

Mulberry group plc accounting

[Business](#), [Accounting](#)



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	1.	Introduction	

The company that we chose is Mulberry Group. PLC. This is a company that produces and sells bags and purses, as well as designs them for both individuals and other companies. We have chosen the annual report of Mulberry Group. PLC that gives us an in-depth view of the company's finance performance, investment potential, capital structure and manage operating during the period of time which from financial year 2010 to 2011. With this annual report, we will try to analyze and critically appraise the company's accounting information, market report and management control system.

The following content will be included in this paper: Ratio analysis, investment return, debt and capital analysis, governance and risk management.

2. Main Body

2.1 Ratio Analysis

Ratio analysis is frequently used in evaluating a company's financial condition. The financial ratios are able to provide us significant information to analyse the company's financial performance. Depends on these ratios, we can examine the condition of the company's finance and check whether the results of the company's operating meet its targets (Atrill and Mclaney, 2008).

Normally, we will use cash flow, income statement and finance position to calculate ratios. In the ratio analysis parts, we will calculate and analyse the core ratios of Mulberry plc, these ratios will also be the base of the following parts of this article. According to Mulberry's annual report, during the financial year 2010 to 2011, the company has experienced a successful year. Mulberry Group's business mainly focused on the UK market, and the revenues of this company comprised retail and income of design, as the demand of its products increased strongly during the past financial year, the sales raise rapidly.

In this part, we will try to analyze the core ratios of the company and simply analyze the probable reason for the changes of these ratios.

2. 1. 1 Profitability

To analyse a company's profitability, there are three ratios concerned: gross margin, net margin and return on capital employed (Collier, 2009). Firstly, we will look into gross margin. This margin mainly shows the relations between the costs and the price of finished goods. Gross margin (2011: 65.35%; 2010: 58.97%)

Gross margin is: $(\text{Sales} - \text{cost of sales}) / \text{sales} * 100\%$

The gross margin in 2011: $79501 / 121645 * 100\% = 65.35\%$

The gross margin in 2010: $42487 / 72052 * 100\% = 58.7\%$

From the ratio, we can see that the gross margin of Mulberry increased to 65.35% in 2011 from 58.97% in 2010. The reasons that can cause changes in gross margin is the changes in prices and costs. In Mulberry's case, the higher gross margin results from the dramatic improvement in revenue as well as cost of sales. According to Note 5, apart from the growth in sale of goods which caused by the impressive performance in new overseas stores and online stores, the

900, 000 income, which disclosed in other income, received on the exit of the New Bond Street lease also contributes to the increase in revenue.

Net margin (2011: 18. 92%; 2010: 6. 74%) Net margin is an important ratio to examine a company's profitability. The formula is: $\text{Net margin} = \frac{\text{Operating profit}}{\text{sales}} * 100\%$, and the ratio for Mulberry is: The net margin in 2011: $\frac{23010}{121645} * 100\% = 18.92\%$ The net margin in 2010: $\frac{4856}{72052} * 100\% = 6.74\%$ Net margin is closely connected with gross margin. From the information above, we can see that during the last year, the gross margin of this company has increased. But the extent of the increase of net margin is higher than it of the gross margin.

The most crucial factor result in the increase of operating profit is the operating profit before exceptional items. Details about those exceptional items can be found in Note 7 that a deferred consideration of ? 1, 000, 000 has been paid to Challice Limited in terms of the growth in the USA operations. Return on capital employed (2011: 55. 54%; 2010: 19. 26%) Return on capital employed shows the ability of the company to get rewards which can be added into its equity through company's operating behaviors (Atrill and Mclaney, 2008)

Return on capital employed: $\frac{\text{Operating profit}}{\text{assets} - \text{current liabilities}} * 100\%$ Return on capital employed in 2011: $\frac{23010}{(76587 - 34555)} * 100\% = 55.54\%$ Return on capital employed in 2010: $\frac{4856}{(40284 - 13819)} * 100\% = 19.26\%$ From the ratio above, it is easy to find that the return on capital has raised rapidly in last year, from 19. 26% to 55. 54%. ROCE increased not only because the growth in operating profit and raised asset which mainly

contributed by increased inventories as a result of the demand of growing sales and trade receivables.

The trade creditors as well as accruals and deferred income have been included in current liabilities since all of them could be paid within 12 months. Moreover, there are ? 1, 000, 000 provision for the USA deferred consideration, ? 3, 900, 000 relating to payroll and bonus payments made post year end cut off and ? 1, 537, 000 accruals for fixed assets happened in 2011 while there were all nil in 2010.

2. 1. 2 Efficiency Based on Collier's study (2009), there are three core ratios that are usually used to analyse a company's efficiency, they are asset turnover, stock turnover and sales per employee.

