ISCTE IUL
Instituto Universitário de Lisboa
Lisbon University Institute

Financial Accounting

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GAi

Chapter 3

Cases

Cases to be solved in classes (*):

Case 3.01 Corticeira Amorim

Case 3.02 Média Capital

Case 3.03 Delta Cafés

(*)These cases were prepared based on the consultation of the sources mentioned in each. They were built exclusively for educational and academic perspective. Some of qualitative and quantitative information and questions presented are purely hypothetical. The names, trademarks and logos are the property (ies) organization (s) set (s) to which we appreciate the understanding, cooperation and courtesy.

CASE 3.01 Corticeira Amorim[1]

Concepts

- Income Statement.
- Recognition of Income /revenues) and Expenses (accrual basis).
- Effect of operational transactions on Income Statements and on the Balance Sheet.

Learning Objectives

After the study/solving this case students should::

- Understand the relation between the business and the income statements.
- Know how to identify the criteria for recognition of revenues and expenses.
- Know how to identify the effect of operational transactions on the financial statements.

Resources

- Vídeo A Corticeira Portuguesa – Grupo Amorim: http://videos.sapo.pt/eouYLz720ryDHH5SiV8P
- Website: www.corticeiraamorim.com
- Slides from the classes.
- Recommended book.

Previous autonomous work

- See the video and the website;
- Reed the case
- Study slides and the chapter 3 of the book.

[1] Sources: www.amorim.pt e www.corticeiraamorim.com. These cases were prepared based on the consultation of the sources mentioned in each. They were built exclusively for educational and academic perspective. Some of qualitative and quantitative information and questions presented are purely hypothetical. The names, trademarks and logos are the property (ies) organization (s) set (s) to which we appreciate the understanding, cooperation and courtesy.

CASO 3.01 Corticeira Amorim

Corticeira Amorim: Leading in the cork industry

Preliminary note

The Corticeira Amorin is the world's largest cork products and one of the most international of all Portuguese companies, with operational activities in dozens of countries, from all continents. For more than a century that this firm is developing business in this industry and has contributed to the dissemination of cork worldwide.

History of Corticeira Amorim

The birth of Coticeira Amorim dates from 1870 with the founding of a small factory of cork plugs for the wine industry, on the quay of Vila Nova de Gaia. In the early´30s, this factory, founded by Antonio Alves de Amorim, sees itself as the largest cork factory in the northern Portugal, counting with 150 workers. In 1930 the firm was already exporting to Japan, Germany, United States, France, Brazil, England, Holland, Belgium and Sweden, assuming clearly as a global organization.

After the Second World War, the company management is assumed by the third generation of the Amorim Family, consisting of four brothers: José, Américo and Joaquim Ferreira de Amorim. In the early´6os, Portugal stands out as the world´s largest producer of cork plugs. However, the activity of Corticeira Amorim was based mainly on the export of this resource without being subject to a great transformation.

In 1963 the Amorim´s brothers began the process of vertical integration in the cork industry, with the creation of an industrial unit dedicated to the production of granules and agglomerated cork, with the initial goal to take the 70% of waste that the company generated with the manufacture of corks, with which became possible to produce a set of new applications in cork.

In 1988, it is witnessing a new milestone in the history of Corticeira Amorim, with the launch of a public offering shares in its own capital in the Lisbon Stock Exchange. Nevertheless, despite the opening of its capital to the public, Corticeira Amorim continues to be controlled by the Amorim Family, its largest shareholder.

In the late ´90s, it was launched a new corporate image of Corticeira Amorim. The logo became a stylized tree with the name of Amorim symbolizing the Group principles: environmental harmony, natural strength and confidence in growth, which reinforces the identity and culture of Amorim.

Business Units

Raw materials: purchase, storage and preparation of cork, raw material used in the remaining business units

Cork stoppers: production of cork stoppers for sale to the wine industry;

Floor and Wall coverings: covering production of cork and cork and wood, for example parquet wood;

Composite cork: production of composites in many applications of industrial sectors

Insulation Cork: production of materials used in thermal and acoustic insulation.

Income Statement

The income statement presents the Corticeira Amorim revenues and expenses to the reporting period. Below is showed the income statement referring to 2011.

