

Classics vs. Moderns

Business Investment Analysis Assignment

Century Investments CEO Sarah Metrovic is a venture capitalist always looking for the next great investment opportunity. She has recently decided, after careful analysis of the Canadian economy, that the retail clothing industry will rebound significantly this year. Her assistants at Century Investments have discovered two companies in the Hamilton, Ontario area (Classics Clothing Co. and Moderns Clothing Co.) that they believe Sarah would be interested in investing in. The organizations both have 4 locations each in the Greater Hamilton Area. Both organizations are interested in selling the business to a potential investor.

Sarah's assistants have provided a brief background of each organization.

Classics Clothing Co.

Jerry Zelda opened Classics Clothing Co. in January of 2002 with little capital. Zelda decided that a different kind of clothing store was needed in the area. The store sells only classic clothing; basics for men and women that can be worn on any occasion. Over time, Classics built a clientele that has been loyal and looks to be profitable for years to come. This loyalty has allowed Classics to slowly purchase valuable assets with a good portion of equity.

Moderns Clothing Co.

Justine Drake opened Moderns in January of 2002 with 3 locations. Drake wanted to corner the Hamilton market with numerous product offerings. She was not in a position at the time to pay for her assets with a good portion of equity. Most were financed with debt. This created some stressful times when Justine was unsure if the business would survive another week. Luckily, with the help of her financial institution, Justine and Moderns has started on the right path in the past few years. Justine has been able to open another small location and her keen eye has helped Moderns build a large clientele. It has the potential to become an extremely successful business because of Justine's fashion savvy.

As the accountant for Century Investments, you are expected to provide consultation on this possible investment. Your task is explained on the next page.

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The Task

1. Analysis and Recommendation

Complete a one page (max) written analysis with **four** strong arguments and provide an investment recommendation for Century Investments CEO Sarah Metrovic. These four arguments should be based on the Balance Sheets, selected Income Statement information and incomplete ratios on the pages provided by your teacher for both Classics and Moderns. They should also be your written analysis' major subheadings. See the evaluation rubric below. *Note: you must complete the balance sheet and ratios before preparing an analysis and recommendation.*

ANALYSIS AND RECOMMENDATION EVALUATION RUBRIC

	Level 1 (50-59)	Level 2 (60-69)	Level 3 (70-79)	Level (80+)
Thinking				
One page written analysis uses financial information accurately and a feasible recommendation is provided. All financial statements should be complete and ratios calculated as a basis for investment recommendation.	One page analysis is prepared with limited effectiveness, no use of financial information or analysis tools. Recommendation was not based on information provided.	One page analysis is prepared with some effectiveness, minimal use of financial information or analysis tools. Recommendation was based on some of the information provided.	One page analysis is prepared with considerable effectiveness, considerable use of financial information or analysis tools. Recommendation was based on considerable amount of information provided.	One page analysis is prepared with a high degree of effectiveness, professional level analysis provided. All financial statements are complete and ratios provided as a basis for recommendation.

2. Presentation

To prepare for your meeting with Sarah at Century Investments, you are to convince the class and your teacher that either Classics or Moderns is the best investment by presenting your analysis. See the evaluation rubric below.

PRESENTATION EVALUATION RUBRIC

	Level 1 (50-59)	Level 2 (60-69)	Level 3 (70-79)	Level (80+)
Communication				
Presentation to class clearly communicates the best investment for Century Investments with supporting financial information.	Communicates the best investment with limited effectiveness. Presentation is not clear and convincing due to lack of supporting financial analysis.	Communicates the best investment with some effectiveness. Presentation is not comprehensive. Some financial analysis presented with clarity.	Communicates the best investment with considerable effectiveness. Presentation and financial analysis is considerably clear.	Communicates the best investment with a high degree of effectiveness. Presentation is clear, concise and provides financial analysis in an easily understandable manner.

3. Reflection Questions (to be discussed in class upon completion of presentations)

What financial lessons can be learned from the background of each of the companies discussed in the assignment?

How did it effect the current financial position of each company?

What tips can someone managing their personal finances gather from the companies discussed in the assignment?

Classics vs. Moderns

Tip Sheet For Teachers

The Classics vs. Moderns assignment is designed to challenge students to make a sound financial decision based on the financial information available to them. Below are some key points that the student should be discovering in each of the tasks and some points teachers should be aware of as students are completing the assignment.

Task 1

- Teachers should distribute the balance sheets that have missing account totals, the selected income statement results and an incomplete set of ratios;
- Students should use their critical thinking skills to complete the balance sheets;
- The answers can be calculated by using the balance sheet equation (fundamental accounting equation) to find the missing totals;
- The answers are provided to teachers in a separate file;
- Students should also be calculating the Net Income for both companies;
- Note that the selected income statement results provide the “Gross Profit” total for the Classics Clothing Co. and the “Cost of Goods Sold” total for the Moderns Clothing Co.;
- The four arguments should be based on the information provided;
- After accurate analysis of the financial information and considering the background of each company, most students will recommend the Classics Clothing Co.;
- Students arguments could include: higher net income, better liquidity ratios, higher return on net sales, less debt obligations; better debt vs. equity ratios and a loyal clientele;
- The analysis should be concise and students are asked not to exceed one page;
- Calculations can be included in the analysis.

Task 2

- Presentations should also be concise and focus on the information provided;
- A teacher can expand this assignment as they please by asking students to compare the companies to any publicly traded clothing retailer.

Task 3

- The reflection questions should be discussed as a class after the presentations;
- The questions are designed to challenge students to compare the backgrounds of the two companies to an individual;
- The connection that the teacher should be looking for is that debt can limit the ability of a business to survive and also that debt can cause stress in an individual’s life;
- It should also be discussed that many individuals find it difficult to get out of debt, while many more are claiming bankruptcy;
- A great resource for teachers is <http://www.getsmarteraboutmoney.ca>; click on the managing debt link in the “Planning Menu” on the left hand side;
- Students can also be directed to this site to gather information to complete Task 3.