The first two ratios are used to measure the efficiency of the company's operating of turning its property to generate marketing behaviors and sales, the sales per employee is try to evaluate the employees' performance. Asset turnover (2011: 5. 90x; 2010: 6. 70x) Asset turnover: $\text{Sales} / \text{non-current assets}$, from it we can calculate: Asset turnover in 2011: $121645/20620 = 5.90x$ Asset turnover in 2010: $72052/10760 = 6.70x$ The asset turnover has slightly fallen, from 6. 70 to 5. 90. The drop of asset turnover indicates a less efficiency use of shareholders' assets in terms of sales, although the revenue has increased dramatically.

However, according to Note 16, it might because the investment in software of ? 615, 000 which cost nil in 2010. It also can be interpreted that the return of investment can be effective and huge if invest on new stores or flagship, however, it could also be inefficient but significant return on investment if invest on software, such as ERP system, which might be expensive and need

much more time to gain benefit from them. Stock turn (2011: 1.9x; 2010: 3.3x) The main business of Mulberry is design and retail, according to Collier's work (2009), stock turn is one of the most important ratio to evaluate the company's management of its stock.

Stock turn: Cost of sale / stock
Stock turn in 2011: $42144/22408 = 1.9x$
Stock turn in 2010: $29565/9090 = 3.3x$
The stock turn in 2011 is lower than it in 2010. That means the stock of Mulberry turns 1.9 times each year now. The considerably increase in inventories which related to the growing demand of sales of goods has contributed to the decline of stock turn. This ratio should be one of the most important ratios of it (Atrill and McLaney, 2008). Stock turn stands for how many times the stock will turn in a year.

Generally, it is important because some businesses treat too much stock as a waste of sources and a high stock turnover rate will usually be regarded as a sign of good management. Although in 2011, there is a decrease from 3.3 to 1.9, it didn't necessarily mean the company's management of stock had some problems because the inventories of the company has increased rapidly as we discussed before. As a retailer, the inventories are very important to ensure its market position and the increase of inventories as a result of preparation for market exploring is reasonable.

2. . 3 Liquidity Atrill and McLaney (2008) stated that the liquidity stands for the short-term finance ability of the company. The ratios that generally used to analyse liquidity are current ratio, and acid test. Current ratio (2011: 1.62x; 2010: 2.14x) First of all, current ratio stands for the proportion between current assets and current liabilities. It is used to analyse the company's ability to repay its short-term liabilities. High current ratio means the company has

enough property to cover its debt, if the current ratio was below 1, the company could be in danger.

However, a too high current ratio might mean the company doesn't make full use of its property. Current ratio: Current assets / current liabilities
Current ratio in 2011: $55967/34555 = 1.62x$
Current ratio in 2010: $29524/13819 = 2.14x$
According to Note 24, the decrease of current ratio mainly because of the current liabilities has increased more than current assets because of those trade payables in current liabilities that not exist in 2010. Acid test (2011: $0.97x$; 2010: $1.48x$) Acid test is a ratio which trying to evaluate the company's monetary asset.

Different from current ratio, acid test is focusing on whether the company can repay its short-term liabilities with its monetary assets. Acid test: Monetary current assets / current liabilities
Acid test in 2011: $33519/34555 = 0.97x$
Acid test in 2010: $20453/13819 = 1.48x$
Because there is high level of inventory in 2011 in order to support the adequate amount of goods to be sale, it is not unacceptable that the monetary current assets without inventory are less than current liabilities for this year. Furthermore, there are several trade payables occurred in 2011 while nil in 2010 in terms of Note 24. . 1. 4 Risk Interest cover (2011: $531.57x$; 2010: $197.00x$) The interest cover has increased as a result of much higher profit since it can be seen in Note 22 that there is no changes in borrowings these two years. Therefore, it can be a good thing to shareholders that interest cover increased healthily. The confusing things we found in the annual report were that there is no debt within these two years, only borrowings can be taken into consideration

the risk. The details about borrowings can be found in Note 22 that seems all the borrowings are repayable on demand.

So, we can't analyze the risk of this company through these ratios. The reasons why the company didn't borrow long-term loans from banks and the advantages as well as disadvantages will be discussed in risk management analysis and funding analysis part. The investor part will be analysed in next part, in the form of buying shares.

2. 2 Evaluation of Mulberry's shares as a potential investment

Mulberry has experienced a significant growth in revenue from 2010 to 2011 and the basic earnings per share increased by 473% to 29. 8p while it was 5. 2p in 2010, both of which are shareholders would like to appreciate.