Income Statement of Corticeira Amorin
(Thousand euros)

	Notes	2011	2010
Sales	VII	494,842	456,790
Costs of goods sold and materials consumed		243,123	221,777
Change in manufactured inventories		3,288	1,817
Gross Margin		**255,007**	**236,830**
		51.2%	51.8%
Third party supplies and services	XXIII	86,602	78,320
Staff costs	XXIV	93,751	90,712
Impairments of assets	XXV	1,872	2,140
Other gains	XXVI	7,502	6,860
Other costs	XXVI	7,846	6,512
Current EBITDA		**72,437**	**66,006**
Depreciation	VIII	21,060	20,867
Current EBIT		**51,378**	**45,139**
Non-current costs	XXV and XXV	5,792	5,110
Net financial costs	XXVII	-5,515	-4,164
Share of (loss)/profit of associates	X	91	350
Profit before tax		**40,162**	**36,215**
Income tax	XI	13,747	14,461
Profit after tax		**26,415**	**21,753**
Non-controlling interest	XVIII	1,141	1,218
Net Income attributable to the equity holders of CORTICEIRA AMORIM		**25,274**	**20,535**
Earnings per share - basic e diluted (euros per share)	XXXI	**0.200**	**0.162**

Questions:

1 Elements of the income statement

a. Identify and define the two main elements of the income statement of the Corticeira Amorim.
b. Discuss any examples of income and expenses that must be highly importance to Corticeira Amorim.
c. C. What is the weight of the cost of goods sold and materials consumed, supplies and services and personnel expenses in total operating expenses of Corticeira Amorim in the year 2011?
d. Assume, hypothetically, that the operating expenses of Corticeira Amorim include, among others, the following elements. Identify which are included in cost of goods sold and materials consumed, (third part) supply and services and (staff) personnel expenses.

Operating Expenses
Render of a warehouse of finished products used by the entity
Consumption of various fuels and fuel oil
Salaries of employees
Social security contributions paid by the entity
Consulting services acquired
Electricity consumption in the factory and administrative facilities
Consumption of cork (for production of stoppers)
Wood consumption for manufacture of parquet
Law services
Glue consumption (in the case of agglomeration)
Performance bonuses to employees processed
Telecommunications

e. What is the value and the meaning of the Corticeira Amorim depreciation for the year 2011?
f. If Corticeira Amorim Cibo is only financed by its shareholders, which is net income before taxes that would appear in the year 2011?
g. Was the Statement of Results Ceibo Amorim prepared in accordance with the cash basis or according to the accrual basis? Why?

2 Effect of transactions on the elements of the income statement

a. Assume, hypothetically, that in the year 2012 the following events with an economic impact on the Corticeira Amorim (amounts in Euros' 000) occurred. Identify the effect of each of these events in the income statement and / or balance sheet of Corticeira Amorim.

Events/transactions
Sales of cork stoppers by 200.000, with receipt of 70% in 2012 and the remainder in 2013.
Purchases cork by 120.000, with 100.000 paying immediately and the remainder in 2013.
Consumption for the production of cork stoppers, worth 80.000.
Expenses incurred on staff, amounting to 40.000.
Hiring various services (energy, water and fuel, among others), totaling 50.000. 90% of this amount was paid immediately and the remaining 10% will be paid in 2013.
Depreciation of tangible fixed assets in the amount of 10.000.

b. Explain how and to what value this income and these expenses affected the equity of Corticeira Amorim.

CASE 3.02 Media Capital[2]

Concepts

- ❖ Income Statement.
- ❖ Recognition of Income /revenues) and Expenses (accrual basis).
- ❖ Effect of operational transactions on Income Statements and on the Balance Sheet.

Learning Objectives

After the study/solving this case students should::

- ❖ Understand the relation between the business and the income statements.
- ❖ Know how to identify the criteria for recognition of revenues and expenses.
- ❖ Know how to identify the effect of operational transactions on the financial statements.

Resources

- ❖ Vídeo A Corticeira Portuguesa – Grupo Amorim: http://videos.sapo.pt/eouYLz720ryDHH5SiV8P
- ❖ Website: www.corticeiraamorim.com
- ❖ Slides from the classes.
- ❖ Recommended book.

Previous autonomous work

- ❖ See the video and the website;
- ❖ Reed the case
- ❖ Study slides and the chapter 3 of the book.

[2] Sources: Fontes: www.mediacapital.com These cases were prepared based on the consultation of the sources mentioned in each. They were built exclusively for educational and academic perspective. Some of qualitative and quantitative information and questions presented are purely hypothetical. The names, trademarks and logos are the property (ies) organization (s) set (s) to which we appreciate the understanding, cooperation and courtesy.

CASE 3.02 Media Capital

Media Capital: global entertaining

- Website: www.mediacapital.pt

Preliminar Note

Grupo Media Capital is the leading media group in Portugal.. Its activity is structured in five business areas: television, audiovisual production, radio, music and entertainment, and digital.

Its leadership strategy is based on a profitability and independence and a commitment to the development of information, culture and entertainment in Portugal, with reference to the interests and preferences of viewers, listeners, readers and advertisers.

History

"The Media Capital Group was established as a publisher of print media in 1992. In the following years, the Group acquired a number of publications that were characterised by strong brand names and significant circulations. These publications included "O Independente", a weekly newspaper that covered major political and business news of the week.

