

Pandg announces fourth quarter assignment



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As a result, trends in income from continuing operations should be easier to understand and analyze. Disclosure of operating income may assist in comparing different companies and assessing operating efficiencies. P&G operates in the consumer products market. The company separates its operations into six global segments: (sales by segment) Fabric and Home Care, 30% Beauty, 24% Baby and Family Care, 19% Health Care, Snacks and Pet Care, Grooming, 14% (c) P&G's gross profit (Net Sales - Cost of Products Sold) was \$41, 791 million in 2011, \$41, 019 million in 2010, and \$38, 004 million in 2009.

P'S gross profit increased by 2% in 2011 compared to 2010. The gross profit percentage declined slightly from 2010 to 2011 due primarily to higher commodity and energy costs. (see MD&A). (d) P&G probably makes a distinction between operating and inoperative revenue for the reasons mentioned in the solution to Part (a). By separating out these revenue and expense items, the statement reader can see the separate impacts of operating and financing activities. (e) P&G reports the following ratios in its 1 1 -year " Financial Summary" section: Net earnings margin and Earnings and Dividends per share.

The Financial Summary also reports income statement items, such as advertising and research and development expenses and operating income.

Assignment 2: Comparative Analysis Case The Coca-Cola Company and PepsiCo, Inc. Using annual reports posted under " Handouts", Answer the following questions related to The Coca-Cola Company and PepsiCo, Inc. (a) What type of income format(s) is used by these two companies? Identify any differences in income statement format between these two companies. (b)

What are the gross profits, operating profits, and net incomes for these two companies over the 3-year period 2009-2011?

Which company has had better financial results over this period of time?

Identify the irregular items reported by these two companies in their income statements over the 3-year period 2009-2011. Do these irregular items appear to be significant? (a) Both companies are using the multiple-step format in presenting income statement information. Companies use the multiple-step income statement to recognize additional relationships related to revenues and expenses. Both companies distinguish between operating and inoperative transactions.

As a result, trends in income from continuing operations should be easier to understand and analyze. Disclosure of operating income may assist in comparing different companies and assessing operating efficiencies. The Coca-Cola Company shows an additional intermediate component of income ? gross profit. PepsiCo does not report this information on its income statement. (b) The gross profit, operating profit, and net income for these two companies are as follows:

	2011	2010	2009	% Change
Net revenue	\$66,504	\$57,838	\$43,232	53.83%
Cost of sales	31,593	26,575	20,099	57.19%
Gross profit	34,911	31,263	23,133	50.1%
Operating profit	9,633	8,332	8,004	20.35%
Net income	6,443	6,320	5,946	8.36%
Coca-Cola Sales	\$46,542	\$35,119	\$30,990	50.18%
Operating income	18,216	12,693	11,088	64.29%
Operating income	28,326	22,426	19,902	42.33%
Operating income	10,154	8,449	8,231	23.36%
Operating income	\$8,572	\$11,809	\$6,824	25.62%

As shown in the table above, however, Coca-Cola had greater growth in net income from 2009 to 2011. PepsiCo reported stronger growth in net sales over the three-year period.

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Both companies are doing well. COMPARATIVE ANALYSIS CASE (Continued)

(c) Coca-Cola has reported gains on the equity transactions related to bottling operations.

PepsiCo reported gains on its equity investments. PepsiCo provided the following disclosure for Items Affecting Comparability: ITEMS AFFECTING COMPARABILITY The year-over-year comparisons of our financial results are affected by the following items: 53rd Week In 2011 , we had an additional week of results (53rd week), Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years. The 53rd week increased 2011 net revenue by \$623 million and operating profit by \$109 million (\$64 million after-tax or \$0. 04 per share).

Inventory Fair Value Adjustments In 2011 , we recorded \$46 million (\$28 million after-tax or \$0. 02 per share) of incremental costs in cost of sales related to fair value adjustments to the acquired Inventory included in Web's balance sheet at the acquisition date and hedging contracts included in Peg's and Pass's balance sheets at the acquisition date. In 2010, we recorded \$398 million (\$333 million after-tax or \$0. 21 per share) of incremental costs related to fair value adjustments to the acquired inventory and other related hedging contracts included in Peg's and Pass's balance sheets t the acquisition date.

Substantially all of these costs were recorded in cost of sales. Venezuela Currency Devaluation As of the beginning of our 2010 fiscal year, we recorded a one- time \$120 million net charge related to our change to hyperinflation accounting for our Venezuelan businesses and the related

devaluation of the Bolivar. \$129 million of this net charge was recorded in corporate unallocated expenses, with the balance (income of \$9 million) recorded in our PAP segment. In total, this net charge had an after-tax impact of \$120 million or \$0. 07 per share.

COMPARATIVE ANALYSIS CASE (Continued) Asset Write- Off In 2010, we recorded a \$145 million charge (\$92 million after- tax or \$0. 06 per share) related to a change in scope of one release in our ongoing migration to SAP software. This change was driven, in part, by a review of our North America systems strategy following our acquisitions of PIG and PAS. This change does not impact our overall commitment to continue our Implementation of SAP across our global operations over the next few years. Foundation Contribution In 2010, we made a \$100 million (\$64 million after- tax or \$0. Per share) contribution to The PepsiCo Foundation, Inc. , in order to fund charitable and social programs over the next several years. This contribution was recorded in corporate unallocated expenses. Debt Repurchase In 2010, we paid \$672 million in a cash tender offer to repurchase \$500 million (aggregate principal amount) of our 7. 90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a \$178 million charge to interest expense (\$114 million after- tax or \$0. 07 per share), primarily representing the premium paid in the tender offer.

Non-GAP Measures Certain measures contained in this Annual Report are financial measures that are adjusted for items affecting comparability (see “ Items Affecting Comparability’ for a detailed list and description of each of these items), as well as, in certain instances, adjusted for foreign currency. These measures are not in accordance with Generally Accepted Accounting

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Principles (GAP). Items adjusted for currency assume foreign currency exchange rates used for translation based on the rates in effect for the comparable prior- year period.

In order to compute our constant currency results, we multiply or divide, as appropriate, our current year U. S. Dollar results by the current year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior year average foreign exchange rates. We believe investors should consider these non- GAP measures in evaluating our results as they are more indicative of COMPARATIVE ANALYSIS CASE (continued) our ongoing performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as, a substitute for U. S.

GAP reporting measures. In the discussions of net revenue and operating profit below, effective net pricing reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries. Additionally, acquisitions and divestitures reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and unconsolidated equity invested. Servings Since our divisions each use different measures of physical unit volume (i. , kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U. S. Food and Drug Administration guidelines for single- serving sizes of our products. In 2011 , total servings increased 6% compared to 2010.

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Excluding the impact of the 53rd week, total servings increased 5% compared to 2010. In 2010, total servings increased 7% compared to 2009. 2011 servings growth reflects an adjustment to the base year (2010) for divestitures that occurred in 2011, as applicable.