

Financial Accounting

2014/2015

GAI

Chapter 4

Cases



Cases:



Case 4.01 Porcel

Case 4.02 Saccor Brothers

Case 4.03 Jerónimo Martins

E 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 property of each organization to which we appreciate the understanding, cooperation and courtesy.



CASE 4.01 Porcel^{1 2}



Concepts

- ❖ Adjustments at the end of the accounting period (year-end).
- ❖ Accruals and deferrals.
- ❖ Depreciations of Fixed Tangible Assets

Learning Objectives

After studying/solving this exercise, students should:

- ❖ Understand the adjustments to be made in the end of each accounting period.
- ❖ To understand the need for adjustments to improve the quality of information.

Objectivos de aprendizagem

Após o estudo/resolução deste caso os alunos devem:

- ❖ Compreender os ajustamentos de final de período.
- ❖ Entender a necessidade dos ajustamentos para melhorar a qualidade da informação.

Resources

- ❖ Video *Porcel* in the movie *Pirates of the Caribbean*
<http://www.youtube.com/watch?v=RjSE12Cp8hQ>
- ❖ Vídeo : *Processo de Fabricação de Porcelana* –http://www.youtube.com/watch?v=Ogc5_S9opus
e *Porcel no Mundo* - <http://www.youtube.com/watch?v=bO1IDC06THs>
- ❖ Website: www.porcel.pt
- ❖ Slides.
- ❖ Recommended book.

Previous autonomous work

- ❖ See the mentioned video and website.
- ❖ Read the case.
- ❖ Study slides from the class and chapter 4 from the book.

¹ Source: www.porcel.pt. 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.

² This case was created by Ana Maria Simões and Isabel Lourenço; translation: Ana Isabel Lopes

CASE 4.01 Porcel

Design, innovation and modernity...

“The Porcel has to offer much more than a product, offers a concept, a style-of-life, an inspiration ...”

Source : www.porcel.pt



❖ Class:

Video: *Porcel in the movie Pirates of the Caribbean*

<http://www.youtube.com/watch?v=RjSE12Cp8hQ>

❖ Website: www.porcel.pt

Entity

The Porcel – Indústria Portuguesa de Porcelanas was founded in 1987, in Aveiro city. Its operational business covers the production of porcelains pieces, which is a Portuguese centenarian tradition.

Despite being recent, this company is recognized nationally and internationally for the quality of its parts, by betting on design and innovation and for their vision of the future and modernity. Its strategy reinforces increasingly investing in and developing new products, new packaging and new decorations, always watching the dynamics and trends of the market as well as the desires and preferences of consumers. Recent years have seen increased internationalization strategy, and this company has nowadays an important presence in several international markets.

With its specialization in domestic and decorative porcelain, the Porcel offers to the market an exceptional personalized service parts, providing customers with the possibility of creating their unique pieces, with their personal brand.



Mission, Vision and Values

MISSION: To create, produce and to trade porcelain solutions with excellence on the customer's service, through competent and motivated staff, and with the involvement of the remaining interested parties, having in mind the sustainability of the company.

VISION: Building a tradition of leadership in the design of solutions in porcelain.

VALUES: Innovation; Flexibility; Precision; Team Spirit.



Manufacturing process

The manufacturing process involves the acquisition of raw materials directly to France.

It is used a special type of material called "Limoges".

The manufacturing process is complex and delicate.

Questions:

1. Accruals and deferrals

- a. Suppose that you were appointed to record the adjustments that must be done in the closing process of year 2011 of Porcel. Start by doing a revision of the concepts that you must apply. Identify in which of the following situations you need to record a deferred revenue (or deferred expense) and an accrued revenue (or accrued expense)

Revenue in N and receipt in N+1
Receipt in N and revenue in N+1
Expense in N and payment in N+1
Payment in N and expense in N+1

- b. Identify in which of the following cases must be recognized, in year N, a deferred revenue (or deferred expense) and an accrued revenue (or accrued expense)

In December N was paid the rent relative to January N+1, for the use of the factory
The expenses with the consumption of electricity in december will be paid in January N+1
The annual interest from a bank deposit will be received in march N+1
In December N was advance received the rent of January N+1 due to a store leased to one customer

2. Adjustments at the end of the period

- a. Comment the following statement: "The closing adjustments are intended principally to correct errors or omissions committed by the accounting officer of the company."
b. Record, in journal entry, the effect of each one of the following events in 2011:

