BERLIN SCHOOL OF BUSINESS & INNOVATION

Assignment Title: Company's Business Financial Analysis Report

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Date: 04 JANUARY 2021

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1. INTRODUCTION

Procter & Gamble (P&G) is a world-famous, victorious consumer goods company which provides branded customer packaged high quality goods. The products are traded in 200 countries nearly through various merchandisers and e-commerce. The Integrated Financial Statements comprise the corporate and its subsidiaries. The Company reckon for all its subsidiaries applying cost methodology of accounting.

This study evaluates and critically analyzes the accounting information system, structures & processes of revenue recognition, analyzing the capital structure, compensation system and leasing environment of P&G based on its 2019 annual report.

The report methodizes based on the instructions' perusal, scanning the relevant financial information, enumerated the findings, investigated the additional readings, and concluded the final record.

2. ACCOUNTING INFORMATION SYSTEM

2.1. The Accounting Cycle

The accounting information system which P&G used, is a formation that the Company uses to gather, save, manage, process, repossess, and communicate its financial information. P&G starts its accounting cycle with analyzed events to find the effect on the financial position or specific the impacts on the accounting equation. All transactions that impact the business's financial situation are recorded in the general journal, and those recorded transactions are then posted to the general ledger accounts all over the world.

An unadjusted trial balance is prepared by P&G's accountants quarterly to maintain the equality of debits and credits as recorded in the general ledger. It is the simplest way to research and realize the fault or prove the previous steps' correctness before the consecutive step. This Unadjusted trial balance makes the accounting method's consecutive steps straightforward and discloses the balances that will need adjustments later. Then, adjusting entries may have influenced in income statement required after the current financial time frame and to journalize the transactions that were not reported.

After completing all the above steps, Company's Adjusted Trial Balance will be prepared and based on that; financial statements will be prepared. At the end of the financial period, closing entries are made to move data in the temporary accounts to the statement of financial position and statement of comprehensive income. Afterwards, P&G prepare the final trial balance, which appears permanent accounts and confirm that debits equal credits. Finally, reversing journal entries are reported at the beginning of the next period for avoiding duplication.

2.2. The Accounting Information System

The balance sheet disclosed Total Current Assets of $22,473 and Total Non-Current Assets of $92,622 million, which finally resulted in Totals Assets of $115,095 million. It is precisely similar to the accumulation in Total Liabilities of $67,516 million and Total Shareholders' Equity of $47,579 million.

In 2019, P&G announced net sales of $67,684 million, a growth of 1% compared to 2018, and organic sales grew by 5% and Core earnings per share boosted by 7%. P&G recorded $15,242 million of operating cash flow in this year with 105% adjusted free cash flow productivity. The Company repaid $12.5 billion to its shareholders in 2019 through $7,498 million of dividends and $5,003 billion of direct treasury stock repurchases. P&G's top 10 customers, including Walmart, reported 36% of their sales revenue in 2019 and 2018. The business is subject to varied risks resulting from its main operations and sales globally, and fluctuations in foreign currency, exchanges in currency or valuation controls. P&G outcomes depend on how they manage these fluctuations, cost-saving actions, and sourcing choices. Failure to govern these fluctuations may unfavorably impact its monetary outcome

The ownership structure of stockholders' incorporated with the common stock of $4009, additional paid-in capital of $63,827 and retained earnings of $94,918.

P&G has been paying dividends over 125 years, and there is a 3% increase in the dividend annual compound average rate.

According to the financial closing balances and reporting activities, in 2019, Company go beyond its financial goals. It clearly indicates through growth in sales, high EPS, cash flow productivity, improved market share, better stakeholder value, great leadership styles and contended staff. The financially successfulness led the Company to think out of the box and deal with consumers holistically. As a result of that customers interact with whole P&G brand.

3. REVENUE RECOGNITION PROCESS

3.1. Structure of Revenue

P&G reached their high growth based on price, volume and product mix and have secured their product categories and geographical representation.

Company identified their revenue-generating products are as follows. They initially categorized them into 6 Sector Business Units (SBU) based on industry and managed 10 product categories inside these SBUs as follows,