The Group's first significant investment in other forms of media occurred in 1997 when it acquired Rádio Comercial, and Rádio Nostalgia. In 1998, the Group made a strategic investment in television broadcasting by acquiring a 30% interest in TVI. From 1999 to 2003, the Group also expanded its radio operations, diversified further into outdoor advertising and launched its Internet business creating the IOL brand in 2000.

The acquisition of NBP in 2001 consolidated the Group's position in the television market as a whole, with a strong investment on the production of fictional contents in Portuguese. In 2008 Media Capital sold its press business unit to Progresa (also owned by Grupo Prisa) and, at the end of the year, acquired Plural Espanha that, along with NBP, originated Plural Entertainment, one of the major content producers in Portuguese and Spanish, thus reinforcing its investment in the production and distribution of differentiated quality contents.

The year of 2004 was marked by the preparation of the company for public quotation and subsequent listing of the company's shares on Euronext Lisbon (closed on March 30, 2004). In November 2005, Grupo Prisa became the largest shareholder of Grupo Media Capital. With operations in 22 countries, Prisa in one of the leading media groups in the Iberian market."

Business Segments

TV Broadcastings: TVI, TVI24, TVI International, TVI fiction, +TVI (soon)

Audiovisual production: Plural entertainment (Emmy for best novel in 2010)

Radio: Radio Comercial, M80, CidadeFM

Music and Entertainment: recording (on physical and digital supports), publishing and artist management, events and artist management, being the latter operated under the brand Spot

Digital: IOL Negocios, promoting the online presence of more than 2.200 companies and offering services in online classifieds, companies' directory and website production.

Income Statement

The income statement presents the Corticeira Amorim revenues and expenses to the reporting period. Below is showed the income statement referring to 2010.

GRUPO MEDIA CAPITAL, S.G.P.S, S.A.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(Amounts stated in Euro thousand)

	2010	2009
OPERATING REVENUES:		
Sales	10,141	16,925
Services rendered	213,734	227,462
Other operating revenue	25,133	23,481
Total operating revenue	249,008	267,868
OPERATING EXPENSES:		
Broadcasting costs and cost of good sold	(25,334)	(24,271)
Subcontrats and third party supplies	(106,848)	(112,625)
Payroll expenses	(67,190)	(74,607)
Depreciation and amortization	(12,174)	(12,527)
Provisions and impariment losses	(7,929)	(3,195)
Other operating expenses	(2,226)	(3,045)
Total operating expenses	(221,702)	(230,270)
Net operating profit	27,306	37,598
FINANCIAL EXPENSES:		
Financial expenses	(6,000)	(11,352)
Financial gains	1,031	2,190
Financial expenses, net	(4,969)	(9,162)
Losses on associated companies, net	(140)	(165)
	(5,109)	(9,328)
Profit before tax	22,197	28,270
Income tax expense	(8,624)	(9,568)
Consolidated net profit for continued operations	13,573	18,702
Attributable to:		
Equity holders of the parent	12,400	17,612
Non-controlling interests	1,173	1,090
	13,573	18,702
Earnings per share (€)		
Basic	0.1467	0.2084
Diluted	0.1467	0.2084

Questions:

1. Revenues, expenses and operating results

a. Identify the major operating revenues of Media Capital and discuss any examples of these elements.
b. Identify the major operating expenses of Media Capital. What is the weight of each in total operating expenses in 2010? Comment.
c. What amount was EBIT (Earnings Before Taxes and interets) of Media Capital, in the year 2010? What does this indicator mean?

2. Financial Results

a. What is the value of the financial results of the Media Capital, in the year 2010?

b. Did the Media Capital generate enough results to meet its financial charges?

3 Effect of transactions on the elements of the income statement

Assume, hypothetically, that the Media Capital created in 2011, a new company for production and marketing of audiovisual content. During the first year of activity, the company generated the following revenues and incurred in the following expenses:

Events/transactions	€'000
Sale of broadcasting rights	800.000
Expenses incurred with staff	200.000
Acquisition and consumption of several services	400.000
Depreciation of tangible fixed assets	(1)
Financing costs	(2)
Income tax	(3)

(1) Tangible fixed assets were acquired in early 2011 by 900.000 thousand euros, with an estimated 10-year useful life and residual value of nil.
(2) The funding needed to make the investment in tangible fixed assets was ensured by equity and a bank loan of 600.000 thousand euros obtained in early 2011 and bearing interest at an annual rate of 5%.
(3) This company is subject to a tax rate on income of 25%.

CASE 3.02 Delta Cafés[3]

Concepts

- Operating decisions and the income statement.
- The accounts and the transaction analysis.
- Record the effects of operational transactions on accounts: the jornal entry and the general ledger.