1. Payment of the plant insurance premium, in December 2011. The amount paid (1.500 euros) refers to the period from 1 January 2012 to 31 December 2012.
2. Payment of rents of an office in Porto in December 2011. The amount paid (3.000 euros) refers to the months of December 2011 and January and February 2012.
3. Estimate of November and December's electricity consumption in the amount of 4.000 euros. This amount will be paid only in January 2012.
4. Estimated annual interest payable in early June 2012 on the bank loan obtained in early June 2011. The annual interest was estimated at 5.000 euros.
5. Receipt, in December 2011, of the rent from a warehouse rented to a supplier relative to January 2012. The rent is 1.000 euros.
6. Estimated semiannual interest receivable on March 31, 2012 on a bank deposit made on 1 October 2011. This deposit has an amount of 20.000 euros, and the semi-annual interest rate is 1.5%.
7. Estimated depreciation of a machine purchased on credit, in January 2011, at a cost of 100.000 euros. A useful life of 5 years and a residual value of € 10.000 was estimated.

3. Depreciations

- a. Comment on the following statement: "the depreciation of tangible fixed assets have impact only in the balance sheet, more specifically, in total assets."
- b. Comment on the following statement: "the expenses with depreciations affect the income statement and the statement of cash flows".
- c. Suppose that, after consulting information about fixed tangible assets of Porcel in 2011, you have identified the following information about a "furnace":

Acquisition date: 1 January 2008

Cost of acquisition: 1.200.000 euros

Estimate useful life: 10 years

Residual value: 200.000 euros

Record, in journal entries, the depreciation of the oven in the year 2011 and determine the amount by which the asset is stated in the balance sheet at the end of 2011.

- d. Assume that Porcel also has a warehouse recognized in assets for 2.000.000 euros. Which of the following statements related to the depreciation of this warehouse are false:

When depreciation is recognized, the asset value decreases.

Depreciate the warehouse means reducing the amount owed to the entity that sold the warehouse to the company.

The warehouse depreciation of the value depends only on its estimated useful life.

Recognition of depreciation implies a decrease in equity.



CASE 4.02 Sacoor Brothers^{3 4}



Concepts

- ❖ Adjustments at the end of the year
- ❖ Adjusted trial balance
- ❖ Closing process

Learning objectives

After studying/solving cases, students must:

- ❖ Understand the objective of the trial balance
- ❖ Understand the year-end adjustments that must be done.
- ❖ Understand the process of closing accounts and construct financial statements.

Resources

- ❖ Website: www.sacoor.com
- ❖ Slides.
- ❖ Recommended book.

Previous autonomous work

- ❖ See the [website](#).
 - ❖ Read the case.
 - ❖ Study slides and chapters from the book.
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³ Source: www.sacoor.com. 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.

⁴ This case was created by Ana Maria Simões and Isabel Lourenço; Translation: Ana Isabel Lopes

CASE 4.02 Sacoor Brothers

Statements

4 brothers in “Pascoal de Melo”, in 1989...

History

“Sacoor Brothers was founded in 1989 at number 127, Rua Pascoal de Melo, Lisbon”. It was founded by four Portuguese brothers of Indian descent: Malik, Moez, and Rahim Salim Sacoor. “Sacoor began by selling very affordable articles, for men and women, on its single selling point.



The following year, 1990, Sacoor Brothers opened its second store at Rua Pedro Nunes, also in Lisbon, which was followed by the first store in a shopping center, in 1997. Colombo was the chosen shopping center and it brought instant success, enabling the brand to achieve a sales volume never seen since it was created, when the stock for six months was sold in just two weeks! Sacoor Brothers won greater visibility due to its presence in a large commercial space, allowing the brand to become widely recognizable. Since 2000, expansion never stopped for Sacoor, as the brand opened new stores across the country.

In 2001, Sacoor Brothers opened its first Sacoor Woman store and finally started its international expansion in 2007.

Sacoor Brothers is present in several countries. Today the brand is internationally recognized in the different markets (Bahrain, Dubai, Kuwait, Oman, Belgium, Spain, Moldova, Romania, France, Brazil, the United States, among others).

Sacoor Brothers carefully chooses the location for each new store. Shopping centers must be well located and have a strong flow of customers. Sacoor Brothers is emerging as a brand of excellence with a distinct concept of personalized service, quality and product innovation provided to its customers.”

Source: www.sacoor.com



Unadjusted trial balance

U.C.