Moreover, it might be out of question that those figures would attract a good deal of investment. However, it is always necessary to assess whether it is an appropriate timing to invest a company in terms of several financial indicators, such as, market value of equity, the P/E ratio (price earnings ratio), dividend yield as well as gearing (Fonseka and Tian, 2011). This part is going to critically interpret these indicators respectively after an overview on the fundamental financial circumstances and provide a suggestion for investment in the end.

	2011	2010	2009	2008	2007
Revenue	121, 645	72, 052	58, 585	51, 174	45, 078
Share price (p)	1, 333. 33	183. 33	64. 52	133. 33	187. 5

(Table 1) Before conducting a thorough analysis of return and risk, it is worth reviewing Mulberry's revenue for last five years.

It can be seen from Table 1 that Mulberry has kept a sustainable growth in revenue since 2007, which indicates the optimistic picture of their financial

condition. Furthermore, it is remarkable that Mulberry group performed satisfyingly as usual even when other organisation experienced a depressing year result from the financial crisis happened in 2009. [pic](Figure 1) However, comparing the FTSE All-Share, which is a market-capitalisation weighted index of all shares traded listed on the London Stock Exchange's main market (Ince and Porter, 2006), Mulberry group's share price has changed significantly since May 2011.

As can be seen from Figure 1, the share price has increased dramatically after May in 2010 while the FTSE All-Share index has gone up slightly with fluctuation. [pic] (Figure 2) Furthermore, according to Figure 2, which clearly shows Mulberry's share price combined with FTSE All-Share index from 2007 to May 2010, the performance of Mulberry basically enable the share price to track market all the time. Although the price touched bottom in 2009 due to the financial crisis, when there has been an uptrend in market between April in 2009 and April in 2010, Mulberry seemed to catch that opportunity and in April 2010, he price went up to the price peaked point in 2007. It is crucial to mention that the marketing strategy as well as the performance of Mulberry group has contributed most to the significant increase since the second half year of 2009. According to Mulberry's annual report and financial statement for the year ended 31 March 2010, they have continuously invested their business both in the UK and internationally, using retained profit and cash flow.

For example, the showrooms opened in New York and Paris could be successful attempts, both of which have played an important role in the growth of profit. In terms of the strategy has made an initial success, it can

be assumed that there might be an unpredictable potential market share for Mulberry to explore. Actually, the assumption has been approved with the significant increase in revenue and share price for the next half year in 2010 and continued in 2011. [pic] (Figure 3) Figure 3 shows Mulberry's one-year share price associated with FTSE All-Share index comparison starting with June in 2010.

As can be seen from this chart, the price of Mulberry increased too enormously to see the change of FTSE All-Share index, which means Mulberry performed outstanding when the general financial background was not optimistic. Although it is rare to see the share price recover and grow in such a short time after the financial crisis, the increase of Mulberry's might had already been predicted and both managers and shareholders are confident enough to take more market share. Consequently, the ambitious attempts of opening 9 new stores and on-line shop during the next half year of 2010 have been achieved successfully.

Fortunately, the dramatic revenue increase harvested by those new stores and flagship indicates the significant demand of Mulberry's products and services existing in market. In addition, the remarkable performance attracts more investors. However, it is crucial for them to weigh if it is a good timing to invest even though the performance of Mulberry after the financial crisis is extraordinary brilliant. Thus a depth analysis in terms of both return and risk will be conducted in the following sections.

2. 2. 2 Return

Price / earnings ratio (P/E Ratio) Price earnings ratio indicates that the common stock of a company is priced in terms of the ability to generate earnings of this company. Meanwhile, it also can be used to examine

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whether a stock is cheap or expensive (Muresan and Wolitzer, 2001). [? 'm | 2011 | 2010 | 2009 | 2008 | 2007 | | P/E Ratio (adjusted)| 45. 20 | 27. 60 | 14. 30 | 22. 20 | 23. 00 | (Table 2)

Table 2 shows the adjusted P/E ratio of Mulberry between 2007 and 2011. Comparing with the persistence increase in revenue, the P/E ratio, which related to shareholders as well as potential investors, still has declined since 2008. However, the decrease is completely reasonable because the share price was influenced by the unpleasant economic circumstances. In addition, to some extent, it is the financial crisis that reminds Mulberry to consider expand their business internationally rather than focus on UK local market in order to distract risk.

According to Mulberry's five-year P/E ratio, the expansion strategy enables the company not only to recover from the financial crisis but also to double their share price. However, it is also indispensable to take the probability of continuous earnings growth into account, regardless of the appealing doubled return indicated by the P/E ratio. In terms of Mulberry's following strategy will concentrate on production capacity expansion to meet the growing demand, the considerable ability of generating earnings may be guaranteed and remained, even though it seems impossible to gain the similar incredible increase in revenue next year.

