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Business, Company

Compare the Notes to Consolidated Financial Statements

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The company of my choice is Coach Inc. and its closest competitor is Michael Kors. Michael Kors was chosen as it belongs to the same industry as Coach and has nearly the same characteristics as it. This means it is its closest competitor available considering the scope of the business. Comparison of the two consolidated financial statement will make Coach aware of where and when they went wrong in order to try and rectify in the future. This will enable them to plan effectively and analyze their previous cases hence enabling them to compete effectively.

- Fiscal Year

Starting with the fiscal years of the two companies, it can be noted that Coach Inc. has 52 week financial year ending mostly at the end of June each year. This means that they report their financial statements to this period each time. There next financial year mostly starts at the start of May and it depends. Michael Kors can be seen to be having a financial year of between 52-53 weeks ending mostly at the end March. Michael Kors can be seen to be having a financial statement that may be a week long as compared to Coach during certain years. In every year, Michael Kors is noted to be reporting their financial earlier than Coach as they report it end of May while Coach reports theirs end of June.

- Revenue Recognition

At Michael Kors, revenues are recognized when the products at the retail store are sold net of estimated returns. This means that for revenue to be recognized there must be an invoice showing that the product has been sold to a specific customer. While at Coach, revenue is recognized in the books that there is evidence that an arrangement has been made by a certain client that the product is going to be sold sooner or later. This implies that the transaction must not be completed for it to be recognized as revenue in the case of Coach. It can be noted that the revenues in the two products are recognized differently by the two firms. The method used by coached results to false revenue to the company at most times as customers may default at the last stages.

- Advertising

Michael Kors can be seen to incurring more advertising expenses as compared to Coach. This can be shown as Coach incurs $102, 701 in 2013 and $89, 159 in 2012 as compared to 41. 9 million in 2013 and 31. 4million in 2012 foe Michael Kors.

- Shipping and Handling

Again, Michael Kors is seen to be incurring higher cost in the shipping and handling of the inventories. This can be seen by Michael Incurring $ 29. 1 million in 2013 and 19. 7 million in 2012 while Coach incurs $66, 828 in 2013 and $52, 240 in 2012.

- Receivables

Both Companies have shown considerate increasing in the number of receivables but Michael Kors has shown a higher increase as compared to Coach over the past one year. Michael Kors increase can be shown as $127, 226 in 2012 and $206, 454 in 2013 while that of Coach is $172, 462 in 2012 and 175, 477 in 2013.

- Goodwill

Comparing goodwill for the two companies, it can be seen that Coach has a goodwill which is higher than that of Michael Kors. Coach's goodwill is $345, 039 in the year 2013 while that of Michael Kors is $49, 438 in the year 2013.

- Net income

The net income for the two companies can be noted to be different for the two companies. After all expenses and revenues have been summed up, it can be seen that Coach Inc. had a net income of $1, 034, 420 in 2013 and $1, 038, 910 for 2012 while Michael Kors had a net income for $397, 602 for 2013 and $147, 364 for 2012. It can be seen that Coach Inc. has a higher net income hence considered to be operating at a higher scale as compared to Michael Kors.

- Net Income Per Share

Basic Net income per year is achieved by dividing the net income after interest and taxes by the weighted average number of shares outstanding during the given financial year. This is same for both of the companies as it is a requirement according to the accounting principles for the country. It is observed that there was a difference in the net income per share for the two companies' year ended 2012 and 2013. For Coach Inc. the basic net income per share was $3. 66 in 2013 and $3. 60 in 2012 while Diluted was $3. 61 in 2013 and $3. 53 in 2012. The involvement of the diluted shares gives a figure that is real in the market unlike the Basic shares that is unrealistic. For Michael Kors, Basic net income per ordinary share is $2. 02 for 2013 and $ 0. 80 for 2012 while the diluted net income per ordinary share is $1. 97 for 2013 and $0. 78 for 2012. It can be seen that the share prices are selling at different prices and that Michael Kors shares have increased dramatically over the past one year.

- Nature of Operations

It has been seen that there exists a lot of differences between the two companies in relation to the notes of the financial statements, but, similarities can also be observed. the nature of the two companies operations are seen to be identical. This means that they both belong in the same industry. Coach Inc. and Michael Kors both offer women and me bags, business cases, accessories, footwear, wearable, sun wear, jewelry, watches, travel bags and fragrance to the market.

- Use of Estimates

Coach Inc. and Michael Kors prepare their financial statements in accordance to the generally accepted accounting principles and as accepted in the United States of America. These requires the management to use their own judgments and make estimates to reported amounts of liabilities and assets and disclosures of the contingents liabilities and assets at the period ends of the financial statements and the reported amounts of expenses and revenues during the date of the financial statements. This will help both of the companies to be in a position to draft their statement of financial positions for the different periods which will make it easier for third parties to analyze their performance.

- Property and Equipment

For both Coach Inc. and Michael Kors, property and equipment is always states at cost less amortization and accumulated depreciation. This means that property and equipment is always stated at the carrying value of the asset. Also in both, depreciation is provided suing the straight line basis over the expected remaining useful life of the related assets. It can also be noted that in both, items such as equipment, furniture, computer hardware and software are depreciated over a period of five years as they are not long term assets. Leaseholds for both are amortized in the same way, using the straight line method. The cost is estimated over the shorter of the remaining lease term and the remaining useful lives of the related items.

- Cash and Cash Equivalents

For both of the two companies, Coach Inc. and Michael Kors, it can be noted that their cash and cash equivalence refers to highly liquids investments with a maturity of three months or less and the cash assets in the bank and at hand. Their method of preparation of the cash flow statements can also be noted to be similar in the treating of the related items in both.

Major Changes in your company own policies compared to the past

1) The Inventory Reserve Rate

For the case of Coach, it could be noted that the inventory reserve rate will increase by 10%. This is mainly due to the increase in taste and preferences of the customers that will lead to a reduction in the demand of the products hence reducing inventory turnover. This in turn will affect the cost of sales hence reduce on the profits for the company, and accounts for the reduced profits in the year end 2013 for Coach.

- Amendments to the Various Accounting Standards

After the amendment of the Accounting Standards Codification Topic 220, the companies listed to comply with the general accounting standards needed to amend the items that are to be placed in the statement of comprehensive income. This applied to the statements of Coach but coach was not affected by these amendments. Coach applied these changes into their system in the beginning of the next financial year which was July 1st 2012. The Accounting Standards Codification 350-20 of intangible assets (Goodwill) was amended. This amendment did not have material effect on the company. It was as well implemented on July 1, 2012.

References

United States Security Exchange Commission (2013). Coach Inc.

United States Security Exchange Commission (2013). Michael Kors.