Account	Balances	
	Debit balance	Credit balance
Cash	20	
Cash deposits	2.592	
Clients	50	
Other accounts receivable	10	
Merchandises	2.017	
Fixed tangible assets	11.000	
Intangible assets	8.000	
Suppliers		300
State		10
Bank Loans		200
Other accounts payables		20
Capital		20.000
Reserves		15
Retained earnings		80
Sales		15.000
Other revenues		30
Interest revenues and equivalents		40
Cost of goods sold and consumed materials (CGSCM)	6.000	
External Supplies and services	1.500	
Employee expenses	4.500	
Interest expenses and equivalents	6	
Total	35.695	35.695

Questions:

1. Adjustments to be done at the end of the year

a. Comment on the following statement: "an enterprise should recognize an accrued expense to defer or delay the recognition of an expense for the following year."

b. Assume that, when preparing the process of closing the accounting period in 2011, it was identified the need for a set of adjustments for which it is requested journaling:

1. The value of tangible fixed assets identified on the balance sheet is the difference between the acquisition value of these assets and depreciation, which have been recognized over the

years (accumulated depreciation). The residual value of these assets corresponds to 2.000 euros and the company expects to use them until the end of 2020.

2. Spending on communications for the month of December (phones, internet and networks) will be paid only in January 2012. The estimated value is 10 u.c.

3. In December, was paid the insurance of employees work accidents in the amount of 3 u.c. This insurance is for the year 2012. The payment was not registered in the company accounts.

4. Banks loans refers to a loan to be repaid in two installments: a 100 u.c. in 2012 and another 100 u.c. in 2013. No interest charge for the last quarter of 2011 was recorded, and this interest shall be paid only in 2012. The estimated value of this interest is 3 u.c.

5. The income tax estimated for 2011 is 400 u.c

2. Balance Sheet

- a. What is the adjusted trial balance?
- b. Prepare the trial balance adjusted at the end of 2011.

3. Preparation of financial statements

- a. Comment on the following information: "the journal entry, the general ledger and the balance sheet are financial statements of secondary importance."
- b. Present the income statement for the year 2011.
- c. Present the balance sheet at the end of 2011.

Account	Balances		Adjustments		Balances after adjustments	
	Debit balance	Credit Balance	Debit	Credit	Debit balance	Credit balance
Cash	20					
Cash deposits	2.592					
Clients	50					
Other accounts receivable	10					
Deferals						
Merchandises	2.017					
Fixed tangible assets	11.000					
Intangible assets	8.000					
Suppliers		300				
State		10				
Bank Loans		200				
Other accounts payables		20				
Capital		20.000				
Reserves		15				
Retained earnings		80				
Sales		15.000				
Other revenues		30				
Interest revenues and equivalents		40				
Cost of goods sold and consumed materials (CGSCM)	6.000					
External Supplies and services	1.500					
Employee expenses	4.500					
Depreciations						
Interest expenses and equivalents	6					
Income tax expense						
Total	35.695	35.695				



CASO 4.03 Jerónimo Martins ^{5 6}

Concepts

- ❖ Adjustments at the end of the year
 - ❖ Unadjusted and adjusted trial balance
 - ❖ Closing process
 - ❖ Closing accounting cycle: construction of financial statements.
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Learning objectives

After studying/solving cases, students must:

- ❖ Understand the objective of the trial balance
 - ❖ Understand the year-end adjustments that must be done.
 - ❖ Understand the process of closing accounts and construct financial statements.
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Resources

- ❖ Vídeo : <https://www.youtube.com/watch?v=DPV79oxTmVY>
 - ❖ Website : www.jeronimomartins.pt
 - ❖ Institucional: http://www.jeronimomartins.pt/media/570873/ap_institucional_jm_pt.pdf
 - ❖ Slides
 - ❖ Recommended book
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Previous autonomous work

- ❖ See the video and website.
 - ❖ Read the case.
 - ❖ Study the slides and chapter 4 of the recommend book.
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⁵ Source : www.jeronimomartins.pt 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.

⁶ This case was created by Francisco Cambim and Isabel Lourenço; Translation: Ana Isabel Lopes

CASO 4.03 Jerónimo Martins

Jerónimo Martins: leadership in food distribution

History

The history of this group dates back to 1792, the year in which the young Galician Jerónimo Martins arrived in Lisbon and opened his modest shop in Chiado. At this time, Jerónimo Martins could not have imagined that his humble shop would live more than two centuries, becoming a reference in the area of distribution.

In his small shop (at the time), the young Jerónimo Martins sold a bit of everything: sausage, sacks of wheat and corn, sauces of tallow candles, jugs of wine, brooms, etc.

While thriving in appearance, the company can not handle the real economic revolution brought about by World War I and is faced with bankruptcy.

The solution to the store in Chiado came from the north, through Manuel Francisco dos Santos. The two partners in Grandes Armazéns Reunidos, a limited company founded in Porto in 1920, had started from nothing, working tirelessly to make their way in life and take charge of the "fine grocers". The company was reborn under the name "Establishments Jerónimo Martins & Filho".

In 1968, the current Chairman of the Board of Directors, Alexandre Soares dos Santos, took charge of the family business after the death of his father. He was the first person to realise that the future of Jerónimo Martins would involve building a strong presence in Modern Distribution, at a time when the Group's results were utterly dominated by manufacturing.

The vision and audacity of his leadership, which has lasted 42 years, and his ability to inspire and lead thousands of employees over decades, have made Jerónimo Martins the Group it is today.

The business

The Jerónimo Martins Group is a food specialist that operates in three different areas: Distribution, Manufacturing and Services.

The Group operates in Distribution, through Pingo Doce, Recheio, Biedronka and ara.



But Jerónimo Martins is also in the Manufacturing industry, through its holdings in Unilever Jerónimo Martins and in Gallo Worldwide.



Assume, hypothetically, that in December 31, 2013, the unadjusted trial balance of a specialized retail unit of the group, the supermarket chain "Well and Good", submit the following information.

Unadjusted trial balance

C.U.

Account	Balances	
	Debit	Credit
Cash	8.080	
Cash deposits	2.368	
Clients	200	
Deferals	200	
Other accounts receivable	40	
Merchandises	8.068	
Fixed tangible assets	45.000	
Intangible assets	32.000	
Suppliers		11.400
State		40
Other accounts payables		80
Bank Loans		800
Capital		80.000
Reserves		60
Retained earnings		320
Sales		50.000
Other revenues		120
Interest revenues and equivalents		160
Cost of goods sold and consumed materials (CGSCM)	21.000	
External Supplies and services	7.000	
Employee expenses	8.000	
Depreciation Expenses	8.000	
Amortization Expenses	3.000	
Interest expenses and equivalents	24	
Total	142.980	142.980

Assume also that at the end of 2013, the responsible for the financial reporting of this supermarket chain has identified the need to perform some further adjustments to the accounts of the Balance and / or Income Statement. These adjustments result of the following cases:

1. It is not recorded yet the payment of the insurance premium for the “goods distribution vehicles”, amounting 300 c.u. This insurance covers the period from 1 December 2013 to 1 March 2014.
2. The interest expenses on a bank loan were not yet recognized. The bank loan is 500 c.u., and it was obtained in 1 September 2013. The interest rate is 6%, annual, the bank loan is reimbursed in 5 installments, and the first installment will be paid in 1 September 2014.
3. The holiday subsidies of several employees for the year 2013 and payable in 2014 were not recorded yet. The total amount is 2.000 c.u., including the charges for social security at a rate of 23,5%.
4. The company had not accounted for the acquisition of the right to exclusive distribution of the detergent brand "Clear All", for 3000 c.u. The payment is made in three equal annual installments in 2013, 2014 and 2015. The contract is valid for 10 years and began on April 1, 2013.
5. It is not recorded yet the annual rent of a “cold storage”, for 200 c.u., paid in 31 December 2012 but relative to the year 2013.
6. It is not recorded yet the payment of interests on a bank loan. These interests were paid in 1 December 2013, and the bank loan was obtained in 1 December 2012.
7. The company purchased one new equipment weighing of bulk goods, for cash, at a value of 5.000. This equipment has been available for use on October 1, 2013. The expected useful life is 10 years and the residual value totals 1.000 c.u. In late 2013, the depreciation of this equipment had not been recognized yet.
8. The company has not calculated the income tax of 2013, subject to a fee of 25%.

Questions :

1. Adjustments at the year end

- a. Record, in journal entries, all the adjustments that were not yet recorded at the end of 2013.
- b. Prepare the adjusted trial balance of the supermarket chain "Well and Good"

2. Financial Statements

- a. Present the Income Statement for the year 2013 of the supermarket chain "Well and Good".
- b. Present the Balance sheet of the supermarket chain "Well and Good" at the end of 2013.