

Harvey norman

[Business](#), [Company](#)



Harvey Norman Holdings Ltd, a public company, is one of the most successful retail companies in Australia. They use a unique franchise model with granting franchises to independent business operators, and there are approximately 700 franchisees in Australia. As a retailer, their products include electrical, bedding, computers & communications, bathrooms & home improvements, furniture, small appliances, carpet & flooring and lighting.

In recent years, the company has begun expanding the international market, and there are an increasing number of Harvey Norman stores in New Zealand, Ireland, Slovenia, Malaysia and Singapore. The aim of this report is to show an overview of Harvey Norman's business based on the 2011 Annual Report of Harvey Norman. This report will mainly focus on their core business, industry, operating activities, financial performance, PPE & intangible and leased assets & liabilities. Finally, independent auditor's report will discuss their compliance with the AASB standard.

COMPANY Introduction Being a leader in retail stores of electrical, computer, furniture, entertainment and bedding goods, Harvey Norman was founded in 1982, Australia. At first, it is only a single store which sells electrical goods and appliances; however, the opening has proved to be a great success. With more and more stores open, Harvey Norman changed its operation into superstore format at the beginning of the 1990s. After that Harvey Norman has been expanding its business globally and keeps increasing the diversity of its products.

In the financial year of 2011, Harvey Norman has gained an after tax net profit of 252. 26 million. And this makes it to be ranked at the 126th position

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out of 2000 large companies in Australia. (IBIS World, 2011) Source of Finance and financial segments Harvey Norman Holding LTD generally generates its revenue from those four segments below:

- Franchisee: with holding 195 franchise stores in Australia, it contributes the largest part to its company's sales revenue. This revenue is consisting of the franchise fee and interest of franchise loans.

However, due to the downturn of the whole economic environment, the franchisees themselves are struggling to keep their business alive. In my opinion, it is dangerous for Harvey Norman to be too rely on the franchising revenue.

- Retail store: excluding the 195 franchise outlets within Australia, the company is running 96 complexes department by the time of 30 of June 2011, which are 26 more than 2010.
- Property: the property income Harvey Norman LTD is mainly coming from the rental of the franchisees and some other outlets who are renting their complex.

Other businesses: as a public listed company, Harvey Norman also earns a good amount of revenue from trading its listed securities.

Industry and competitor analysis As the main services the company is retailing. The industry it involves would be retailing industry of computer and software, household appliances and furniture. However, as the integrating of online services and strength of Australian dollar, the retailing industry has been very much affected. Even the chairman of Harvey Norman had commented the macro-environment to be challenging and difficult.

Fortunately, as introduced above, although retailing has always been the core business activity of the company, it does not constitute the major part of its financial performance. The diversity of business activities leads a

multiple option of financial growth. The main competitors of Harvey Norman Holding LTD is the group of J B HI-FI, who has declared a sales revenue from 2. 73Bn to 2. 96Bn as an increase of 8. 3% (P. 2, JB HI-FI annual report 2011), compares to the increase of 9% of Harvey Norman.

According to the figure, it seems Harvey Norman is doing better than J B HI-FI, but the business segment for J B HI-FI is much less diversified than Harvey Norman, therefore, J B HI-FI is actually doing better in just viewing the computer and software segment. Key highlights of financial and operational performance

- Highlights and change of financial performance There is no significant increase or deduction in terms of financial performance. There is a slightly downturn showing in the franchising sales revenue from 5. 9bn to 5. 08bn contributed by almost the same amount of outlets. Basic earnings per share have increased from 21. 78c to 23. 75c whilst a decrease of 2c in dividend per share compared with 2010. After closing date of report, the company announced 7 Clive Peters and Rick Hart may close and the rest of 18 stores will be changed into Harvey Norman format. The shutdown of 7 stores is to estimate to incur a charge around \$10 million in the financial report of 2012.
- Highlight of operational performance

A very significant key operational activity occurs after the reporting date of 2011, which is Harvey Norman, launched its online retail store in the October of 2011. The company has fully confidence in this action and believes it will make a good difference in the financial report of 2012

