Finance Case Study: Harvey Norman

Executive Summary

Harvey Norman is a company which is multinational retailer of bedding, computers, furniture, consumer electrical products and many other communications products. The company conducts its operations by directly operating in the market and also through the franchises of the main brand. The company is listed at ASX. The company commenced its operations in 1982 and has about 198 franchisees in Australia and about 90 overseas stores which are owned by the company. The company is very popular among the customers and is considered as a trusted brand among them. The report highlights some vital details of the financial statements of the company. The report mainly discusses three parts of the annual report of the company. The cash flow statement, comprehensive income statement and the corporation taxation done by the company are discussed in detail. In the cash flow statement, the movement of the company from financing, investing and operating activities are being analyzed. Each component of this statement is discussed in detail. Then reasons are stated as to why the company has made comprehensive income statement. This has highlighted each part of the tax treatments being done by the company in their annual reports.

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Components of cash flow statement

Operating cash flow items

Receipts from the customers: This is the income which is received by the company after it sells its items to the customers. This is related to the sale of the goods by the company.

Receipts from franchisees: The company is also into the sale of Franchisees and generate a lot of revenue from such sales.

Payments made: This payment is related to that made to suppliers for their raw materials and to the employees for their services contributed in the company.

Distributions from joint ventures: this is the distribution money received by the company from the joint ventures.

GST paid: Any company which has turnover of more than $150000 has to pay tax on the goods sold and this payment by Harvey Norman is recorded.

Interest received and paid: this is the interest income or the expense borne by the company in relation to the investments made or the loans taken by it.

Dividends received: This is the dividend income received on the investments made by the company.

Investing cash flow items

Payments towards the investment properties and plant and equipment: These are the payments which are made by the company in relation to the investment properties and for purchasing any other tangible or intangible assets.

Proceeds from sale of assets and investments: This is the amount received by the company for making sales of its investments or any other assets of the company.

Proceeds of Payments made from sale/ Purchase of securities: This is the proceeds or the payments which are made by the company when they decide to sell or purchase their listed securities.

Loans given to joint ventures: This is the loans which is issued by the company to the joint ventures.

Financing activities

Proceeds from shares, syndicated facility or from renounceable rights offer: This is the proceeds received by the company from issuing the securities.

Dividends paid: this is the dividend payments made by the company to the people who have invested in the shares of the company.

Loans taken or proceeds from borrowings: this is all related to the inflow and outflow of the cash related to the financial activities in the company.

Comprehensive income statement

Cash Flows from Operating Activities	2017	2016	2015
Net receipts from franchisees	882,476	949,242	830,844
Receipts from customers	1,992,891	1,932,417	1,707,259
Payments to suppliers and employees	-2252918	-2,267,638	- 2,056,114
Distributions received from joint ventures	11,546	10,565	13,905
GST paid	-44,621	-52,207	-43,258
Interest received	4,971	7,595	8,657
Interest and other costs of finance paid	-19,420	-28,829	-33,059
Income taxes paid	-152,454	-115,535	-89,284
Dividends received	2,669	2,081	1,498
Net Cash Flows from Operating Activities	425,140	437,691	340,448

All figures in 000$

This table indicates the movements which took place in the operating activities in Harvey Norman in the last three years. The overall cash flows received by the company in 2017 has seen major increase and has reached about $425 million in the year 2107 when it was just $340 million in 2015. The changes have been brought in this is due it the receipts gained from the customers and the payments made to the suppliers didn't increase by significant numbers. The dividend payment made by the company also increased in 2017 year as compared to the previous years. The dividend payment was lowest in the year 22015. The company paid more GST in the year 2016 and less is being paid by it in 2017 year. The net cash flows were high in the year 2016 when it was around $437 million. Overall the company has tried to increase its cash flow from operating activities.

Cash Flows from Investing Activities	2017	2016	2015
Payments for purchases of property,	-89,366	-68,155	-55,012
plant and equipment and intangible assets	---114,752	-64,338	-15,828
Payments for purchase of investment properties			
Proceeds from sale of property, plant and	28,592	9,051	7,152
equipment and properties held for resale			
Payments for purchase of units in unit trusts	-161	-636	-395
and other investments			
Payments for purchase of equity accounted investments	-8,947	-25,349	-4
Proceeds from sale of listed securities		116	1,477
Payments for purchase of listed securities	-6,537	-146	-4,048
Loans granted to joint venture entities, joint venture	-7,594	-30,396	-15,145
Net Cash Flows Used in Investing Activities	--198,765	-179,853	-81,803

The table discusses the changes which took place in the cash flows due to the investing activities undertaken by the company. The funds diverted for these activities almost doubled in the year 2017 as compared to the year 2015 as it reached around $198 million. The company made a lot of payments and payments about $114 million for the investment properties. Even payment made for the property and plants was also more in the year 2017. Even the company generated sale proceeds of about $28 million from the sales of plants but still the prams made by them are far more than the receipts which caused an overall increase in the cash flow from investing activities.

Cash Flows from Financing Activities	2017	2016	2015
Proceeds from shares issued	1,013	4,968	
Proceeds from Syndicated Facility	70,000		-52,000
Proceeds from Renounceable Rights Offer			120,718
Dividends paid	-344,962	-266,882	-52,000
Loans received from / (repaid to) related parties	2,075	-45,862	-52,000
(Repayment of) / proceeds from other borrowings	-15,250	349	7,196
Net Cash Flows Used in Financing Activities	-287,124	-307,427	-220,597

The table tells about the cash flows of the company which has been borne by it in relation to the financing activities. The overall effect is that the company has directed funds of about $287 million for these investments. This investment has reduced as compared to the year 2016 but still this is high. The major part of the payments is in relation to the dividends paid by the company in the year 2017 due to which the cash flows in the year 2017 have increased.

