General mills inc. understanding financial statements

Introduction The case study General Mills Inc. – Understanding Financial Statements focuses on the most basic idea of finance analysis. This case is a brief look into the language that is used in the finance world and a start to interaction with auditors. In this case, KPMG LLP, the public accounting firm that was auditing their statements, had sent two opinion letters. The first letter was ensuring that both parties were aware that General Mills had internal control over financial reporting.

The second opinion letter stated that to auditor's knowledge, General Mills had correctly reported its financial statements. The statements given in this case study are known as the four general financial statements. Displayed in the case are the Consolidated Statements of Earnings from years 2004 to 2006, the Consolidated Balance sheet from 2004 to 2006, the Consolidated Statement of shareholders' equity from 2004 to 2006, and the Consolidated Statement of Cash Flows from 2004 to 2006.

These general pieces of finance material provide enough information to analyze General Mills over the past two years. Thanks to the financial statements provided, we had the ability to compare the company's performance in 2005 and 2006, and to see whether the company was still in good standing or not. The following is a basic analysis and interpretation of General Mills financial statements. Concepts a. General Mills is a food company. Its main activities consist on producing and selling ready-to-eat food, as well as doing retail business.

These activities take place in the U. S. , Canada, Europe, Latin America and the Asia/Pacific region. b. Consolidated balance sheet, consolidated income statement, consolidated shareholders' equity, and consolidated cash flow statement are the financial statements that are addressed to external audiences. General Mills submit consolidated financial statements because the accounts represent the company and its subsidiaries. c. The SEC requires that the financial statements for external reporting purposes be prepared quarterly. These quarterly reports are called 10Q reports.

Then, SEC requires that these financial statements be done annually. These annual reports are called 10K reports. d. Financial statements are usually prepared by accounting staff; however, the CEO and CFO are the responsible for the accuracy of these statements. Generally, internal and external audiences are interested in the information presented in financial statements. On the one hand, the internal audiences are managers, owners and employees. First, in order to make decisions, managers and owners review the financial reports.

Second, financial reports provide a clear view of the financial position and market value of the organization. Third, employees may use financial reports to insure their jobs positions within the company and negotiate possible salary hike and promotion. On the other hand, there are many external agents who are interested in the financial reports. First, investors use financial statements to evaluate the general performance and financial strength of the company. This evaluation helps make rational investment decisions.

Second, financial institutions like banks and other lending institutions use the reports to assess the weight of debts and decide how risky the company is.

Third, partners of the company consider the financial situation of the company in order to revise the contracts and partnership terms. Forth, suppliers are also interested in the financial performance of the company because that helps them decide whether to extend their credit or not. Fifth, government is in concern with the financial reports of this company, because these reports are the only means of verifying if the tax paid is accurate and adequate. . General Mills external auditor is KPMG LLP, an independent registered public accounting firm that issued the two “ opinion” letters that General Mills’ Board of Directors and Stockholders received. The first “ opinion” letter regards internal control over financial reporting, while the second “ opinion” letter concerns financial statements and related financial statement schedule. The first “ opinion” letter confirms that the General Mills upheld valid internal control over financial reporting as of May 28, 2006.

The second “ opinion” letter assures that the consolidated financial statements were fairly presented as of May 28, 2006. We see that the time difference between issuing the financial statements and receiving the opinion letters is fair, because audits need few months to gather information and analyze it. Analysis f. g. i. For May 28, 2006: Assets= $18, 207 Liabilities + Equity = $11, 299 + ($5, 772 + $1, 136) = $18, 207 ii. For 2006, General Mills’ had a proportion of 17. 44% for short-term assets, and a proportion of 82. 6% for long-term assets. So, land, building and equipment, goodwill and intangible assets make up the majority of total assets. In other words, General Mill’s major assets are long-term assets, which is explained by the nature of business that General Mill Inc. does. iii. In general, intangible assets are assets that are not physical in nature. Corporate intellectual property (items such as patents, trademarks, copyrights, business methodologies), goodwill and brand recognition are all common intangible assets in today’s marketplace.

Goodwill is a long-term asset categorized as an intangible asset. The amount of goodwill is the cost to purchase the business minus the fair market value of the tangible assets, the intangible assets that can be identified, and the liabilities obtained in the purchase. In the case of General Mills, the intangible assets could be patents, strong brand name, copyrights, franchises and goodwill. iv. In 2006, General Mills was financed at a proportion of 62. 06% by non-owners and at a proportion of 37. 94% by owners. h. i.