Consequently, although Mulberry is a company worth investing since it has extraordinary performance in reacting to crisis, as well as the considerable demand for their products in the market, the best timing of investment in Mulberry has already lost. Market capitalisation (value of equity) The market value of equity is a measurement of present value of all future cash flows to
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shareholders from both assets and future investment opportunities (Adam and Goyal, 2008). It can be calculated by P/E ratio time earnings which is the profits after tax.

	2011	2010	2009	2008	2007
Share price (p)	1,333.33	183.33	64.52	133.33	187.5
Market value of equity	771.11	81.97	36.89	76.37	91.54
P/E Ratio (adjusted)	45.20	27.60	14.30	22.20	23.00
Profits after tax	17.06	2.7	2.58	3.44	3.98
Equity	42.03	26.47	24.38	22.52	16.87

(Table 3) According to table 3, the market value of equity changed with share price instead of the number of equity. However, it is remarkable that even when the market value of equity decreased by half in 2009, it still surpassed the equity in that year. Additionally, with the dramatic growth in revenue, the market value of equity has increased by nearly 95% to 771.1 million between 2010 and 2011, which gives the confidence not only to shareholders but also some potential investors. Nevertheless, if investors decided to invest Mulberry now, it is possible to have two results in terms of return. Firstly, investing for short-term, investors would buy shares with an extremely higher price than two years ago whereas the return would be incredibly smaller. Secondly, investors may harvest a steady return in a long-term investment and there might be another significant increase when Mulberry conducts some other expansion strategies.

Dividend yield Dividend yield can be calculated by taking the dividend per share and divide by the share price. To analysis the investment opportunity with dividend yield, this part applies Burberry as a competitive objective. Even though Mulberry's share price overweighed Burberry's slightly in 2011, Burberry has a much longer history with high share price as in a same

industry. Table 4 provides the share price, dividends per share as well as dividend yield for Mulberry and Table 5 shows Burberry's. Mulberry group plc: |? m | 2011 | 2010 | 2009 | 2008 | 2007 | | Share price (p) | 1, 333. 33 | 183. 33 | 64. 52 | 133. 33 | 187. 5 | | Dividends per share | 4. 00 | 2. 20 | 2. 00 | 2. 00 | 1. 50 | |(p) | | | | | | | Dividend yield | 0. 30% | 1. 20% | 3. 10% | 1. 50% | 0. 0% | (Table 4) Burberry group plc: |? 'm | 2011 | 2010 | 2009 | 2008 | 2007 | | Share price (p) | 1, 176. 47 | 700 | 279. 07 | 444. 44 | 656. 25 | | Dividends per share | 20. 00 | 14. 00 | 12. 00 | 12. 00 | 10. 50 | |(p) | | | | | | | Dividend yield | 1. 70% | 2. 00% | 4. 0% | 2. 70% | 1. 60% | (Table 5) With comparing Table 4 and Table 5, it is obviously that Mulberry has not adjusted their dividends instantly when the share price increased significantly, which results in the unpleasant dividend yield this year. In this circumstance, Burberry seems a wiser investing choice since the 5 times dividends per share of Mulberry's, which will generate more returns for investors. However, Kothari and Shanken (1997) argues that a considerable increase in share price is possible to result in not only the large positive returns but a downward in yield as well.

In addition, according to Akhigbe and Madura (1996), managers' expectation to alter performance strategy would be a factor contributed to the dividend adjustment. Consequently, Mulberry needs more time to balance share price and dividend. Burberry has been mature in its global marketing expansion, while Mulberry has just started to occupy its international market share, and therefore there are more potential opportunities for Mulberry's global development. Thus, Mulberry could be the company suitable and profitable to be selected as a long-term investment.

2011 | 2010 | 2009 | 2008 | 2007 | | Mulberry | n/a | n/a | 0.54 | 0.14 | 23.05 | | Burberry | n/a | n/a | n/a | n/a | n/a | | ASOS | n/a | n/a | n/a | n/a | n/a |

(Table 6) It seems strange that Mulberry does not have debt which results in the incalculable gearing.

However, it is a common phenomenon in rag and accessories trade industry in terms of the gearings of the other two companies presented in Table 6 are unavailable. As a result, the risk of investment on Mulberry would be limited. However, considering the high share price this time, it would be a better decision to invest Mulberry for a long time instead of short time.

2.3 Funding and capital analysis

In this part, we are going to identify the sources of funds, analyse the capital structure of Mulberry Group PLC and try to evaluate its suitability.

It is easy to witness from its balance sheet in 2011, the company did not have any non-current liabilities. This situation can be triggered by a wide range of reasons, we will try to figure them out in this essay.