Learning objectives

After the study/solution of this case students should:

- Know the main captions of the Income Statement.
- Understand the role of each account when analysing transactions.
- Understand and know how to apply the method for record the effect of transactions on the accounts.
- Understand the effect of operational decisions on financial statements.

Resources for support the case

- Slides.
- Recommended book.

Previous autonomous work

- Reading the case.
- Studying slides and Chapter 3 of the recommended book.

[3] Fontes: http://www.delta-cafes.pt and http://www.planetadelta.pt/#/por/planeta-delta/mundo-delta. These cases were prepared exclusively for pedagogical use. Some of the questions are merely hypotheses. The names, trademarks and logos are the property (ies) organization (s) set (s) to which we appreciate the understanding, cooperation and courtesy.

CASE 3.03 Delta Cafés

Delta Cafés: A company with Human Face

In chapter 2 it was presented Delta Cafés, a successful Portuguese company, established in 1961, developing activities related to the roasting, packaging and commercialization of coffee.

Knowing the Portuguese tradition surrounding the consumption of coffee, we launched Telda Coffee & Tea, SA, which acts in the same business are of Delta Cafés.




Immediately after the creation of Telda, SA, it was developed a set of financing activities and investment (recall Chapter 2) with the goal of creating the necessary conditions to start operating activities. The effects of these activities were felt in the company's balance sheet date (ie, before the start of operational activities) namely:

Euros '000

Entity: Telda- Coffe & Tea, Sa **Balance Sheet**	**Balance after investing and financing activ.**
ASSETS	
Non-Current assets	
Fixed Tangible assets	270.000
Intangible assets	150.000
Financial Investments	60.000
Other non-current assets	0
	480.000
Current assets	
Inventories	0
Cash and cash deposits	70.000
	70.000
Total assets	***550.000***
SHAREHOLDERS EQUITY AND LIABILITIES	
Shareholders Equity	
Capital (contributed)	350.000
Retained earnings and other changes in SE	0
Net income	0
Total SE	***350.000***
Liabilities	
Non-current Liabilities	
Long term loans	80.000
Other accounts payables	120.000
	200.000
Current Liabilities	
Short-term loans	0
Suppliers	0
Other current liabilities/other accounts payables	0
	0
Total Liabilities	***200.000***
Total SE and Liabilities	***550.000***

The shareholders decided to start operational activities with the main goal of getting profits. Suppose that, between the starting of the operational decisions (July, 2011) and the end of 2011, the following transactions occurred:

1. Acquisition of 5 tons of coffee beams from a supplier, for 3.000, payable at the beginning of 2012.
2. Short term bank loan, amounting 20.000, to face the current cash needs. This bank loan will be repaid in early 2012.
3. The coffee beams acquired (point 1) were totally consumed.

4. During the accounting period, Telsa SA supported costs with employees amounting 10.000. From this amount, 9.500 were immediately paid. The other 500 are related with IRS and Tax security and will be delivered to the State at the beginning of 2012.
5. Purchase of packaging materials worth 500. The payment was immediately made.
6. Expenses involving electricity, water, fuel, and other miscellaneous consumables, as well as marketing services, amounted 1.200, from which 900 were paid in 2011, and the remainin will be paid in early 2012.
7. Consumption of the packaging materials acquired.
8. Payment of insurances and maintenance of industrial machines, for 250.
9. The depreciation of industrial equipment was 15.000.
10. Sale of all the coffee production (roasted coffee beams and ground coffee) to several clients. The total sales were 45.000. From this value, 60% were received in 2011 and the remainder will be received in 2012.
11. Payment of interest on bank loans incurred in 2011 amounting 4.500.
12. The income tax relative to 2011 is about 2.500, but it will be just paid to State in 2012.

Questions:

1. Record the effect of operating transactions in the accounts

a. Discuss the following statement: the Coffee & Tea Telda must move their accounts of revenues and expenses in the same way that moves their accounts of liabilities and assets, respectively.
b. Discuss the following statement: whenever we charge an expense account, we have to credit an income account.
c. Record the effect of each of the transactions Telda Coffee & Tea in the Journal entries.
d. Record the effect of each of the transactions Telda Coffee & Tea in the general ledger (T-account), showing the balance of each account.
e. Prepare the income statement of Telda Coffee & Tea.
f. Draw up the balance of Telda Coffee & Tea.

2. Operating activities and income statement

a. Comment on the performance of Telda Coffee & Tea in 2011.
b. By analyzing the Income Statement which was prepared, one employee of Telda Coffee & Tea said: "The income tax should never have been considered in this income statement because in fact, this value is only paid in 2012." Comment on this statement critically, presenting the arguments for or against the opinion of this employee.