Assessment Schedule – 2012

Scholarship Accounting (93203)

Evidence Statement

Question One

Term	Meaning	Examples	Disclosed
(a) Trade payables	Liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier	An example could be: Inventory supplied	As an expense in the Statement of Comprehensive Income (profit or loss) / or asset in Statement of Financial Position and as a current liability in the Statement of Financial Position
Accruals	Liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced, or formally agreed with the supplier.	Amounts due to employees (eg wages or amounts relating to accrued leave pay).	As an expense in the Statement of Comprehensive Income (profit or loss) /or asset in statement of Financial Position and as a current liability in the Statement of Financial Position
Provisions	Liabilities of uncertain timing or amount. These are reported separately from accruals and trade creditors	Warranty costs or long-term leave pay	As an expense in the Statement of Comprehensive Income (profit or loss) and as a non-current liability in the Statement of Financial Position

(b) Contingent liabilities	A contingent liability is: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation *OR* (ii) the amount of the obligation cannot be measured with sufficient reliability.	Current lawsuit the outcome of which is uncertain Consideration of liability definition and recognition criteria? *Definition* Present obligation as a result of a past event? Outflow of economic resources likely? *Recognition criteria* Probable that economic benefits will flow from the entity? Cost or value that can be measured with reliability?	In the accompanying financial statement notes

Question Two

Note: This is a broad question. Each individual answer will differ.

Photography in a firm's annual report serves a number of purposes. Pictures are the best way to show stockholders what the company's plants, products, employees, customers, and managers look like (Beveridge, 1963, pp. 180–181).

Photographs can be used to illustrate the efficiency of business locations and operations, eliminating reference to the less positive realities of the business world, such as the dangers and pressures to workers and injuries to the environment that business and industry create.

Corporate market and communication tool

Impression management technique

Quality photographs help personalise what otherwise might be seen as an impersonal entity (Rivelli, 1984) and project images to tell a story far more memorable than any text or chart (Hershman & Knecht, 1981).

The content of the narrative sections provokes interpretive and emotional reactions that result in annual reports offering more to readers than data on the company's yearly progress. These sections embed cultural beliefs and values that may affect how readers envision the company, the industry, and even the business practices of the culture. This can be reinforced through the use of photographs

In the same way as advertising, the Annual Report sells a product and an image to customers, business prospects, the press, and present and potential employees.

Used as a tool to promote products and services

Can be used to illustrate 'intangible' issues, such as intellectual capital and other themes that are not measurable

Photographs of directors can be used to show that the company is in good safe hands

Photographs of directors / employees show the 'human face' of the company

A potential issue is that like graphs and tables photographs are not audited

Photographs of children designed to be positive as 'children are generally seen as the future'. Positive/looking forward with confidence

Yellow in the sky television picture together with the balloon shows sunny optimism

Aspirational especially where company makes use of celebrity endorsements

Like graphs which can illustrate a large amount of information in a way that can be visualised easily, photographs can tell a lot about a company. However, just as graphs can be distorted and be misleading, photographs can also distort (eg the harm from tobacco not shown)

Visual rhetoric

Question Three

Accounts receivable

Opening balance	343 000	Bad debts	24 000
Credit sales ($3 990 000 × 0.7)	2 793 000	Cash receipts	2 626 000
		Closing balance	486 000
	3 136 000		3 136 000

Allowance for doubtful debts

Closing balance	44 000	Opening balance	32 000
		Doubtful debts expense	12 000
	44 000		44 000

Plant and equipment

Opening balance	326	Disposals	57
Cash purchases	127	Closing balance	396
	453		453

Accumulated depreciation

Disposals	43	Opening balance	67
Closing balance	124	Depreciation expense	100
	167		167

Rihanna Limited
Cash flow statement
For the year ending 31 December 2012

	NZ$000
Cash flow from operating activities	
Cash was provided from:	
Receipt from customers [$2 626 +($3 990 × 0.3)]	3 823
Cash was applied to:	
Payment to suppliers [$299 + ($522 + $1 986 – $336) – $324]	(2 147)
Payment for administration ($855 – $100 + $18 – $24 – $12 + $28 – $22)	(743)
Payment for selling expenses ($285 + $38 – $43)	(280)
Payment for finance costs	(29)
Payment for income tax ($62 + $250 – $81)	(231)
Net cash inflow from operating activity	393
Cash flow from investing activities	
Cash was provided from:	
Sale of plant and equipment	32
Cash was applied to:	
Purchase of land	(716)
Purchase of equipment ($396 + $57 – $326)	(127)
Net cash outflow from investing activities	(811)
Cash flow from financing activities	
Cash was provided from:	
Proceeds from share issue	326
Increase in loan payable	360
Cash was applied to:	
Dividends paid ($349 + $585 – $804)	(130)
Net cash inflow from financing activities	556
Net increase in cash	138
Cash at 1 January 2011	560
Cash at 31 December 2012	698