2.3.1 Funding analysis

To begin with, it is necessary to draw on the annual report of Mulberry Group PLC in 2007, and to compare the different data in the two years. According to Mulberry's annual report, in 2007, the quantity of total non-current liabilities was £3.99 million, composed by borrowings (£1.25 million), preference shares (£.564 million), deferred tax liabilities (£149 thousand), and obligations under finance leases (£27 thousand). Therefore, the gearing in 2007 is 19%, which was quite low. So, the relevantly large proportion of funds, used for maintaining the enterprise's operation, was from internal financial resources. Besides, it also lowered the financial cost, which is used to pay the interest to the financial institutions. In terms of the

cash flow in 2007, it was clearly stated in the balance sheet, the cash generated from operation was £ 926 thousand and, after the corporation taxes, interest and preference dividends were paid, the net cash from operating activities was £ 5700 thousand. Afterwards, the primary use of cash lied in the investing activity, with £ 3, 518 thousand. Finally, the cash and cash equivalents at the end of 2007 was £ 10, 271 thousand, with a big increase of £ 2, 989 thousand. This absolutely intensified the repayment ability and liquidity, when we compare this data with the number of non-current liabilities. Apart from that, the retained profit in this year surged from £ 4, 562 thousand to £ 8, 186 thousand, acting as a significant role in the sources of funds (annual report 2008). By contrast, in 2011, the company had no non-current liabilities. So we use the current liabilities to calculate the gearing of this year, which is 45%. The cash generated from operation was £ 26, 264 thousand and the net cash from operating activities was £ 22, 724 thousand. At the end of 2011, the cash and cash equivalents fairly increased from £ 12, 171 thousand to £ 21, 373 thousand. The increase in raw materials (£ 13, 318 thousand) and purchases of property, plant and equipment (£ 1, 176 thousand) were the important components of cash outflow in this year. When it comes to retained earnings, the data increased by £ 16, 080 thousand to £ 30, 696 thousand.

	2007	2011
Gearing	19%	0%
Non-current liabilities	£ 3, 990 thousand	£ 0
Net increase in cash and cash equivalents	£ 2, 989 thousand	£ 9, 202 thousand
Cash and cash equivalents at the end of the year	£ 10, 271 thousand	£ 21, 373 thousand
Retained profits	£ 8, 186 thousand	£ 30, 696 thousand

It is obviously displayed in the table above that Mulberry's sources of funds and

the capital structure are greatly distinct from each other. The gearing of Mulberry in 2007 was 19% due to the existence of Non-current liabilities. By contrast, since there were no non-current liabilities at all in 2011, the gearing of Mulberry this year was 0.

This definitely lowered the financial expenses which were incurred by bank loans, and the company did not need to face the financial risk triggered by bank loans as well. Furthermore, the operating profit in 2007 was ? 6, 672 thousand and the interest payable of that year was ? 298 thousand, the interest cover ratio in 2007 was 22. 4 times. By contrast, due to the dramatic increase in operating profits (? 23, 110 thousand) and the large drop in interest payables (? 44 thousand), the interest cover rate in 2011 became as high as 525. times. As Gillespie et al(2000) stated that high operating profits could be seen as the company has abilities to control its costs effectively, or the volume of sales are increasing faster than operating cost. Currently, Mulberry has got a much better capacity in paying the interests to the financial institutions, those financial institutions may become more willing to lend money to Mulberry now. Although the retained profits in 2007 played an greatly important role as the major internal funds, but taking the non-current liabilities (? , 990 thousand) into consideration, the level of its significance is partly weakened when we compare it with the situation in 2011, because Mulberry currently just use retained profits as the primary source of their funds for operation. It is worthwhile to mention that, one of the Non-Executive Directors, Melissa Ong, who was appointed on 7 September 2010, her parents held about 57% voting rights of the company. Although it is not clarified in the annual report, we can easily deduct that her parents input a

large amount of investment for Mulberry, which is also a main source of funding.

Inventories acted as another source of funding in Mulberry. The stock turn of Mulberry in 2011 was 1.88x, so the stock turn period was 194 days. The period was relatively long when we compare it with the one (130 days) in 2007, this was partly due to the striking increase in the quantities of inventories, from £6,688 thousand to £22,408 thousand. However, as mentioned in the annual report, the demand of the market surged in recent years, so the high level of stock is beneficial for Mulberry. When the company suffers from the shortage of cash, they can simply turn their large amount of stocks into the form of cash.

Apart from that, a relatively large proportion of inventories were occupied by the finished goods with £20,069 thousand. For Mulberry, which used internal funds as the major source of funding, the high level of inventories is reasonable. However, the reason why Mulberry stopped acquiring long-term funds from banks can be quite complex. As we all knew, the overwhelming Subprime Crisis happened in the year of 2007, forcing a wide range of banks to close down, simultaneously the interest for applying for long-term loans from financial institutions rocketed since then. (The Telegraph 2007) This big trend of the economic environment might lead to Mulberry Group's cease of issuing new loans from the bank. Also, there may be some other reasons. It is fairly clear in the table above, the net increase in cash and cash equivalents in 2011 is about 8 times more than 2007, the balance of cash and cash equivalents in 2011 is approximately 3 times more than the

previous and the similar situation also happens in the retained profits and inventories of these two years.

