

# Financial Accounting I

2014/2015

GAi

## Chapter 6

Cases



## Cases:



Case 6.01 Renova

Case 6.02 Worten

Case 6.03 Logoplaste

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 6.01 Renova<sup>1</sup>

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### Concepts

- ❖ Concept of inventories
  - ❖ Cost of inventories.
  - ❖ Inventory costing methods.
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### Learning objectives

After studying / solving this exercise students must:

- ❖ Understand the cost of inventories.
  - ❖ Understand how to compute the cost of inventories.
  - ❖ Know the inventory costing methods.
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### Resources

- ❖ Vídeos: <https://www.youtube.com/watch?v=atuH3DHgmds>; <http://www.youtube.com/watch?v=BhFrBQIT7Vg>; <http://vimeo.com/22261676>
  - ❖ Website: [www.renova.pt](http://www.renova.pt)
  - ❖ Slides.
  - ❖ Recommended book.
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### Previous Autonomous Work

- ❖ See the video and the website.
  - ❖ Read the case.
  - ❖ Study slides of theoretical lessons and chapter 7 of the Book.
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<sup>1</sup> This case was prepared by Isabel Lourenço and José Pinhão Rodrigues. Adaptation to Gai: Ana Isabel Lopes

### Statement

What do you  
want for  
Christmas?

Small gifts, big smiles.  
Shop Now!



### **“The sexiest paper on earth”**

Renova is a Portuguese company that manufactures products made of paper, such as paper towels, toilet paper and tissues. It is a company characterized by constant innovation. The Renova brand is today a leading brand of European consumer products. Renova products are sold in countries like Portugal, Spain, France, Belgium, the United States or Japan.

In the 60's this company was mainly dedicated to the marketing of products "tissue" for household and sanitary.

During the 80s and 90s are launched new product lines. Following the natural evolution of the business, Renova starts in 1990 its internationalization process. In the late '90s Renova is defined as an organization that sells "products for wellness, in a unique, exclusive. For a new well-being. Body, and Spirit of the Senses. See, feel and touch. The difference is Renova. "

Renova was the first company in the Iberian Peninsula from the sector "tissue" to achieve certification under the most demanding environmental certification standard - ISO 14001. Very early the company demonstrated a strong environmental awareness centered on concern for the recycling of their products and their integration with nature.

In 2005, the company starts with the marketing of their product Renova Black, a product that introduces the differentiation in the sector of toilet paper and as such is seen as very innovative.

Renova is then known as the creator of the black toilet paper, which is a product commonly associated with the idea of refinement or even luxury. Recently Renova created other products

using this same idea. Among them is the toilet paper bright red-colored orange, pink or green lettuce. Renova defines its range of colored toilet paper as the world's sexiest ...

## Questions:

### 1. Concept of inventory

- a. What is an inventory?
- b. Comment the following statement: "The most important inventories of Renova are their merchandises".
- c. Which is the distinctive finished good of Renova? Give examples of other finished goods of this company.
- d. What is the main raw-material of Renova? Give examples of other raw materials.
- e. If Renova decide to sell one industrial equipment must classify it as inventory? Why?

### 2. Cost of inventories

- a. Assume that Renova bought 5 tons of pulp to Portucel. Which of the following expenses should be included in the cost of the paper pulp?
  - Acquisition price.
  - Expenditure on the choice of the paper pulp' supplier.
  - Expenditure on transport of the paper pulp to the factories of Renova.
  - Expenses insurance covering the transport of the paper pulp.
  - Expenditure on the paper pulp' storage.
  - Expenditures supported with pulp bleaching.
- b. Comment on the following statement: "The cost of toilet paper manufactured by Renova is determined in the same way that as the cost of paper pulp that the company acquires to *Portucel*".

### 3. Inventory costing systems and cost flow (exit) assumptions

- a. What are the cost flows assumptions that Renova can use to measure the outflow of toilet paper? Why?
- b. Comment on the following statement:

"In an inflation scenario, the FIFO (first-in-first out) gives a greater CGSCM compared with the WAC assumption (weighted average cost)."
- c. Assume, hypothetically, that you are hired to work in the company Paper Plus, dedicated to the distribution of the Renova brand products in France. The financial reporting manager offers you the following information about the movement of the Paper Plus inventories in the year N.

