
GROUP RESTATEMENT CASE

This case requires you to research and analyze the assigned restatement. You can use the CVM company data web site (<http://www.cvm.gov.br>) to find all company filings related to the restatement. You could also search online for media coverage on the subject.

Groups - Companies

- 1 – Energisa
- 2- Telebras
- 3 – Atletas Brasileiros
- 4 – Marfrig
- 5- Minerva

Please address the following questions.

Required:

1. Explain the underlying accounting issue(s) behind the restatement. If there was more than one cited reason for the restatement, be sure to discuss each underlying accounting issue. Make sure you study and cite the relevant accounting literature (IFRS/CPC).
2. What was the impact of the restatement on the financial statements? Your company's amended forms should provide a reconciliation or tabular presentation of the original and restated financial statement amounts.
 - a. Prepare vertical income statement(s) (all items in percentage of total sales) and vertical balance sheet(s) (all items in percentage of total assets) for the years and amounts presented in the originally filed Financial Statements and for years and amounts presented in the Statements i.e., for all years affected by the restatement. What key accounts did the restatement affect? Use changes in the vertical statement amounts to respond to this question.
 - b. What key categories of ratios were affected by the restatement (liquidity, solvency, profitability, efficiency)? Use ratio definitions in the Appendix as a reference. Please provide details on ratio definition and calculations in your report. For each of the categories affected, choose 1 or 2 key ratios, compute the ratio, and discuss changes in the ratio from pre- to post-restatement. Compute and compare these ratios for each year affected by the restatement.

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3. Explain the nature of the restating firm's initial misreporting (i.e. fraudulent, unintentional mistakes or due to changes of accounting standards). Please provide supporting arguments for your conclusion, such as evidence for fraudulent behavior or incentives for intentional misreporting.
 4. Propose changes to the existing GAAP in the subject area that could potentially preclude this type of misreporting and explain your reasoning behind it. If you believe no GAAP changes can prevent this type of misreporting, please explain why.

Please refer to Appendix B for the restatements assigned.

Appendix A Ratio Definitions

Ratio definitions here could be slightly different from the definitions in the textbook.

- Liquidity
 - Meet current obligations (current, quick, cash)
 - Current: CA/CL
 - Quick: $(CA - Inventories)/CL$ OR $(Cash + Marketable Securities + Accounts Receivable) / CL$
 - Cash: $(Cash + Marketable Securities or Short Term Investment) / CL$
- Solvency
 - Meet long-term debt payments (interest coverage, financial leverage)
 - Interest Coverage: $Operating\ Income / Interest\ Expense$
 - Financial Leverage: $Total\ Assets / Total\ Equity\ (book\ value)$
- Profitability
 - Margins (gross margin, profit margin)
 - Gross Margin: $Gross\ Profit / Revenues$
 - Profit Margin: $Net\ Income / Revenues$
- Efficiency
 - How efficiently is a company using its assets (return on equity, return on assets, asset turnover, inventory turnover, A/R turnover)
 - ROE: $Net\ Income / Equity_Avg$
 - ROA: $Net\ Income / Assets_Avg$
 - Asset Turnover: $Revenues / Assets_Avg$
 - Inventory Turnover: $Inventory / (COGS / 365)$
 - A/R Turnover (days): $A/R / (Revenues / 365)$