Therefore, it seems quite normal for Mulberry to cease the long-term creditors and use its retained profits, inventories and the short-term loans as their source of funds, which can also lower the financial expenses for the enterprise.

2. 3. 2 Working capital In order to figure out the suitability of the current financial structure, it is necessary to calculate the number of the working capital and the working capital cycle. Broadly speaking, working capital is a measure of capability for the company which can pay its debt in the short-term liability.

It is certainly important to distinguish between positive and negative working capital (Dyson, 2011). The amount of the working capital is equal to the total amount of receivables, payables, stock of raw materials, work-in-progress and finished goods. As what we mentioned above, we can calculate the working capital of Mulberry in 2011.

Receivables: ? 12, 186 thousand
Payables: ? 11, 949 thousand
Stock of raw materials: ? 1, 684 thousand
Work-in-progress: ? 655 thousand
Finished goods: ? 20, 069 thousand

In 2011, the total working capital of Mulberry was ? 22, 645 thousand. From the composition of the working capital, it is apparent that a comparably large amount was occupied by the form of inventories (? 22, 408 thousand). As the manufacturer, designer and the seller of their own products, it is normal for Mulberry to hold such a proportion of working capital in the form of inventories, thereby meeting the needs of customers and quickly reacting against the sudden change of market's demand, like the big increase in seasonal demand.

When we compare the amount of working capital (? 22, 645 thousand) and the retained profits (? 30, 696 thousand), it seems that there are not any problems for Mulberry to cover the working capital with their retained earnings, due to the considerable gap between them. Taking the cash and cash equivalents (? 21, 373), this indicates that the cash in Mulberry was allocated in operating activities appropriately and there was no idle cash existing in the company, which would lead to an opportunity cost to Mulberry.

In terms of the working capital cycle, we need to draw on some other data from the income statement and the cash flow statement. Sales of goods: ? 121, 645 thousand Cost of sales: ? 42, 144 thousand Material cost: ? 13, 318 thousand Bought-in service: ? 11, 176 thousand So the working capital cycle of Mulberry in 2011 was 85 days. The credit given cycle was 37 days, comparatively a short period when we compare it with the data of credit taken cycle (178 days). This means that Mulberry just spent 37 days getting the cash back for the portion of which was sold to customers on credit.

Also, it could guarantee that Mulberry got enough time to enhance the balance of cash, in order to cover the following trade payables and avoid the running out of cash at the mean time. In another aspect, the liquidity of Mulberry was intensified at the same time as well. However, if we take the company's long-term strategy into consideration, keeping more cash is not the bad thing for Mulberry, as stated in the annual report, they are planning to continually expand the international market and opening more and more retailing and flagship stores throughout the world. Expansion at such a fast rate may call for a large amount of cash.

So, even though there are no problems at all currently for Mulberry to utilize retained profits and short-term creditors as the only source of their funds, issuing some long-term funds, like bank loans, will not bring any disadvantages, although this may incur some charges on financial expenses. From the long-term perspective, it will be beneficial for the company to get some long-term and stable external funds, thereby avoiding the shortage of cash and funds during the process of expansion.

2. 4 Risk management and governance

2. 4. 1 Corporate governance of Mulberry

At the beginning of the corporate governance part, the company states itself as an AIM (Alternative Investment Market) member and complying with the Corporate Governance Code is not required (Mulberry, 2011). AIM is a second board enables smaller companies to float shares with more flexible stipulations (Tricker, 2009). Still, Mulberry follows the fundamental principles of the code (Mulberry, 2011), and importantly, they fit the code contents with their individual situations. Based on this state, our analysis still follows the UK Corporate Governance Code primarily and detects any issues contrary to the code.

Besides, comments and debates are connected with the company's own factors. In the board of Mulberry, the chairman and CEO is the same person. This person, named Godfrey Davis, has been in charge of this company for nearly ten years from November 2002. This setting goes against the UK Combined Code which states, " The role of chairman and chief executive should not be exercised by the same individual" (the UK Corporate Governance Code, 2010: 13). In this case, we doubt that if Godfrey's power

is over-concentrated, which makes him have too strong influence on decision making process in the board (Goyal and Park, 2002).

