

# General mills analysis essay



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The consolidated balance sheets of General Mills, Inc.

and subsidiaries as of May 28th 2006 and May 29 2005, and the related consolidated statements of earnings, stockholder's equity and comprehensive income, and the cash flows for each of the fiscal years in the three – year period ended May 28, 2006 and the report dated July 27, 2006 expresses an unqualified opinion on those consolidated financial statements.

\* According to the second opinion, the consolidated financial statements- the balance sheet, cash flow, income statement, stockholder's equity is presented fairly, in all material respects, the financial position of General Mills, Inc. and subsidiaries as of My 28 2006 and may 29 2005 and the results of their operations and their cash flows for each of the fiscal years in the three – year period ended May 28, 2006 in conformity with U. S generally accepted accounting principles.

The company's financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects.

A company's internal control over financial reporting includes policies and procedures that pertain to the maintaining records accurately and fairly, provide reasonable assurance that the transactions are recorded according to the accepted accounting principles and the receipt and expenditures of the company being carried out with the authorization from management and directors of the company. The auditors also express an unqualified opinion for the consolidated financial statements which means that the auditor's opinion of the financial statement, was given without any reservations.

Such an opinion basically states that the auditor feels the company followed all accounting principles appropriately and that the financial reports are an accurate representation of the company's financial condition.

f) Answers for (f) on the spreadsheet g) ( i ) Total Assets = \$18207 Total Liabilities - \$11299 Equity = \$5772 Total Assets = Total Liabilities + Equity \$18207 = \$11299+ \$5772 + \$1136 (ii) General Mill's major assets are Goodwill, Land Building and Equipment and other Intangible Assets. All Current assets are short term assets. The total short term assets are \$ 3176. The total long term assets are \$15031.

The proportion of short term assets to long term assets is 0. 21 or 21%.

The proportion of short term assets as compared to long term assets seems appropriate. The company has enough current assets for liquidity purposes. It only seems fair that a company as big as General Mills has a goodwill value as high as mentioned in the balance sheet. The company has invested on long term assets such as Building, land and equipments too. (iii) Intangible assets are assets that cannot be seen or touched, which are created through time and/or effort and that are identifiable as a separate asset.

The difference between the purchase price and the sum of the fair value of the net assets is the value of goodwill.

Goodwill serves as the balancing sum that allows one firm to provide accounting information regarding its purchase of another firm for a price substantially different from its book value. General mills could have intangible assets such as patents, copyrights, trademarks, trade secrets etc.

(iv) General Mills is mainly financed by non owners such as banks/creditors. The company is also financed by stockholder's equity.

The total amount financed by non owners = \$11299.

The proportion of assets financed by the non owners to the total asset financing = 0. 62 or 62%. h) (i) General Mills Revenue Recognition policy is consistent with GAAP revenue recognition criteria. General Mills recognizes sales revenue upon acceptance of the shipment by the customers.

Sales are reported net of customer coupons, trade promotions and estimated returns. According to GAAP, companies which cannot reasonably estimate the amount of future returns and/or have extremely high rates of returns should recognize revenues only when the right to return expires.

But companies that can estimate the number of future returns rate can recognize revenues at the point of sale, but must deduct estimated future returns. (ii) General Mill's has two major operating expenses: \* Cost of sales: which could include cost of materials, labor, overhead etc \* Selling, general and administrative expenses (iii) Yes, the cost structure for General Mills has changed in 2006 as compared to 2005. Cost structure are expenses that a firm must take into account when manufacturing a product or providing a service.

Types of cost structures include transaction costs, marginal costs and fixed costs.

In 2006, restructuring and other exit costs were recorded to be \$30 million. Initiatives were taken to increase asset utilization and reducing

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manufacturing costs. The actions included decisions to close a foodservice plant in Swedesboro and in Montreal. The restructuring and other exit costs were reduced from \$84 million in 2005 to \$30 million in 2006. There were some changes in the debt repurchase costs.

The Selling, general and administrative expenses increased by \$260 million in 2006. The cost of sales which could include labor, overheads, cost of materials increased by \$130 million in 2006. iv)The EITF addressed accounting for restructuring charges from an income statement presentation standpoint and it tackles the issue of liability recognition of certain restructuring costs. There appears to be diversity in practice regarding the recognition of restructuring charges, which include several broad categories of costs. In order to develop an overall approach to account for charges often associated with the term restructuring, the EITF decided that preparing a review of the individual costs typically included in restructurings would be more effective than trying to define restructuring in general.

A divestiture is the activity of selling assets of a company completely or partially to a company that does not belong to the subgroup or consolidated group.

Hence such transactions cannot be included in selling and general expenses.

(v) Yes the company was profitable both in 2006 and 2005. Profitability relates profit to sales. When you invest, profit is the amount you make when you sell an asset for a price higher than what you paid for it. Profit is also known as net income or net earnings.

The company made net earnings of \$1090 million in 2006 and \$1240 million in 2005.

The company's net earnings were higher in 2005 due to Divestments. (vi) The net earnings in 2006 went down by 12% compared to 2005. The net earnings increased to 17.

5% in 2005 as compared to 2004. If special items such as Divestitures and Debt Repurchase Costs are excluded from the fiscal 2005 net earnings, The Total Cost and Expenses will be  $\$9429 + \$499 - \$137 = \$9791$  million. The Earnings before Income taxes and after tax earnings from Joint Ventures will be \$1453 million. If we consider the marginal tax rate as 38.3%, the Income Tax will be \$557 million.

Net Earnings will be calculated as Earnings before Income taxes and after tax earnings from Joint Ventures – Income Tax + after tax earnings from Joint Ventures =  $\$1453 - \$557 + \$89$  million = \$985 million If these special items are excluded, here's how it will affect the percentage change in net earnings. The net earnings will increase by 11% in 2006 compared to 2005. The net earnings will decrease by 6.6% in 2005 compared to 2004. i) (i) The income statement summarizes a firm's financial transactions over an interval of time.

The net earnings are calculated in the income statement. The cash flow statement includes only inflows and outflows of cash and cash equivalents; it excludes transactions that do not directly affect cash receipts and payments. These non cash transactions include items such as depreciation and amortization, pension and other postretirement costs etc. (ii) Total Cash

used for expenditures on Land, Building and Equipment = Depreciation and Amortization + proceeds from disposal of land, building and equipment used in investing activities = \$424+\$11 million = \$435 million iii) General Mills paid a total dividend of \$485 million in the year 2006.

j) Here are some of the accounts that need estimates in General Mill's Balance Sheet \* Receivables \* Inventories \* Land, Building and Equipment \* Prepaid Expenses and other current assets \* Goodwill \* Intangible Assets \* \* Deferred Income Taxes One of the assets that doesn't need estimate is marketable securities. The values for marketable securities are readily available on from online quotes and The Wall Street Journal.