

# Module A

## Diploma in Financial Management

**PROJECT DA2, INCORPORATING SUBJECT AREAS**

- INTERPRETATION OF FINANCIAL STATEMENTS
- PERFORMANCE MANAGEMENT

All questions are compulsory and **MUST** be answered

The project **MUST** be written in English.

The maximum word count (including appendices and tables but excluding references and bibliography) is 5,000.

The project **MUST** be TYPED in black ink, one-sided, double-spaced, using a minimum 12-point font size and a 1-inch margin at each side. **HANDWRITTEN SUBMISSIONS WILL NOT BE ACCEPTED.** The project must be submitted by post, electronic submissions are not acceptable.

The project should be submitted on A4 paper with your student number, project name, date and page number at the top of each page.

A project submission form **MUST** be completed for each project submitted and attached to the front of the project.

**The Association of Chartered Certified Accountants**



## **Incorporating subject areas – Interpretation of Financial Statements and Performance Management**

**BOTH questions are compulsory and MUST be attempted**

### **Introduction**

In recent years a number of previously listed companies have 'gone private'. In many cases it is the original founder of the company who has taken a controlling interest.

One example of this trend is the fashion retailer New Look. In early 2004, Tom Singh, who founded the company, stated that he wished to acquire the company in order to focus on long term development without having to meet the short term demands of stock market investors.

This comment highlights the fact that the objectives of various groups of shareholders may be quite different.

At the same time as Mr Singh was negotiating to purchase the company, the Chief Executive of New Look reported that the company's strategy was

'to drive sustainable earnings growth through:

- the continuing expansion of our trading space, and especially the development of larger stores in key markets;
- the ongoing development of comprehensive product ranges with broad customer appeal and good potential to increase market share;
- the progressive improvement of our cost to sales ratio;
- and the development of our business in France, where we have identified opportunities for growth.'

### **Role**

In completing this project you are to assume that you are employed by a firm of investment advisors. Your role is to provide advice to both investors and managers of companies in the retail sector. You have been approached by a group of investors who are contemplating investing in a retail group with a profile similar to New Look. They wish to use that company as a template for assessing their options and planning their management approach on the assumption that they successfully complete the investment. You are due to meet with the investors in the near future and they have asked you to provide them with a briefing paper for their review prior to the meeting.

### **Information**

Please note that under no circumstances should you contact New Look.

**Required:**

- 1 Based on the 2002/03 Annual Report of New Look, prepare a briefing paper for the investors which:**
- (a) compares and contrasts the needs of:**
    - (i) institutional investors and** (3 marks)
    - (ii) private shareholders with a long term perspective;** (3 marks)
  - (b) assesses the performance of the company using a maximum of five ratios (or other measures) for each group of investors identified in (a) (NB you should justify your choice of each ratio); and** (32 marks)
  - (c) illustrates how basing the assessments on published financial information limits the conclusions which can be drawn.** (12 marks)
- (50 marks)**

- 2** Following the completion of the acquisition by the investors, you have been asked to make recommendations with regard to a management reporting package. The package is intended to assist managers in assessing the company's performance. You have initially suggested that the company should complement the financial reporting system with an internal reporting system which will focus attention on factors which are critical for success as this will assist in achieving the goal of delivering long term shareholder value.

You have also indicated that benchmarking would be a worthwhile exercise. You have been invited to make a presentation to the investors to develop your suggestions.

**Required:**

**Prepare a presentation (including appropriate visual aids) to the investors which:**

- (a) outlines how shareholder value can be measured, and its relevance for the investors;** (8 marks)
  - (b) identifies and explains the significance of a range of non-financial performance measures which can be used to monitor the performance of the company; and** (24 marks)
  - (c) explains how benchmarking can assist in managing performance and identifies activities which should be benchmarked, together with the specific measures which should be used.** (18 marks)
- (50 marks)**

**End of Project**