Consequently, strategies may be generated subjectively. However, a specific explanation is not given in the report. Instead, they only point out several criteria of director selection should be carefully assessed, as a way of reduce the possibility of the problems addressed above. But actually, this state explains nothing about the problem, which conversely doubles our doubts. Next, the numbers of Executive Directors and Non-executive Directors are unbalanced, with five Non-executive Directors and only two Executive Directors.

The five Non-executive Directors are not entitled to govern company routine affairs and the specific running plans while these two Executive Directors actually do (Mallin, 2004). Hence it is doubtful that if these two people really execute independently or just execute generally. Moreover, combining the fact of Godfrey Davis's acting as both chairman and CEO, it especially intensifies our thought on the existence of subjective decision making process (Mallin, 2004), or even the over-centralized management in the company.

On the other hand, these outside directors, instead of actually contributing to the company's strategy and policy making relating to its performance, they are actually “ pushed into a conformance and compliance mode” (Tricker, 2009) and do not take much positive effect. Conversely, McKinsey (2002) debates that a sensible structure is combined with a majority of Non-executive directors because they are indeed independent and can result in

an effective evaluation. On the other hand, it is found in the profile of directors that, both the executives have the FCA background.

Obviously, it enables them to detect and control the financial risk better, by using their financial knowledge (Dionne and Triki, 2005). Conversely, we may also suspect they are fully capable to use professional financial tricks to disguise the poorer performance areas, and at the same time, make their stewardship looks proper. On the other side, according to the UK corporate governance code (2010), audit committee is required to monitor the financial performance and check the company's risk assessment.

Chris Robert, the chairman of the Audit Committee, as another financially educated director, suits the requirement of responsibilities stated in the code. Considering the independence of Non-executives, several problems which may raise suspicions are found referring to the code. Firstly, all the Non-executives except Melissa Ong, have been appointed for more than 6 years. Especially Robin Gibson, this person has been in this position for more than 14 years since 1996. These facts raise some questions about the independence of the board and no explanations are given by Mulberry.

Additionally, both Steven Grapstein and Bernard Lam Kong Heng are presently serving in Como Holding Group, though in different subsidiary company. This relationship particularly could pose a negative impact on the independent base (Mallin, 2004). Thirdly, Melissa Ong, who is quite young at 37, was newly appointed in 2010. This lady does not directly hold any shares for Mulberry, however, her parents are “beneficially interested approximately 57% of the Company's total voting rights” (Mulberry, 2010:

14). In other words, Melissa though not own the huge amount of share, she's actually represent a significant shareholder indirectly.

In contrast, according to the code (UK corporate governance code, 2010), some aspects are shown to enhance independence of the Non-executives. For example, no bonus was paid for these Non-executives during the year and none of them was included in the company's pension contributions (Mulberry, 2011). The company's internal 'watchdogs', three recommended sub-committees (Audit, Remuneration and Nomination) (Pierce, PersonalCommunication, 2011) are established by Mulberry, with a combination of Remuneration and Nomination body.

Additionally, both committees are chaired by Non-executives and effects of the committees are related to the independence of these Non-executives (Mallin, 2004) which has been discussed above. Moreover, theresponsibilityappointing is reasonably complying with the code (2010). In specific, the Audit Committee is entitled to check issues regarding to the company's financial affairs, while Nominations and Remuneration is responsible for employment terms and conditions and the remuneration (Mulberry, 2011).

However, the numbers and identities of other committee members are not mentioned in the report, which interfere our assessment of Mulberry sub-committee structure and quality. 2. 4. 1 Risk & control management In this part, COSO Internal Control – Integrated Framework (COSO, 1994) is sited as the principal structure to consider Mulberry's risk control and management. Control Environment A formal system is required make sure the risks are appropriately evaluated and controlled in board level (Tricker, 2009). It is <https://assignbuster.com/mulberry-group-plc-accounting/>

manifested in the report that the Board is fully responsible for Mulberry's internal risk (Mulberry, 2011).

Specifically, Directors pay great attentions to the control throughout the comprehensive aspects of the company's business running and make it available in practice. These states, though quite simple with only few sentences, clarify the Board's serious attitude to risk control. Additionally, increasing literature viewpoints in recent years call for “ a formal system to ensure that risk is properly assessed board to give assurances that systems are in place to handle corporate risk in their regular corporate governance reports to shareholders” (Tricker, 2009: 328).

For Mulberry, the control system was established and the report model well fit the requested as mentioned. Specifically, the control system mainly consists of subsystems including budgeting, actual running results comparison, forecast and review (Mulberry, 2011). Also, the information is reported to shareholders twice a year (Mulberry, 2011). Risk assessment and control activity First of all, as a result of continuous recession in the UK economy which leads to sales reduce in domestic market, Mulberry considers relieving from the decrease risk by international expansion (Mulberry, 2011).