Change in accounting policies According to Australian Accounting Standards, a few accounting policies have been put out recently but have not yet shown its effect on the report of 2011 will result an impact on 2012. Assets - PPE and Intangibles

PPE 1. The carrying amount of each class of PPE, at reporting date, of Harvey Norman a. PPE

In accounting system, property, plant and equipment are belong to tangible asset and recorded as non-current asset if they are kept for more than one year or beyond the normal cycle of the entity. According to AASB116, if the cost of an item can be measured reliably and the future benefit will flow to the entity, then the items of property, plant and equipment can be recognized as PPE. b. Each class of PPE It can be seen from the HN's note 12 that the PPE of HN was classified into: (1) Land and Buildings; (2) Plant and Equipment; (3) Lease make good asset. And the carrying amount of each class of PPE is showed in the below table:

Category	Land and buildings	Plant and Equipment (\$'000)	Lease make good asset	Total	(\$'000)
Year					
2010	230, 595	206, 563	1, 875	439, 033	
2011	257, 765	254, 714	500	512, 479	

According to the table, the total amount of PPE was about \$512 million in 2011, which was much higher than the amount of 2010 about 73 million. 2. The accounting policies relating to PPE adopted by Harvey Norman. HN used cost model, under the AASB116. 73, to disclose items on PPE that each item was measured at historical costs or deemed costs less accumulated depreciation and accumulated impairment losses. (Statement of Significant Accounting Police 1(d)(v)) The land and buildings were measured at fair value, then less the accumulated depreciation.

After that, the impairment loses were recorded when the revaluation was done. Besides, the straight- line method was used to calculate the asset's depreciation during the estimated useful life. According to AASB116. 73 (e), <https://assignbuster.com/harvey-norman/>

each class of PPE should disclose a reconciliation of the carrying amount at the beginning and end of the period, and the changes include additions, disposals, impairment and amortization. In the HN's report, the assets' residual values, useful lives and amortization methods were adjusted in the end of financial year.

Intangible assets 1. The intangible assets reported by Harvey Norman and their composition and relevance to this company's business. Intangible assets are usually treated as non-monetary assets without physical substance. Therefore, they must be separately stated in company's financial statement. By following the accounting standard, HN's intangible assets are classified into three categories: (a) Computer Software; (b) Goodwill; (c) Licence Property;

Category	Computer Software (\$'000)	Goodwill	Licence Property	Total
Year	2010	2011	2010	2011
Amount (\$'000)	23,745	57,791	473	24,229
Change	9	494		58,294

HN's report demonstrated that there was about \$58 million in intangible assets in 2011, which showed a huge increase when compared to \$24 million in 2010. Besides, it is clearly showed in the table that the Computer Software took the most part of the intangible asset 2. The accounting policies relating to Intangible Assets adopted by Harvey Norman. All the disclosed intangible assets should comply with the AASB 138. 3/4/9, and the intangible asset which has an infinite useful life cannot be amortized in the annual report, based on AASB138. 107. Furthermore, in accordance with AASB 136. 08, an entity is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with its carrying amount annually or there is an indication of impairment. In the annual report, the

intangible assets of HN in its annual report consist of two parts: (a) Identifiable intangible assets: Computer Software and Licence Property (which have a finite life and are amortised using the straight-line method over the useful lives, computer software is no greater than 7.5 years). (b) Unidentifiable intangible assets: Goodwill which accounts for only a little proportion of its total intangible assets. Goodwill is not amortised, but it should be tested about impairment on an annual basis). The gains or losses from both two kinds of intangible assets are measured as the difference between the net disposal amount and carrying amount. 3. The items of impaired PPE or Intangible Assets of Harvey Norman According to AASB116, under cost model, the carrying amounts of assets should be reviewed during every financial reporting period to determine whether there is impairment. An impairment gain or loss should be recognized immediately if the carrying amount is lower or higher than the recoverable amount. PPE (a) Impairment of Plant and Equipment

Under this standard, a review of the recoverable amount of assets resulted in an impairment gain of \$968,000. Intangible Assets The computer software has a finite life and is amortised over the useful life, but goodwill has an infinite life, then, it is only subject to impairment test if there is an indication of impairment. (a) Impairment of Computer Software Under this standard, a review of the recoverable amount of assets resulted in an impairment loss of \$674,000. leased assets and liabilities The lease liabilities consist of finance leases, AASB 117 - par 11, and operation leases, AASB 117 - par 12.

