

Financial Accounting I

2014/2015

GAi

Chapter 5



Cases:



Case 5.01 Modelo Continente

Case 5.02 Grupo Leya

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CASE 5.01 Modelo Continente¹

Concepts

- ❖ Sales revenues. Sales at prompt payment and on credit (or at account).
 - ❖ Trade discounts and sales returns.
 - ❖ Accounts receivable, impairment losses, and reversals of impairment losses.
 - ❖ Cash.
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Learning Objectives

After the study / resolution of this case students must:

- ❖ Understanding the recognition and measurement of revenue from sales.
 - ❖ Understanding the need for recognition of impairment losses on receivables.
 - ❖ Understand the purpose of the cash account.
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Slides

- ❖ Chapter 5.
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Resources

- ❖ Video available at <http://www.youtube.com/watch?v=Cd2ILLAtgns&feature=related>
 - ❖ Website: www.continente.pt
 - ❖ Slides.
 - ❖ Recommended book.
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Previously autonomous work

- ❖ See the [vídeo](#) and the [website](#).
 - ❖ Read the case.
 - ❖ Study the slides and the recommended book..
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¹ This case was prepared by Isabel Lourenço and José Pinhão Rodrigues. Adaptation to GAI: Ana Isabel Lopes
Financial Accounting I, Academic year 2014/2015

CASE 5.01 Modelo Continente

Modelo Continente: The brand distribution in which the Portuguese trust!

It was the first chain of hypermarkets in Portugal and remains the reference in the food retail sector of the country. In 1985 when the group Modelo Continente SONAE opened the first hypermarket and revolutionized consumer habits, aimed to create a brand that responded to all customer's needs. Today Modelo Continente wants to continue to be a national reference, providing a more diversified offer of the best products at the best prices and service closer to the customer.



Products

Sonae MC (Modelo Continente) is the national market leader in the retail food, with a number of different formats that offer a varied range of high quality products, at the best prices: [Bom Bocado](#) (restaurants), [Book.it](#) (bookstore / stationery), [Continente](#) (hypermarkets), [Continente Modelo](#) (supermarkets), [Continente Bom Dia](#) (convenience supermarkets), [Continente Horeca](#) (new business area for public and private institutions, traditional retail, Free Shops Service, Convenience Stores and Franchise), [Continente Ice](#) (frozen), and [Well's](#) (drug stores).

Continente Card

The Modelo Continente launched a few years the Continent Card, which is today the largest discount card in the country.

Social Responsibility

The fundamental commitment of the Sonae Group, and Modelo Continente, is the creation of economic value based on principles of ethics and sustainable development in a long-term horizon and based on trust with the parties.

Employees are a distinctive factor in the markets where the Group operates, and this seeks to develop the skills and competencies of each and foster an internal culture that promotes meritocracy.

The Group has also developed projects that seek to benefit society both locally and at national level by taking action in areas such as health, education and environment.

Questions:

1. Sales revenues

- a. Assume that you have been admitted to the Group Accounting Department, and that the director assigned you the task of analyzing and monitoring the accounts of Shop in Shopping center Vasco da Gama.

Assume that you began by examining the criteria used by Modelo Continente in the recognition and measurement of revenue from sales and found that:

Despite allowing the return of the product within two weeks, Modelo Continente recognizes revenue at the time of the delivery to the customer.

The revenue from the sale recognized by Modelo Continente is different depending on the customer use or not the *points card Continente* (a card with discounts on sales).

The revenue from the sale recognized by Modelo Continente is the same regardless of customers buy in cash or on credit.

Do you agree with these principles applied by Modelo Continente? Why?

- b. Assume that then you had to analyze the following transactions that took place on 1 October 2013. Record in "journal entries" the effect of each of these transactions, indicating the date referred to in the register.
 1. Sale of merchandises for 85.000 euros, at prompt payment (in stores). Clients benefit from a 10% trade discount on some of these merchandises, amounting 5.000 euros. The merchandises sold were acquired by Continente for 60.000 euros.
 2. Sale at prompt payment, in the stores, for 65.000 euros. The merchandises are going to be delivered in the client' homes, two days after the date of the sale. These merchandises were acquired by Continente for 50.000 euros.

3. Sale of home appliances with payment in 1 December 2003, for 20.000 euros. The selling price of these home appliances at prompt payment is 18.000 euros. The acquisition price was 14.000 euros.
 4. The clients of the operation (1) returned some of the merchandises bought (clothing). The returned merchandises were sold by 5.000 euros, and Continente also returned immediately to clients the money paid by them (no trade discount was applied to the returned sales). The merchandises now returned were acquired by Continente for 4.000 euros.
 5. Sale of merchandises for 16.000 euros, for cash (in stores) to a client that used the "Continente Card" having accumulated points worth 1.000 euros. These merchandises were acquired by Continente for 12.000 euros.
- c. Comment on the following statement: "An increase in sales is reflected, mandatorily, in an increase of net income".

2. Accounts receivable from clients

- a. Assume that at the end of 2013, you were nominated to review the account of customers of Modelo Continente. After talking to those responsible for recoveries, found that:
 1. There are serious doubts regarding the receipt of the debt of a client who has taken up residence at large (cannot be found). The amount owed was 10.000 euros and the responsible for collecting expects that this amount will not be recovered.
 2. There are serious doubts as to receive the full amount of the debt of a client who had initially been recognized for 8.000 euros. The responsible for recovery has made several efforts to contact the customer and managed to recover 25% of the initial value. It is considered that, given the circumstances, the company probably can only recover 50% of currently outstanding.
 3. The Court notified the Modelo Continente on the insolvency of a customer, stating that this would just pay 20% of the initially contracted debt. Since there were already significant doubts about receiving this amount from the client, who was in serious financial difficulties, Continente had already been recognized in the year 2012 an impairment loss in the amount of the debt (20,000 euros).

