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Accounting for Decision Making EL*706*401

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**Topic One: Financial Statement Storytelling – Option B**

How Playtech Presents Its Story: Risks and Implications

Playtech, a prominent technology provider for online gambling platforms, has navigated a complex landscape shaped by economic fluctuations and industry trends. Their approach to presenting their story, focusing on mission, goals, and strategies, reveals both their adaptability and the inherent risks associated with their decisions.

Narrative Shifts and Strategic Focus

During 2020-2022 economic challenges, Playtech's narrative changed significantly. Initially, in response to the global pandemic and the closure of physical casinos, Playtech emphasized stability and resilience by highlighting its shift to online platforms and strategic partnerships, particularly with Caliplay. This pivot showcased Playtech's adaptability in leveraging technology for stability and growth amidst market challenges.

In 2021, as the industry faced stagnation due to market saturation and increased competition, Playtech's narrative shifted towards an optimistic asset valuation. This was reflected heavily in their valuation of the Caliplay partnership, initially recorded at $50 million but later re-evaluated using a DCF valuation model to over $600 million based on previous offers from investors. This shift aimed to portray financial strength and a great investment.

Risks Associated with Presentation Decisions

Playtech's strategic narrative, while designed to instill confidence, carries several risks:

Perception of Misalignment: The optimistic valuation methods, particularly during a period marked by economic and industry downturns, risked creating a perception of misalignment with the broader market conditions.

Investor Confidence and Credibility: Continuous portrayal of an overly optimistic outlook, especially against the backdrop of a declining industry, could lead to skepticism among investors and analysts. If optimistic projections did not align with actual performance, this could result in a loss of investor confidence and long-term reputational damage.

Sustainability of Valuations: The re-evaluation of the Caliplay investment and other assets raised questions about the sustainability of such valuations. Given the uncertain economic climate and declining IPO market, these valuations might not reflect the actual fair market value, posing significant risks for future fundraising and strategic moves.

Economic and Industry Sensitivity: Playtech’s narrative did not sufficiently address the changing dynamics of the gaming industry and the broader economic landscape. The prevailing pessimistic economic outlook, characterized by reduced consumer spending and inflationary pressures, directly impacted Playtech's operations and financial prospects. In such an environment, overvaluation of assets like the Caliplay investment raised concerns about Playtech's navigation of these challenging economic times.

Market Position and Competitive Challenges: As a smaller player in the gaming industry, Playtech’s narrative might have overstated its market position and competitiveness. This, coupled with their significant portion of assets described as 'derivative financial assets', indicated potential vulnerabilities in the industry.

In conclusion, while Playtech’s narrative strategy aimed to showcase resilience and strategic foresight, it carried inherent risks related to market perception, investor trust, and the sustainability of its financial portrayal. Balancing optimism with realistic market assessments is essential for maintaining long-term investor confidence and corporate credibility.

## Topic Two: Profitability Analysis and Costing Systems – Option A

In the context of real estate valuation, particularly for a property like Mar-a-Lago, which carries significant political and historical weight, the valuation process goes passed the traditional boundaries of accounting and veers into the realm of behavioral finance and psychology.

From an accounting perspective, the valuation of a real estate asset like Mar-a-Lago would typically involve methods such as the income approach, which considers the present value of future cash flows, or the market approach, which looks at comparable sales. The cost approach could also be used, which assesses the value of the property’s land and improvements minus depreciation.

However, as indicated in your note, there are intangible assets associated with Mar-a-Lago, such as brand and historic relevance. These intangibles can be assessed using accounting theories that acknowledge the value of brand equity and the goodwill associated with a property’s historical significance. This is where psychological theories intersect with accounting, as the perceived value of these intangibles can be heavily influenced by the attitudes and emotions of potential buyers.

Psychological factors in valuation could include the representativeness, where the property's valuation is influenced by its similarity to other high-profile properties. There's also anchoring, where initial estimates or offers set a mental baseline for subsequent valuations. Additionally, confirmation bias might lead stakeholders to overvalue the property based on positive attributes while undervaluing negative factors like legislated use-restrictions.

Moreover, the involvement of political discourse, introduces the theory where a property's valuation is influenced by the emotional reactions of individuals to the political figure or events associated with the property.

In conclusion, while the accounting principles provide a structured approach to valuation, incorporating psychological theories allows for a more comprehensive understanding of how various non-financial factors can affect the perceived value of a unique asset like Mar-a-Lago. These theories illustrate that the efficacy of valuation is not only in its objective financial calculations but also in its subjective appeal to the psychological biases and emotions of the stakeholders involved.

## Topic Three: Performance Measurement and Balanced Scorecard – Option B

Failure of Understanding Related to Customer Profitability at Johnson Beverage:
Johnson Beverage's misstep lay in the application of a uniform costing approach which failed to capture the diverse demands of their customer base. Their traditional costing methods obscured the true cost of serving each customer, resulting in a skewed perception of customer profitability. Notably, the most service-intensive customers – those requiring frequent deliveries or custom services – weren't charged in alignment with the additional costs they generated, leading to a subsidy at the expense of the company. On the flip side, the low-maintenance, high-profit customers didn't receive the focus they deserved, endangering their loyalty and potentially diminishing profitable relationships.

This one-dimensional cost allocation model led to strategic issues, such as neglecting the most lucrative customers and misallocating resources towards less profitable segments, thus hurting the company's financial health.

Proposed Use of ABC to Migrate Customers Up the 20/60/20 Ladder:
Implementing ABC at Johnson Beverage could fix this by analyzing customer profitability with a fine comb. ABC will expose the actual cost of activities and services per customer, making the way for strategic customer relationship management based on profitability:

Identifying Cost Drivers and Activities:

- Catalog the distinct activities provided for each customer, including order processing, delivery, and support.
- Ascertain what drives costs in these activities, be it distance for deliveries or scale or order handling.

Assigning Costs to Activities:

- Costs should be tied to the consumption of resources for each activity, with specifics like labor for support or fuel for delivery.

Calculating Customer-Level Profitability:

- Sum up the costs for each customer’s activities and weigh them against the revenue they bring in, to gauge true profitability.

Strategies for Migrating Customers:

- For the bottom 20% (High-Cost, Low-Profit): Craft strategies to enhance their profitability, such as revising prices or services.
- For the middle 60% (Marginally Profitable): Seek ways to boost efficiency or upsell services to ramp up profits.
- For the top 20% (High-Profit): Invest in retention and added-value services to nurture and expand this cohort.

Continuous Review and Adjustment:

- Consistently reassess cost and profit analyses to catch any shifts in customer dynamics or profitability, adapting strategies accordingly.

By adopting ABC, Johnson Beverage can sharpen its decision-making with a transparent view of each customer’s profitability. This refined approach will ensure optimal resource distribution, bolstering overall profitability and long-term viability.