Comprehensive income statement

Items	000$
Profit for the year	452,966
Items that may be reclassified subsequently to profit or loss:	
Foreign currency translation	-6942
Net fair value gains on available-for-sale investments	4050
Net movement on cash flow hedges	18
Income tax effect on net movement on cash flow hedges	-6
Items that will not be reclassified subsequently to profit or loss:	
Fair value revaluation of land and buildings	25,467
Income tax effect on fair value revaluation of land and buildings	-5,362
Other comprehensive income	17,225
Total comprehensive income	470,496

Figures in 000$

The items of the comprehensive income statement are as follows:

Foreign currency translation: This is the risk which the company faces when it is exposed to dealing with so many currencies so the currency translation effects is considered on the income ("Currency Translation Adjustments", 2018).

Gains on the available for sale investments: then gains which the company may get from the available for sale investment is seen on the income

Movement of cash flow hedged and income tax effect: The cash flow hedging is done by the company to do risk management in the company. This is considered along with the tax attached in this.

Fair value revaluation of land and buildings: The land and the buildings of the company are revalued and this effect is taken along with its income tax effect.

Other comprehensive income: then a subhead is made to include all the other comprehensive income which have been missed out.

Other comprehensive income is not shown in the normal income statement of the company as they have not occurred in the normal accounting year but still they affect the income statement of the company. So they are made separately and shown in the comprehensive account (Badenhorst & Ferreira, 2016). This information is of vital interest to the investors of the company. The items which are shown in the income statement are mostly related to the income which are earned or are accrued but all the other incomes which don't happen in actual but have significant effect on the income of the company are shown in this head.

Accounting Corporate taxes

Tax expenses

The tax expenses which have been recorded by the company are relating to $148 million and the adjustments have been stated. Deferred income taxes are stated at $39 million. So the total income tax expense for the year 2017 as stated in the annual report of the company is at $186 million.

Rate of tax

The tax rate which is applicable in Australia as per statutory rate is 30%. This rate is to be applied on the profits of the company and then the income tax figure comes. As the net income of the company is $639 million. So after applying 30% on it the tax payable is coming out at $191.94 million. This amount is less than the tax expense which is mentioned in the annual reports. The difference as stated by the company is due to many reasons.

All figures have ben calculated are in 000$

Tax at 30%	191942
Adjustments	
Tax provision on notional interest charged	1473
on intercompany receivable for dated 6 Feb 2012	

Tax provision on notional interest charged for 2016	
financial year	1560
Adjustments due to current tax of last year	-457
Share-based payment expenses	190
Expenditure not allowable for income tax purposes	731
Income not quantifiable for income tax purposes	-4195
Unrecognized tax losses	804
Utilization of tax damages	-771
Tax concession for research and development expenses	-229
Difference between tax capital gain and accounting	365
profit on asset sales	
Non-allowable building and motor vehicle depreciation	212
Receipt of fully franked dividends	-889
Sundry items	-646
Effect of different rates of tax on overseas	-3250
income and exchange rate difference	
Total adjustments	-5102
Tax expenses	186840

Deferred tax assets

Deferred tax assets are the assets which are created by the organization to be used at future date and generally they are created when a firm suffers from losses and the concerns may decide to keep some part of losses as deferred tax assets to be used in the future. The deferred tax liability is the tax amount which is due for the period and has not yet been paid

(Badenhorst & Ferreira, 2016). The issue of deferral is due to difference in the timings when the tax is paid and when it is accrued. The deferred tax assets. The deferred tax liabilities stand at $298 million and the deferred tax assets $31 million. The company has mentioned in detail to discuss what are the components of which these deferred tax assets and liabilities are made of. The decision of the deferred tax assets and liabilities is purely as per the judgement capability of the people.

Current tax assets

It has been stated that the company has stated income tax payable at 42 million$ which is less from the tax expenses of the company for the year 2017. The income tax payable is the part of the income tax expense which the company decides to pay in the next one year's time frame. This is decided wat the time of paying the income tax by the companies and in this they decide to keep some part of the taxes to be paid at a later date.

Income tax paid

The income tax paid in actual is mentioned in the cash flow statement of the company which is at 152 million $. This is also different from the income tax expenses of the company. The major reasons are the differences or the adjustment which have been made by the company in the year 2017. The company has brought many changes in the deferred tax assets and liabilities which ultimately have altered the figures of the income tax paid. The income tax paid is the actual income tax amounts which the companies decide to pay.

Special observations

Some special observations could be found from the analyzing of the annual reports of the company. Many surprising, difficult to comprehend and new facts have come to limelight. The most surprising fact is that there exists a difference between the income tax paid by the company and the tax expenses in relation to the year 2017. This has provided readers an insight that how companies may make changes in the income tax paid by doing many adjustments. Then another interesting fact is noticed which is relating to the deferred tax assets or liabilities (Gallemore, 2012). There seems to be no basis using which the companies may chose to keep these deferred tax asset ad liabilities. Even there is no restriction on the companies to make use of these deferred tax assets and the years for which they can be kept by the companies. So all these facts are helping the companies to change the taxes paid by them. Something difficult to comprehend is that on what basis the company has come to the figure of the income tax paid by it in the year 2017. This is not properly disclosed in the statements and this needs to be presented in a comprehensive manner.

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