

Molson coors brewing company essay sample



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a. What are the major classifications on an Income Statement?

Sales, Cost of Goods Sold (COGS), OPERATING PROFIT (Includes A&M (Advertising & Marketing), G&A (General & Administrative Expenses)), OIOE (Other Income & Other Expenses), Earnings Before Interests and Taxes (EBIT) and Net Income.

b. Explain why, under GAAP, companies are required to provide “ Classified” income statements.

First of all, because this helps to prevent fraudulent practices. It makes easier for management, shareholders and potential investors to digest the information. It also allows comparing these statements against business competitors or the company’s own past statements to measure performance. It’s also a measure to standardize financial information.

c. In general, why might financial statement users be interested in a measure of persistent income?

This will help users compare income to previous years (evolution of income) and business competitors knowing that these measurements are consistent across companies and through the years.

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d. The income statements reports “ Sales” and “ Net Sales”. What is the difference? Why does Molson Coors report these two items separately?

Sales refer to the total of sales across all countries and products (Including not fully owned brands under licensing). Net sales refer to the amount of

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sales after taxes charged to products that are sold on different countries or subject to licensing fees.

e. Consider the income statement item “ Debt extinguishment costs” and the information in Note 13.

i. Explain, in your own words, what these costs represent.

These costs represent fees for early termination of debt arrangements and unpaid interests. Molson Coors had to pay outstanding interests because of Senior Notes. They also repurchased bonds and this resulted in early termination fees in some cases.

ii. Prepare the journal entry to record the debt extinguishment costs.

f. Consider the income statement item “ Special items, net” and information in Note 8.

i. In general, what types of items does Molson Coors include in this line item?

Asset related costs, discontinued operations related costs, restructuring costs, environmental costs and joint venture related costs.

ii. Explain why the company reports these on a separate line item rather than including them with another expense item. Molson Coors classifies these special items as operating expenses. Do you concur with this classification? Explain.

They report these costs in a separate section to reflect the fact that these are not expected to be recurrent. They also do this to separate costs that are

not related to their core business. I agree since these are one timers and investors/management should be aware of them and take them into account with special care.

g. Consider the income statement “ Loss from discontinued operations, net of tax” and information in Note 4.

i. These operations were discontinued in 2006. Yet, Molson Coors shows a loss from discontinued operations of \$91, 826 in 2005 and a loss of \$17, 682 in 2007. Briefly explain why.

2005 reported losses as a result of the 13 days of January 2006 when they sold 68% equity interest of Kaiser to FEMSA.

2007 is still reported because Molson Coors still held minority interests until the last quarter of 2006, when they exercised the put option.

ii. What total proceeds did Molson Coors receive for the sale of Kaiser? When did Molson Coors receive the proceeds? How do these proceeds affect the statement of cash flows?

68 Millions Cash - 4. 2 Millions of transaction costs + 15. 6 Millions
(remaining 15% interests) = 79. 4 Millions

h. In 2007, Molson Coors closed a brewery in Edmonton, Canada, and reported the loss as a special item (see Note 8). But when the company closed breweries in Brazil in 2006 it reported the loss as discontinued operations (see Note 4). Why the difference in accounting treatments?

Because Edmonton brewery was still part of Molson Coors (ongoing operation) and Kaiser was sold to FEMSA (discontinued operation).

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i. Consider the “ Cumulative effect of change in accounting principle” reported on the income statement. Explain in your own words what item represents.

Is the cost as a result of a legal requirement for retiring a tangible long-lived asset that results from acquiring or operating that same asset.