This paper will analyze finance leases first, and then followed by operation leases. Firstly, the detail of the finance leases, numeric disclosure required

by AASB117. In 2011 are: [pic] (Annual Report 2011, p104, p105) Secondly, the detail of operating leases, numeric disclosure required by AASB 117. In 2011 are: [pic] (Annual Report 2011, p105) Finance lease receivables are reconciled to amounts receivable in respect of finance leases as follows: [pic] (Annual Report 2011, p77) According to the information illustrated in 2011 Annual report page 63, amounts due from lessees under finance leases are recorded as receivables.

Finance lease receivables are primarily recognized at amounts equal to the present value of any unguaranteed residual value expected to accrue at the end of the lease term plus the minimum lease payments receivable. Finance lease payments are apportioned between reduction of the lease receivable over the term of the lease and interest revenue so that it can reflect a constant periodic rate of return on the net investment outstanding in respect of the lease (Annual Report 2011, p63). Leases where the lessor retains substantially all the rewards and risks of ownership of the asset are recognized as operating leases.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income. Operating lease payments are classified as an expense in the income statement on a straight-line basis over the lease term (Annual Report 2011, p63). Auditor and auditor report Ernst & Young is the independent auditor which is appointed to Harvey Norman Ltd. They have high reputation to satisfy the credible auditor requirements. We can find the auditor's opinion on page 140 of annual report.

According to the content in the auditor's report and opinion issued by the auditor. This annual report is definitely an unqualified report because the auditor claims in their report that the financial report of Harvey Norman Ltd complies the Corporations Act 2001 and Australian Accounting Standards by giving a true and fair view of the company's financial position. The financial report is also in accordance with International Financial Reporting Standards. An unqualified opinion also represents that any differences between management and auditor with accounting matters have been resolved to the auditor's satisfaction.

Conclusion This report states a lot of important information about the business performance of Harvey Norman, which can be compared with competitors and within the retail market. As one of the most successful retail companies in Australia, Harvey Norman's core business include leasing properties, granting franchises to independent business operators who retail all kinds of products for home and office. In the financial year of 2011, Harvey Norman has gained an after tax net profit of 252. 26 million. Its financial statements complied with the accounting standards and the accounting methods were generally discussed.

PPE and Intangible assets were also explained to associate with all the related requirements of AASB involving their disclosures. Moreover, the company followed the Corporations Act as well as International Financial Reporting Standards, and disclosed all the information required, which can be proved by unqualified auditor report issued by Ernst& Young. All the information given by 2011 Annual report can be relied by public to make decision on general purpose.

Reference

1. Harvey Norman Holdings Ltd, IBIS World (2011) Harvey Norman Holdings Ltd-Premium Company Report Australia, viewed 20 August 2012, J B HIFI, J B HIFI (2011) J B HIFI ANNUAL REPORT 2011 P. 2, viewed 20 August 2012, < http://www.jbhifi.com.au/documents/reports/110_2011-09-09_4-04-34.pdf>
2. Harvey Norman Holdings Limited, Harvey Norman Holdings Limited Australian Packaging Covenant Action Plan 2010 - 2015 Revised March 2012, viewed 23 August 2012, Harvey Norman Holdings Limited, Company Profile, viewed 23 August 2012, Australian Standard Aboard, AASB 116, 117, 136, 138 2011 Accounting standards, viewed 23 August 2012, Harvey Norman Holdings Limited, Annual report 2011, p63, p77, p104, p105, viewed 22 August 2012,