

Going Concern Example 1

Clothing company Line 7 might be sold as a going concern after being put into receivership.

Receiver Grant Graham of KordaMentha, said sales would be held in Line 7 stores to move stock.

Then the receivers would look at selling assets such as trademarks, The New Zealand Herald reported.

The business might be sold as a going concern, Mr Graham said.

"We'll look at the prospect of that. It's an iconic brand, and I would suspect there'll be real interest in that. Whether it would continue with the retail footprint, I'm not so sure.

"But I doubt if New Zealand's seen the last of the Line 7 brand."

Line 7 is known for its quality sailing and outdoor gear and more recently men's and women's casual gear.

It provided clothing for crews in the America's Cup, and has agreements to make clothing for the New Zealand A1GP motor racing team, Rowing NZ, and the Sir Peter Blake Trust.

The Dominion Post reported Line 7 chief executive Ross Munro hoped the company could be sold to a New Zealand or Australian company as a going concern, but a wind-down was most likely.

The company has 11 stores and employs about 80 staff in this country. All its clothing is now made in Asia, mainly China.

Mr Munro said the company had been hurt by a big fall in the New Zealand dollar since last year, affecting the cost of its Asia-made products. Most of the money Line 7 owes is to overseas suppliers.

"The last few months have been very tough for us. We have experienced a significant drop in the dollar, which put our cost of sales up significantly," Mr Munro said.

Customers had also been slow with their payments.

Mr Munro bought the Line 7 brand out of receivership about 20 years ago

1. What does it mean, Line 7 will hopefully be sold as a going concern?
2. What is the alternative?
3. What are the reasons for this happening?
4. What assets do Line 7 have – either from the article or not?

Going Concern Example 2

Whitcoulls and Borders have been sold by parent company REDgroup retail for an undisclosed sum. Three months ago Redgroup retail went into administration and the continued existence of the stores was threatened.

The 62 stores have now been bought by Anne and David Norman, who own the Farmers department stores and many Australasian jewellery stores.

Staff were informed of the sale today and were told closures would be avoided if possible.

However, at least six stores will be closing - three as a result of the Christchurch quake and three that weren't included in the sale. Around 25 jobs will be lost.

Ian Draper, the former managing director of Whitcoulls and then the REDgroup, would be appointed to run the business.

"Ian has been working with JPL during the due diligence phase of the process and has demonstrated both passion and zeal that we know will be welcomed back by the team at Whitcoulls and Borders," Norman said.

Ten Whitcoulls stores at New Zealand airports have been sold last month to travel retail specialist LS Travel Retail Pacific – they will be renamed as “Relay”.

REDgroup retail were roundly criticised by New Zealand’s literature community for the way they ran Whitcoulls.

The store had increasingly become a seller of gift cards and wrapping paper rather than books, and largely stocked cheap, but popular, mainstream titles.

New Zealand writers often complained their works were pushed to the back of the shelf.

The Normans own Pascoes, Stewart Dawsons, Prouds, Goldmark and Angus & Coote, plus Farmers - which they bought in 2003 - and Stevens homeware.

Read more: <http://www.newshub.co.nz/business/whitcoulls-sold-to-owners-of-farmers-2011052615#ixzz4Bi0aOPIj>

1. Will Whitcoulls be operated as a going concern?
2. What gives you this impression?
3. What would likely happen with the financial statements if Whitcoulls was not a going concern?
4. How would being a ‘going concern’ affect the preparation of the financial statements?