



Module 1

The Language and Tools of Financial Analysis

The Profit and Loss Statement: Expenses (What the company spends)

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Profit and loss statement

Consolidated Statement of Income

(\$USD millions)	2014	2013
Net Sales	14,580	14,792
Cost of goods sold	9,517	8,689
Selling, general and administrative expense	4,039	3,266
Operating profit	1,024	2,837
Interest expense	209	235
Other Income (expense), net	10	4
Income before income taxes	825	2,606
Income taxes	186	792
Earnings (loss) from joint ventures	(6)	(6)
Net income	633	1,808
Net income (loss) attributable to noncontrolling interests	1	1
Net income attributable to Kellogg Company	632	1,807



Expense

What expenditure should be accounted for?

- Cost of goods sold (direct cost)
- Indirect (overhead) expenses
 - selling, general, and administrative expenses
 - impairment losses, depreciation
- Interest expense
- Tax

Cost of sales

Warehouse





Depreciation

Company headquarters



Layers of expense

Net sales – cost of goods sold = gross profit

Gross profit – indirect cost = operating profit

Operating profit + other income = earnings
before interest and taxes, depreciation and
amortization (EBITDA)

EBIT = EBITDA – depreciation/amortization

EBT = EBIT – interest

Net income (profit/earnings) = EBT - tax



Notes to the profit and loss statement

Material items must be disclosed separately:

- write-downs of inventories or property/plant/equipment
- restructurings
- disposals of property, plant and equipment or investments
- discontinued operations
- litigation settlements

Source list

- Slide 2: Consolidated Statement of Income, © University of Melbourne. Prepared by Indika Lovell & Thomas Szoka. Sourced from data contained within Item 8. Financial Statements and Supplementary Date – Consolidated Statement of Income, p 37 Kellogg Company Annual Report 2014, 25 February 2015 (http://investor.kelloggs.com/files/doc_financials/annual_reports/K_2014-Annual-Report_v001_q725z5.pdf)
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