Prepare the journal entries with all the information provided about account receivable from customers.

- b. Comment on the following statement: “The recognition of an impairment loss for account receivable from clients impacts on asset but not net income, given the loss still cannot be regarded as definitive”.

3. Cash

Admita que o saldo de caixa e depósitos à ordem em 31 de Novembro de 2014 era 1.200 milhares de euros. Contudo, uma contagem física do dinheiro em Caixa e a análise do Extrato bancário revelaram que a empresa dispunha apenas de 1.040 milhares de euros. Discuta eventuais justificações para a diferença entre o saldo das contas Caixa e Depósitos à ordem e o valor que resultou da contagem efetiva do dinheiro.

Assume that “Cash” and “Bank deposits” in November 31, 2014 were 1.200 thousand euros. However, a physical count of money in cash and the analysis of the bank statement showed that the company had only 1.040 thousand euros. Discuss possible justifications for the difference between the balance of the accounts “Cash” and “Bank deposits” and the value that resulted from the effective counting money.



Case 5.02 Grupo LeYa²

Concepts

- ❖ Sales revenues. Sales at prompt payment and on credit (or at account).
- ❖ Trade discounts and sales returns.
- ❖ Accounts receivable, impairment losses, and reversals of impairment losses.
- ❖ Cash.

Learning Objectives

After the study / resolution of this case students must:

- ❖ Understanding the recognition and measurement of revenue from sales.
- ❖ Understanding the need for recognition of impairment losses on receivables.
- ❖ Understand the purpose of the cash account.

Slides

- ❖ Chapter 5.

Resources

- ❖ Website: www.leya.pt
- ❖ Website: www.continente.pt
- ❖ Slides.
- ❖ Recommended book.

Previously autonomous work

- ❖ See the [vídeo](#) and the [website](#).
 - ❖ Read the case.
 - ❖ Study the slides and the recommended book..
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² This case was prepared by Francisco Cambim and Isabel Lourenço.
Financial Accounting I, Academic year 2014/2015

CASE 5.02 Grupo Leya

Enunciado

Leya: seriously or playing

Previous note

The LeYa group was born in January 2008 as a holding company, in which some of the most prestigious Portuguese publishers and two of the most successful African publishers are integrated.

By integrating publishers and professionals deeply rooted in their respective markets, LeYa today has a solid and diversified expertise in publishing, and currently leader in publishing Portuguese, Angolan and Mozambican authors.

The LeYa now has more than 500 employees, among which are some of the best and most respected editors of the Portuguese-speaking world, but also very professional experienced in other key areas such as production, distribution and promotion of its flagship product (the books).

Through the daily efforts of its employees, playing activities across three continents, LeYa tries to:

- Publish books that people want;
- Encourage editorial creativity;
- Focus on Portuguese language authors;
- Create a business model that allows putting the best books on the market;
- Be an editorial reference group in the Portuguese-speaking countries.

Products

The LeYa publishes textbooks, under the brands Texto, ASA, Gailivro, NovaGaia and Sebenta. The LeYa edit hundreds of books for which hundreds of thousands of students study in Portugal, Angola and Mozambique.



The LeYa publishes books for all levels of education, from pre-school to secondary, providing also manuals for vocational education. Also publishes dictionaries, preparation of books for

exams and tests, review books, holiday, analysis of recommended reading, teaching Portuguese for foreigners, among others.



Aware of its role in supporting education, LeYa is responsible for publishing thousands of exclusive support resources for teachers, assisting in their teaching practice (lesson plans, scripts exploration, resources for replacement classes or powerpoints).

Taking full advantage of new technologies, the LeYa also produces educational digital content designed with high quality standards.

Transactions

Assume that during the month of November 2013 to LeYa held, among others, the following transactions.

1. Sale, prompt payment, of textbooks to Leiria Schools, for 45.000 euros. These books were acquired by 30.000 euros.
2. Sale, prompt payment, of dictionaries and encyclopedies, to chain stores Ler_Devagar, for 40.000 euros. It was assigned to the client a trade discount of 1%. Dictionaries and encyclopedias had been acquired by 32.000 euros.
3. Sales of books to Public Schools for vocational education. The payment will be made in March 2014, for 63.000 euros. The selling price if the sale was received immediately should be 60.000 euros. The books had been acquired by LeYa by 47.500 euros.
4. Due to an error in the manual paging, Leiria local schools returned textbooks that had been sold for 3.000 euros (sale referred to in 1) against immediate refund of amounts that had been paid.
5. Payment to carrier "Rodinhas", worth 500 euros, for the transport and distribution of textbooks in the Leiria region. These costs are supported by LeYa.
6. Payment to several suppliers: 9.000 euros.
7. Expenses with the rental of the central warehouse, or the month of November: 7.500 euros.
8. Depreciation of equipments that are used in the warehouse: 6.000 euros.
9. Processing and payment of monthly salaries of employees: 7.000 euros.
10. Payment of salaries to several authors: valor de 10.000 euros.

Questions:

1. Sale revenues and results

- a. Journalize the effect of each transaction presented (when they occurred).
- b. Determine the operating result obtained with the presented transactions.

2. Accounts receivable from clients

Indicate which of the following statements are false:

A sale on credit never affects the value of customer debts.

The bankruptcy of a customer always affects the value of customer debts.

A sale with trade discount can affect clients' debts.

The receipt of a debt of a client always affects the value of accounts receivable from clients.