Determine the cost of goods sold and the value of inventories at the end of year N, considering the use of FIFO criteria and also the weighted cost method (WAC).

	<b>Renova Black</b>
1. Inventories at the beginning of N	100.000 un x 5 €
2. Acquisition of toilet paper (# 1)	250.000 un x 5,56 €
3. Sales of toilet paper	300.000 un x 7,5 €
4. Acquisition of toilet paper (#2)	400.000 un x 5,85 €
5. Sales of toilet paper	350.000 un x 8,0 €
8. Inventories at the end of N	100.000 un. X???



## CASE 6.02 Worten<sup>2</sup>

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### Concepts

- ❖ Concepts of inventories.
  - ❖ Cost of inventories.
  - ❖ Cost out-flow assumptions (or criteria).
  - ❖ Net realizable value.
  - ❖ Impairment losses in inventories.
  - ❖ Inventory systems (perpetual and periodic).
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### Learnings objectives

After studying / solving this exercise students must:

- ❖ Understand the cost of inventories.
  - ❖ Understand how to compute the cost of inventories.
  - ❖ Know the criterias/ assumptios to measure the outflow of inventories.
  - ❖ Know why and how to record impairment losses.
  - ❖ Understand the differences between the two inventoy systems.
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### Resources

- ❖ Website: [www.worten.pt](http://www.worten.pt)
  - ❖ Slides.
  - ❖ Recommend book.
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### Previous autonomous work

- ❖ See the video and the website.
- ❖ Read the case.
- ❖ Study the slides and chpater 7 of the recommended book.

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<sup>2</sup> This case was prepared by Isabel Lourenço and José Pinhão Rodrigues. Adaptation to Gai: Ana Isabel Lopes

### Statement

#### Worten: the best prices

##### Previous note

Worten is the market leader in Portugal in the areas of home appliances, consumer electronics and entertainment. This company excels in variety, offering a diverse range of products and brands. But Worten also offers the best prices. Based on the claim "our strength is the price," Worten justify this as the main commitment to the market.

##### History

The first Worten store was opened in 1996, in Chaves. Since then, the company opens every year dozens of new stores throughout the country. There are now more than 130 stores in Portugal. Worten expanded into Spain with the acquisition of Boulanger chain stores in 2008, and PC City stores in 2011.

##### Transactions

Assume, hypothetically, that in the last week of December of year N were held, inter alia, the following transactions occurred in Worten Faro:

1. Acquisition on credit (normal credit terms) of 200 fans for 20 euros/each to the company *SóBrisa*. The invoice also includes cost of transportation amounting 120 euros.
2. Acquisition of 5.000 radios for 12 euros/each to a Chinese supplier, payable in 180 days. If the acquisition was done in normal credit terms, the acquisition price would be 10 euros/each. Worten paid immediately import duties amounting 5.000 euros and insurance expenses related with transportation amounting 500 euros.
3. Sale, prompt payment, 100 fans for 25 euros/each, and 2,000 radios for 15 euros/each.
4. Acquisition on credit (normal credit terms) of 500 fans for 21,5/euros. The costs with transport were supported by the supplier.
5. Acquisition, prompt payment, of 5.000 radios for 11,4/each.
6. Sale, prompt payment, of 150 fans for 23 euros/each and 3.500 radios for 13 euros/each.



### **1. Concept of inventories**

- a. Give examples of inventories of Worten.
- b. How should be classified the computers owned by Worten that are exposed for sale in the store? And the computers that are in stock in the warehouse? And computers that are being used in the department of customer support?

### **2. Cost and cost outflow assumptions**

- a. Journalize each transaction of Worten in the last week of December, assuming that the company uses the Weighed Average Cost (WAC) to measure the exit of inventories from the warehouse.
- b. If Worten would use FIFO inventory costing of the outputs, what would be the cost of goods sold in the transaction 6?

### **3. Imparment losses in inventories**

- a. In what situations is that Worten have to recognize impairment losses on inventories?
- b. Worten found that, at the end of year N, the net realizable value of a batch of 120 MP3 players recognized for 16 euros each, was only 1.500 euros. What accounting procedure should adopted by Worten?

### **4. Inventory sistems**

- a. What are the main differences between the perpetual inventory system and the periodic inventory system?
- b. If Worten would use the periodic inventory system, how would determine the cost of goods sold?