It is reasonable that they concern about the negative impact of recession in the UK (OECD, 2010). However, it seems lack considered by their merely switching to international market because the international market is much more complex with various risks involved (Hollensen, 2006), for example, local regulation limitations, economic environment in foreign market, competitors, customer preference diversity and so on (Kotler, 1994). Also, failure of the global risk transfer may occur that leads to even serious

financial crisis for Mulberry. Secondly, terrorist attack, as regarded a principle risk by Mulberry, is related to warehouse disruption.

The company tries to prevent it by developing “ a business continuity plan” (Mulberry, 2010). However, it is illogical to take terrorist attack as a major risk, which is a rarely happened incident. Moreover, there is no any further explanation about the so called ‘ business continuity plan’ solution. Conversely, an improved warehouse control and management system accompanying an emergency program may be a better approach to prevent the risk. Besides, the risk may be more sensible to be associated with stock disruption or supply chain failure (Aon, 2007) rather than terrorist attack as is stated.

On the other hand, key personnel loss is mentioned in the report with simple solutions of remuneration review and succession preparation. However, either the reasons or the details are not revealed. So it is uncertain that if the methods are valid or not. For example, if the loss was caused by unreasonable decision making caused by the arbitrary executive as we mentioned above, then either these ways can hardly solve the problem. As to the online system establishment and accomplishment, Mulberry involves more senior managers for supervising and impose carefully test to reduce the risk of system implement failure which is quite reasonable.

With increased attention paid by senior managers, staffs in relative department will do the task more carefully. Also, comprehensive test further guarantees the system implemented successfully. Finally, it is mentioned in the report that the company intends to solve the risk by building a ‘ natural hedge of Euro and US Dollar denominated sales and purchases’ (Mulberry, <https://assignbuster.com/mulberry-group-plc-accounting/>

2011: 12). This sector involves professional knowledge about the currency policies and financial operating. Unfortunately, we are lack of knowledge in this area. Hence we would not analyse this issue in depth. . 4. 3 Information and Communication The company includes an information and reporting subsystem in the integrated internal control procedure (Mulberry, 2011), which obviously, is used for collecting and conveying relative information. Furthermore, since the internal control is taken charge by the Board at the top of the company's management layer, it is essential to ensure the effectiveness of information collecting and communication in time according to COSO framework (1994). However, relative details are not mentioned for the assessment and herefore, the facts for the effectiveness are unsure. 2. 4. 4 Monitoring According to COSO Framework (1994), there are two approached for monitoring, one is undertaking it along with the ongoing activities, the other is put it into a separate process. Mulberry adopts the later approach by putting the monitoring process separately. However, a combination of both approaches is recommended in COSO framework (1994), in order to ensure the effect of internal control. In other words, it can be more sensible for Mulberry to develop monitoring affairs in the whole business running procedure.

Moreover, the internal audit is functioned by the Board (Mulberry, 2011), for which the details are not given in the report. For example, factors like how the deficiencies been detected and conveyed upstream to the Board are not revealed. Thus the monitoring effect of Mulberry internal control can not be evaluated comprehensively through the report itself. 3. Conclusion From the information above, we can see Mulberry made efforts for market place on

the UK market during the year of 2010 to 2011 and managed each aspect of overseas development.

In 2010, Mulberry has become aggressive in invest overseas markets and online stores. As a result, the income of Mulberry has created its new page for share price. However, as other companies, Mulberry has its flaws and drawbacks. Firstly, there is no debt existed in Mulberry; therefore, the investment could be limited. The main funding of Mulberry is internal funding. Mulberry has experienced extraordinary successful times since 2009, which contributed to the significant increase in share price. However, the higher share price can be a double-edge sword which might attract many investors as well as scare them.

After analyzing the probability of return and the extent of risk, Mulberry is a company worth investing. Nevertheless, it is necessary to mention that it would be much better to choose a long-term investment than a short one. And Mulberry has a series of solutions to solve the risks that existing in its operating process and markets. Reference Anderson, R. 2004. Risk Management and Corporate Governance: The Importance of Independence and Financial Knowledge for the Board and the Audit Committee Anonymous. 2007. The body shop design: An evolving retail brand identity”, Strategic Direction, 23(11), p9-11. Aon (2007), “ Enterprise Risk Management-Aon Insurance Bookers” [Online]. Available from: www.aon.com/us/busi/risk_management/risk_consulting/ent_risk_mgmt/default.jsp [Accessed on: 4/12/2011]. Adam, T. & Goyal, V. K. 2008. ‘ The Investment of Opportunity Set and Its Proxy Variables’. The Journal of Financial Research. 31, 1, 41-63. Akhigbe, A. and Madura, J. , 1996. ‘ Dividend Policy and <https://assignbuster.com/mulberry-group-plc-accounting/>

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