Question Four

Gurnard Limited
Statement of financial position (extract)
as at 31 March 2012

	Notes	2012
		NZ$
Liabilities		
Non-current liabilities		
Long-term loan ($1 386 000 – $138 600)	1	1 247 400
Debentures	2	3 135 000
		4 382 400
Current liabilities		
Trade and other payables ($896 540 + $21 400 + $12 100 + $124 740)	3	1 054 780
Current portion of long-term liability		138 600
Tax payable		9 100
Bank overdraft [$3 610 + ($738 000 – $24 810)]		716 800
		1 919 280
Total liabilities		6 301 680
Net assets		7 197 440

Gurnard Limited
Statement of Changes in Equity
For the year ended 31 March 2012

	Notes	Contributed equity	Revaluation surplus	Retained earnings	Total
		NZ$	NZ$	NZ$	NZ$
Balance beginning of year	4	4 844 000	234 300	1 105 330	6 183 630
Comprehensive income for the year			(44 700)	294 510	249 810
Share issues		1 652 000			1 652 000
Distributions					
- Dividends				(150 000)	(150 000)
- Share buy-backs		(576 000)		(162 000)	(738 000)
Balance end of year		5 920 000	189 600	1 087 840	7 197 440

Notes to the 2012 Financial Statement

1 Long-term loan

Mortgage loan	1 386 000
Less : Current portion of mortgage loan	138 600
	1 247 400

The mortgage bond, which is repayable in equal instalments of $138 600, is secured over the company's land. The interest rate is 9 per cent per annum.

2 Debentures

Debentures	3 135 000

The debentures are due for redemption on 30 November 2020. They are secured by a floating charge over the company's assets not covered by the mortgage bond (see Note 1). Interest is charged on the debentures at 6 per cent per annum.

3 Trade and other payables

Account payable	896 540
Interest accrued	124 740
Accruals	12 100
Income in advance	21 400
	1 054 780

4 Contributed equity

	Number of shares	
Balance at beginning of year	1 730 000	4 844 000
Additional shares issued during the year	300 000	1 652 000
Shares brought back during the year	(180 000)	(576 000)
Balance at end of year	1 850 000	5 920 000

Question Five
Issues to consider

Cash flow from operating activities
Cash flow from operating activities show decreased receipts from customers:
- reduced / tepid demand from customers in New Zealand and the UK
- lack of New Zealand confidence
- Christchurch earthquake impacts.

Increase in interest paid
- focus on reduction of debt

Increased payments to suppliers and employees
- soaring price of raw materials
- strong New Zealand dollar

Investing activities
Increasing purchase of property, plant and equipment and intangibles while at the same time closing down UK and US operations appear contradictory.

Financing activities
Increase in cash and cash equivalents is a direct result of borrowings of $38 million to finance cash flows from operations and investing activities. However, debt facilities are in place to December 2013, so the company needs to look for immediate finance to repay debt.
Increased inventory holding will increase interest payments.

Other issues to consider:
Financing activities
No dividends will be declared (Resource Three). This is consistent with cash and cash equivalents on hand as the company could not pay the same amount of dividends as in 2011 without heading into negative cash position without additional borrowings.

Similar organisations
Other clothing companies in Australia are experiencing financial difficulties.

Governance issues
The resignation of the CEO, perhaps influenced by major retail stakeholders (Resource Four).
Continuity of management is important – see *Mainfreight* (Resource Two).
All directors need to be focused on the same outcome (*Mainfreight*). This was not the position with *Pumpkin Patch*, for which Prendergast had links with a South Auckland shop fitting company that had received more than $30 million from *Pumpkin Patch* for fittings and fixtures (Resources Two and Four).
The new CEO is unknown, so this may cause some market concern (Resources Three Five).
The company was forced to reduce directors' fees (Resource Six).

Business strategy
Business strategy perhaps requires review, for example because of not communicating new brands such as *Charlie&Me* to the market (Resource Five).
Venturing into the Mexico market is questionable – not learning from experiences in the UK and US (Resource Six).

Appropriateness of business model could be questioned:
- high-quality clothing competing with lower quality
- stand-alone stores competing with departmental stores such as Warehouse and Kmart.

Shareholding
Institutional investors are decreasing shareholding (Resources Two and Five).
Other individual shareholders, including original IPO shareholders, are reducing shareholding (Resource Two).

Evaluation

Information on the investor relations section of website appears to show an over-optimistic view of the company. It is questionable whether the company can be considered a New Zealand success story, given the fall in share price from a high of nearly $5 to a low of just about $0.60.

Although the brand might be a fashion leader, the business model must be questioned. Are 2 000 styles per season warranted? This leads to high inventory levels, which has been questioned (see resources). This, in turn, has an impact on interest payments.

A strong history of earnings and revenue growth could be questioned given the information in resources and graphs provided in annual reports, which show a decline from 2009.

Whether the company is well positioned for growth must also be questioned given that UK and US stores are being shut down. However, thoughts of moving into Latin America and an increased online presence may mitigate this.

Future investment

Share price dropped on the news of the CEO’s resignation (Resource Eight), then increased by 10 cents in response to news of cost-cutting and reduction of bank debt, when the share price appeared to hold steady (Resource Eight). On the positive front, a Reuters survey rates shares a “hold” with a price target of 91 cents. So for an investor who is not risk adverse, this could be a good investment. Institutional investor ACC is increasing its shareholding to 7.43 percent (Resource Five), but this must be weighed against original and founding shareholders reducing their holdings.