## CASE 6.03 Logoplaste<sup>3</sup>



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### Concepts

- ❖ Inventories.
- ❖ Value Added Tax(VAT).
- ❖ IVA Liquidado, IVA Dedutível.

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### Objetivos de aprendizagem

Após o estudo/resolução deste caso os alunos devem:

- ❖ Registrar operações sujeitas a imposto sobre o valor acrescentado.
- ❖ Apurar o imposto a recuperar ou a pagar.

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### Recursos de apoio ao caso

- ❖ Website: <http://www.logoplaste.com/>
- ❖ Diapositivos das aulas teóricas.
- ❖ Livro recomendado da UC.

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### Trabalho autónomo prévio

- ❖ Pesquisa no website acima referido.
  - ❖ Leitura do enunciado do caso.
  - ❖ Estudo dos diapositivos das aulas teóricas e capítulo 4 do livro recomendado correspondentes aos conceitos abordados no caso.
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<sup>3</sup> This case was prepared by Ilídio Lopes

Adaptation to GAi: Ana Isabel Lopes

## CASO 6.03      Logoplaste

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### Statement

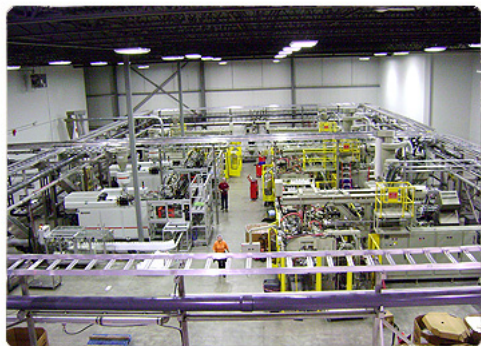
❖ Website: [www.logoplaste.com](http://www.logoplaste.com)

“Logoplaste is an industrial group, manufacturing rigid plastic packaging for some of the most reputable companies in the world, in the food and beverage, personal care, household care and oil and lubricants sectors.

Founded in 1976, for over 35 years, the company has pioneered in-house manufacturing in Europe and beyond with the "hole in the wall" concept, supplying plastic bottles "just-in-time" from factories installed directly on the site of the client.



Today, Logoplaste manages more than 60 factories, more than 350 machines, with locations in 16 countries: Brazil, Belgium, Canada, Czech Republic, France, Italy, Malaysia, Mexico, Netherlands, Portugal, Russia, Spain, Ukraine, United Kingdom, USA and Vietnam. The most up-to-date technologies in injection molding, stretch-blow molding and extrusion molding are used to produce packages across the wide range of market segments.



Aligning its industrial activity and capabilities to the competencies developed in packaging design, and packaging engineering, under the umbrella of Logoplaste Innovation Lab, the Company's goal is to be the natural choice in the supply of rigid plastic packaging solutions.”

### Question 1

Assuming that *Logoplaste* is a company that deducts the VAT paid to suppliers and collects VAT from sales to customers, fill with an X the correct cells of the following table:

N.º	DESCRIPTION	INVOICED VAT	DEDUCTIBLE VAT	NOT APPLICABLE
1	Acquisition of raw materials for production of packages			
2	Acquisition of industrial equipment to the engineer process of packages			
3	Sales of packs for mineral water			
4	Consulting services for the acquisition of stretch molding systems			
5	Water and electricity used in manufacturing plants			
6	Office furniture acquisition to be installed in the accounting and finance department			
7	Sale of large packaging for detergents sold to foreign customer			

### Question 2

Assume that one of the subsidiaries of *Logoplaste* is registered for VAT at the standard rate (23%) and held the following transactions:

1. Acquisition, on credit, of raw materials for 50.000 to produce packs for restaurants.
2. Acquisition of industrial equipment for 43.050 (VAT included), with immediate payment of 50% of total value.
3. Consume of 70% of the raw materials refereed in 1).
4. Sale of aseptic packages for UHT milk, for 100.000, to be receivable in 30 days.
5. Acquisition, prompt payment, cleaning services for 3.000
6. Acquisition on credit, for 75.000, of a patent to produce organic oil.

### Requests:

Journalize all the operations and compute the VAT to be delivered or recoverable from the State.