

Assignment Question

Patisserie Valerie is a large café chain which has been operating in the UK since 1926. The chain specialises in the manufacturing and sale of cakes and other baked goods in addition to offering a wide variety of other food.

The bakery is 37% owned by renowned entrepreneur Luke Johnson. Since Johnson's acquisition of the business in 2006, the chain has expanded tremendously to now operate almost 200 stores across the UK and Republic of Ireland.



On the 10th of October 2018, Patisserie Valerie was notified of the suspension of all trading on the company's shares. This was due to the discovery of a black hole in the company's accounts of more than £20 million. The discovery indicated severe potential fraudulent accounting and irregularities, as it was a potentially huge material misstatement in the company's records. The next day, Patisserie Valerie announced a major shortfall between its reported financial status and the current financial position of the business. Just one day before this discovery the company had reported that it held £28 million in cash and on the 11th of October it announced that it currently holds -9 million British pounds in cash! The company was to be deemed out of business if the directors were unable to immediately inject capital into it. Furthermore, unreported and unauthorised overdrafts of almost £10 million were then discovered on the 14th of October 2018.

In January 2019, the company announced the failure of its negotiations with banks to obtain support from their side. Eventually, Patisserie Valerie declared its plans to close 70 of its operating stores, which meant the loss of almost 900 jobs. Currently, Patisserie Valerie has succeeded in obtaining a cash injection from its Chairman, Luke Johnson. Also, in mid-February, 2019 it concluded a management buyout agreement worth £13 million with Causeway Capital Partners to acquire the company's assets. Nonetheless, the investigation into how this fraudulent accounting might have taken place is still ongoing.

The links below will provide you with:

- A brief discussion of the Patisserie Valerie case from the BBC news
 - <https://www.youtube.com/watch?v=iKLT7BwWoE>
- An interview with Chris Boxall; portfolio manager and one of the Patisserie Valerie's stock owners, analysing the case
 - <https://www.youtube.com/watch?v=BrkYfgjD6k>
- A brief on how the company was saved from the ITV news
 - <https://www.youtube.com/watch?v=RLyaHApMkJA>

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- More details on the case from the published news articles
 - <https://www.consultancy.uk/news/19019/patisserie-valerie-finds-potentially-fraudulent-accounting-anomalies>
 - <https://www.accountancyage.com/2019/01/30/how-did-fraud-come-about-in-the-patisserie-valerie-case/>

Use the information above, the details in the supporting videos and links, the module's material and your own understanding and critical analysis of the key readings discussed in both the module's lectures and seminars to find answers to the questions below. You can also use some of the academic articles available on the 'recommended readings' list for this module available on Blackboard.

- 1) In his interview, Chris Boxall; one of Patisserie Valerie's stock owners stated that;

“Reality – at Patisserie Valerie - looked really good. I do not think cash can lie, but accounting can!”

In light of your understanding of the Patisserie Valerie Case and the module's material:

How do you think accounting representations might have enabled this fraudulent misstatement incident to take place? In your discussion, provide a critique of the claim that accounting mirrors and can objectively represent economic reality.

(25 Marks)

- 2) Based on your understanding of the term 'Accountability':

Discuss how accounting institutionalises the concept of accountability in business organisations. In your discussion, develop a commentary on how different forms of accountability can affect relationships between actors in an organisation.

➤ *Remember to reflect on the Patisserie Valerie's case: How do you think the use of accounting information has helped in institutionalising the concept of accountability in the case? Can you see or identify any accountability relationships based on your understanding of the company's fraudulent case?*

(25 Marks)

- 3) Different parties were discussed in relation to the Patisserie Valerie case; the company chairman; Luke Johnson, the company's chief financial officer and Grant Thornton as the company's auditor.

Can you identify which party/ parties should be held accountable for the Company's misstatement? State why you think this party/ parties should be held accountable or why you were unable to identify accountable party/ parties?

(25 Marks)

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4) A) Critically discuss how managers' extreme focus on 'efficiency' affected the development of accounting control systems over time.

(10 Marks)

B) How can we, as accounting practitioners and researchers, contribute to a better understanding and implementation of the concept of 'Control'?

(15 Marks)

Important Notes:

- Please **answer all four questions**, as they are intended to cover the module material and are equally important. Marks will be deducted for omitting any from your answer.
- You will essentially need to reflect on the Patisserie Valerie case in questions (1), (2) and (3). Question (4) draws more generally upon your understanding of the module's material and your analysis of different key and recommended readings.
- To build your response to questions, please use the key ideas and literature discussed in the module. An intensive discussion of the essential readings is **a requirement** for passing the module.
- Please **avoid any superficial use of essential or recommended readings**. Your discussion and use of the readings should contribute to your arguments. Additionally, it should show your true understanding of the readings as well as your own critical and analytical thinking.
- Discussion of additional relevant academic articles can further improve your response. A list of additional recommended readings is available on Blackboard.

Word limit: 2,500 words (+/- 10%).

Format: Essay. Please submit one text, not separate answers to each of the questions. You are advised to use section titles in your essay if you would like to signify which question you intend to address. However, pay some attention to the flow of your essay.

Text formatting: written in a word-processing programme, 12-point font, 1.5 line spacing.

Submission deadline: Friday, 12th of April – 2019 at 3 PM

Submission on Blackboard only.