**Information about the company**

* Automotive, hardware and sporting
* Privately owned by Clifford family
* Doing bad recently
* Hoping to restructure debt
* Reconsider with bank vs take security under bankruptcy laws

**Required**

1. Financial accounting treatments that are faulty

The company is participating in accounting practices that are not correct and falsely making the company look weaker. These issues are brought up in the following notes:

*Note 1*  
Lease Inducements fully accrued and expensed whereas they need to be expensed with investments related to the unit; falsely accruing expenses to make the financial position seem weaker

*Note 5*  
They are siphoning money out of the company through the means of the credit collection company that is also owned by the Clifford Company

*Note 6*  
Inventory number is falsified as it was counted by the CSL team and no outside auditors. It could be well overstated or understated

*Note 8*19M in inventory that has been consigned may have been included as inventory and therefore wrongly capitalized as inventory

*Note 9*The company has accrued future costs, such as closing costs and severance costs; these must be accrued along with time and not in one go. This is a good way to make the company look worse off than it actually is

*Note 10*  
Gains from sale of the brand were not recognized even though they may exist.

*Note 11*False expensing of the contracts signed with contractors. To the total of 24M, the company can only expense this when work begins or is completed, depending on the status of the contracted work.

*Note 13*The company is realizing losses on exchange in their income line, something that must be realized in comprehensive income as a loss. This is done to make the net income figure look worse and, therefore, make the company look worse off.

*Note 15*  
Cash lease inducements received in 1997 have been deferred. This is incorrect practice and is making the balance sheet figure seem contracted. The company is supposed to debit the Cash balance and credit lease inducements under a contra account under PPE.

***Note 1*The company may have falsely impaired the value of the malls.**

As can be seen from the outstanding issues above, there a multitude of accounting errors made by the company; errors that fulfill a deeper agenda. As a creditor, it is important to realize that a lot of these accounting “mistakes” make the company seem weaker and can be used to justify bankruptcy and failure to pay creditors.

1. Pros and cons of the CSL strategy; the one they hope to use to turn around the company

The company has made some bad decisions relating to strategy, mostly denoted by notes 1 and 10. The issues are outlined below:

*Note 1*Selling of well-performing mall in major Canadian city. Why? Seems like a bad idea and terrible decision making by management

***Note 9*The closing of 15 of its stores does not look too good or could be a very good thing. We do not have enough information to determine whether it was a sale of assets that were a necessity to the company or whether they were assets that the company could function without.**

***Note 10*The company is doing a terrible thing by selling off its brand. Seems like management does not care for CSL anymore.**

In summary, Management is making some questionable decisions regarding strategy. These decisions can end up hurting the company really badly in the future and causes concerns for a potential creditor looking to get their money back.

1. Financial position and health with 4 ratios
   1. Profitability and liquidity/solvency ratios
2. Remarks about CSL management

Management is doing a lot to make the company seem weaker while simultaneously siphoning money out of the firm; money that can be paid out to investors in times of financial distress. The issues are outlined below:

*Note 4*Taken out 160M in unsecured debt from bank. This is shady as the company is threatening to file for bankruptcy

*Note 5*Management is purposefully taking money out of the company and covering it up with excuses such as “tax planning purposes”; the executive team cannot be trusted

*Note 10*The company is selling off the brand name to itself. This is to secure the value in the company that comes from the brand and be able to liquidate all the things that can be bought back in the future. A total dick move by the family.

*Note 16*The company asked their subsidiary not to pay them dividends in light of their situation; management is doing all in their power to make the company look as financially instable as possible.

***Note 8*Executives are overly bias?**

As outlined below, the management team is doing all they can in their power to siphon money out of the firm in hopes of paying as little as possible to the bank in the near future. As a creditor, it is important to realize that management is actively trying to take money that is rightfully owed to the creditors.

1. Miscellaneous that the bank should look at

In terms of anything else the bank should look at, there is an offer by a US investment company to buy the debt owed to the bank by CSL. This should be looked at as a potential third or fourth option to receiving their funds again. This is denoted in Note 12

1. A recommendation for what the bank should do; restructure debt or not and whether there are alternative ways to go

There are a multitude of things the bank can do in order to have their money returned. First of all, there is the offer by the US investment company for a bid of 50% of the owed debt, denoted under Note 12:

Note 12: The bank could sell of it’s credit to the US investment company for 50% of what is to be owed

Another thing the bank needs to do is to reduce the unsecured line of credit that is bestowed to CSL. This is money that has no collateral and, therefore, in the situation of a bankruptcy, does not need to be paid out:

**Note 4: Reduce the unsecured line of credit as the bank has increased it from 40M to 160M**

Otherwise, the bank should return to CSL with a number of demands. First off, the bank should get the statements audited so that they are fair and according to the accounting principles. Next, the bank should see how much the company is offering to pay back as there is already a bid for the debt owed to the bank. If they offer more than the US investment company, we can disregard option 1 of going with the US investment company. Depending on how the bankruptcy act plays out, we should determine whether we will lose more than they are offering. If we lose more, than we must go to the bank with a deal and additional covenants in order to secure the new revised debt. These covenants will include dividend payout restrictions so that the family cannot receive money from CSL, promises and collateral for the debt that is owed, etc. The bank must secure the debt that they have owed to them by CSL.

**Things to remember about the statements**

* No cash seen in 1997 june 30
* Increases in AR of over 25M within 6 months
* Increase in Inventory of 136M within 6 months
* Drop in investments of 65M
* Increases in AP of 50M
* Bank Loan shot up by 100M
* Retained Earnings reduced by 48M
* Revenue seems to be lagging
* COGS lagging
* Net Loss of 36M

Look over Note 2, 3, and 7.

Look over the ratios