General Mills recognizes sales revenues upon acceptance of the shipment by its customers. The promotions and estimated returns are not included in the reporting of sales. The coupons costs are registered when distributed and their amounts are based on estimated redemptions. As for trade promotions, they are expensed based on estimated participation and performance levels for offered programs. Concerning returns, the company has a new return policy. However, the company may allow few returns if the product is in good condition to be sold again.

The company expenses returns as reduction of net sales. The company’s policy of registering revenues, promotions and estimated returns are conform with GAAP. ii. The common-size income statement of 2006 reveals that General Mills’ major expenses are cost of sales with a proportion of 59. 85%, followed by selling, general and administrative expenses with a proportion of 23. 01%. iii. Between 2005 and 2006: The cost of sales and the selling went up by a small proportion, while selling, general and administrative expenses along with interest expenses went down by 0. 7% and 0. 54% respectively. However, selling, general and administrative expenses went up by 1. 51%. iv. To our opinion, General Mills included these unusual expenses in a separate section in order to avoid misleading the readers about the reason why selling, general and administrative expenses increased. v. During 2006, the company realized profits of 1, 090 million dollars, while during 2005 realized profits of 1, 240 million dollars. Since the two results are positive, we assume that the company was profitable during 2005 and 2006. vi.

The change in net earnings between 2005 and 2006: (1, 090 – 1, 240) / 1, 240 = -12. 1% The change in net earning between 2004 and 2005: (1, 240 – 1, 055) /1, 055 = 17. 54% So, between 2004 and 2005 the net earnings raised by 17. 54%, while between 2005 and 2006 the net earnings decreased by 12. 1%. Excluding the costs of Divestitures and Debt, the net earnings of 2005 and net earnings difference between 2005 and 2006 will be as follow: Net earnings (2005) = 1, 240 – (499-137) * 0. 617 = $1, 016. 6 Net earnings difference (2005-2006) = (1, 090 – 1, 016.) / 1, 016. 6 = 7. 22% i. i. In 2006, net earnings are $1, 090 while net cash provided by operating activities is $1, 771, which means that there is a difference of $681 between these two accounts. This difference can be explained by the fact that some gains or costs don’t generate any increase or decrease in cash flow. For example, depreciation and amortization are costs that don’t change the level of cash flow. ii. During 2006, General Mills used for expenditures $360 million. iii. General Mills paid $485 million for dividends. j.

The account on General Mills' balance sheet that require estimates are the following: * Fixed Assets: Because the life time of a fixed asset is estimated, then depreciation is estimated as well. Then, the net value of fixed assets – that is historical value – accumulated depreciation – is estimated as well. * Inventories: General Mills uses FIFO method for valuing the inventories in the U. S. and LIFO method for valuing inventories outside the U. S. * Doubtful accounts: these are accounts receivable that the company assumes won't' be collected in the future.

We assume that all the balance sheet accounts, except long term debts, have estimated values. Conclusion After having studies General Mills' business environment, and went through the analysis of its financial statements, we assume that this company's performance for the year 2006 was better than 2005. In order to be more objective, we have excluded the gains and losses from divestitures and debt repurchases costs in our analysis, because these costs are considered as unusual. Thus, the common-size income statement shows that the company did better from 2004 to 2005 in terms of net sales and income statements.

However, the after-tax earnings from Joint Ventures were much lower in 2006 than in 2005 and 2004. We assume that this decrease is mainly related to the change of the structure of joint ventures, as the company sold many of its subsidiaries. In addition, the income statement reveals an increase of dividends per share from the year 2004 to 2006, which means that the shareholders got higher profits. The information presented in the consolidated and common-size balance sheets was about the assets, liabilities and equity of the company.

First, we noticed that the majority of the company’s assets are long-term assets, which we found normal seen the nature of business of General Mills. Second, 63% of the company’s business is run by liabilities, we assume that General Mills is a low risk company and that its cash flows are stable and positive. . ——————————————– [1]. Definition retrieved from: http://www. investopedia. com/terms/i/intangibleasset. asp#axzz2N0pq9ntS [2]. Definition retrieved from: