	381.6
Payables	21	5.1	4.5	1.5	2.1
Deferred tax liabilities	5	504.9	351.6	502.1	348.9
<b>Total non-current liabilities</b>		<b>1,209.7</b>	<b>1,272.1</b>	<b>1,198.5</b>	<b>1,262.5</b>
<b>Total liabilities</b>		<b>2,419.6</b>	<b>2,221.6</b>	<b>2,384.8</b>	<b>2,202.6</b>
<b>Net assets</b>		<b>2,388.0</b>	<b>1,971.1</b>	<b>2,361.7</b>	<b>1,959.5</b>

<sup>4</sup> Remember this should be a balance sheet whose values should be determined on current market values or their equivalent. The values should not be set under accounting standards unless such a standard happens to give a value equivalent to a market value.

The total assets of the Corporation are shown as \$4,746.5m subtracting Trade and Other Payables (\$678.8) as liabilities already paid for in costs of supplies leaves \$4,067.7m. Of this total, \$531.3m is interest bearing debt (assumed the current value of the debt) and an independent Superannuation fund (\$1351.3m). Further, we are advised by Australia Post that there are excess assets to the production process or assets already paid for or serviced by other than Australia Post of Investments in Controlled and Jointly Controlled entities a (\$341.2) and Investment Property (\$95.6m), then the balance (\$2,279.6) is Investment upon which the weighted average cost of capital must be earned. Deducting interest bearing debt of \$531.1 leads to an estimate of equity capital of \$1,748.3 which implicitly includes Provisions and Deferred Tax which until paid are the responsibility of equity holders - a claim against equity. The total is somewhat less than (\$2,361m) of equity capital shown in the balance sheet.

The estimates provided above are clearly only illustrative because we do not have current value for assets or liabilities and we have not independently assessed what assets and liabilities are surplus to operating requirements. Further we have not addressed whether the assets and liabilities are all used for the service offering subject to regulatory pricing.