

FESGR-MIM - Financial and ESG Reporting

Week 1

Information Asymmetry & Accounting

News of Tesco's accounting scandal sent shockwaves to the market in 2014. The three former Tesco's top executives were cleared of accounting misbehaviors of a criminal court in 2018/2019 brought an end to the lengthy investigation into the scandal by Financial Reporting Council (FRC). Although the investigation is closed, this scandal still raises serious questions over how and why the grocery giant got involved in "cooking the books"

Read the attached news in relation to the Tesco's scandal and the company's disclosure about commercial income in its 2015 annual report, and consider the following questions.

Questions:

1. What are the problems inherent in the accounting practices/policies in the Tesco's scandal?
2. In what respect might the Tesco's managers hope to benefit from using such accounting practices/policies?
3. Did Tesco benefit from such accounting practices/policies?
4. Does disclosing the accounting treatment for commercial income help to mitigate the concern arising from the scandal? Any other mechanism could be put in place to mitigate the concern over accounting misbehaviors?

(Preparing your answers based on the relevant theoretical reasons in relation to information transparency and managerial reporting incentives)