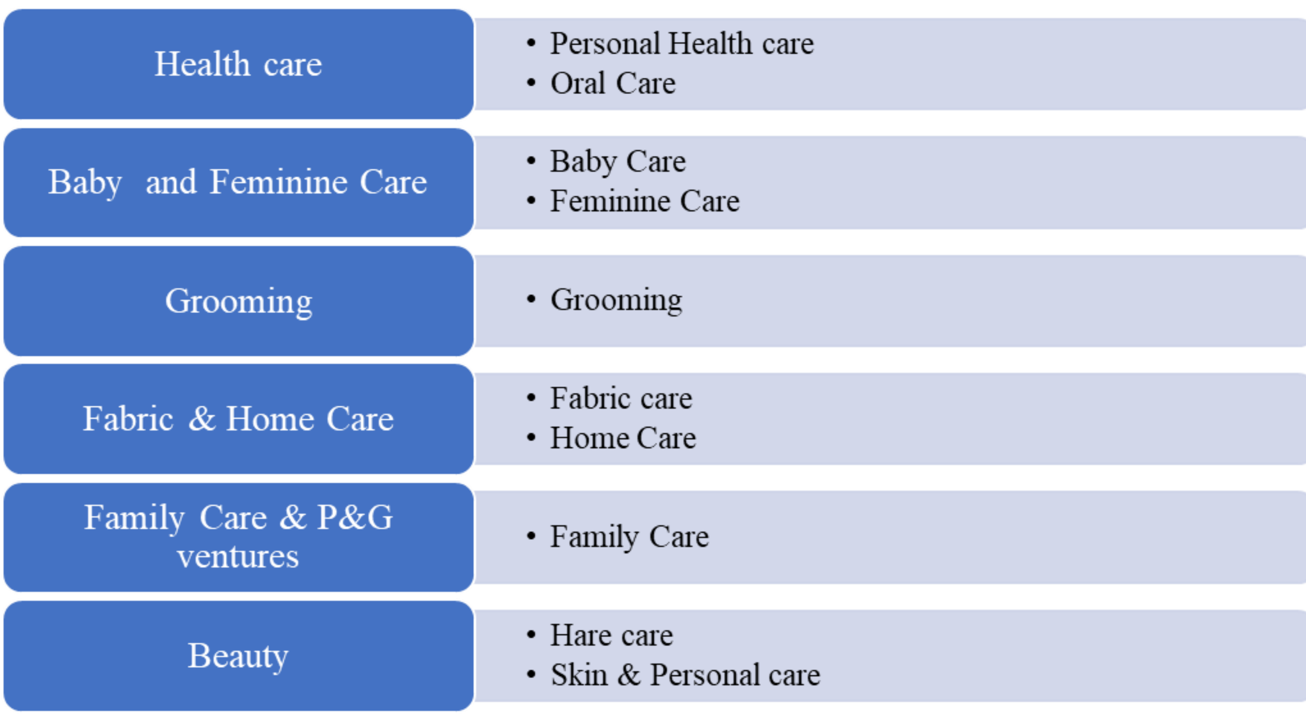

Figure 1: Product Categorization of P&G

The organization always analyze the generated revenues from those six sector business units, ten product categories and two revenue-generating global markets and structured all the revenue inflows accordingly. The finance team carefully monitored those results daily, weekly, monthly, quarterly, semesterly, and annually to identify the track of revenue and compare with the budgeted results. The sales revenues are cross-functionally approached by both product and market categories.

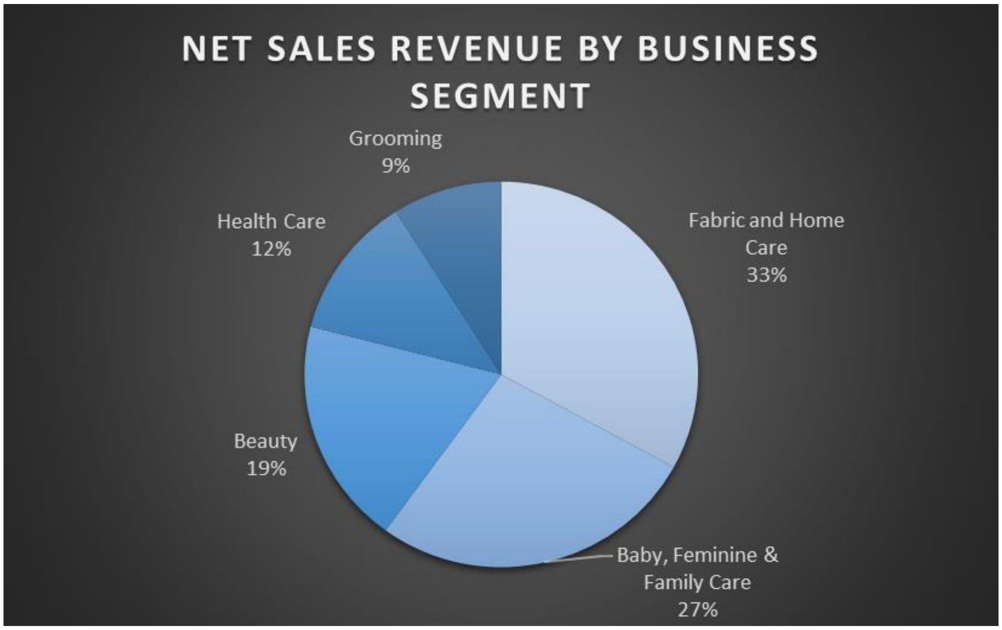

Figure 2 : Net Sales Revenue by Business Segment

P&G identified two revenue-generating global markets such as Focus Markets representing 80% of the sales and Enterprise Markets, representing 20% of the sales. SBUs focused on P&G's capabilities & market services in focus markets, while SBUs gained innovations, supply operations & grow business rates in enterprise markets. P&G categorized the countries into six regions based on generating revenues and developing & executing current plans. Such as North America, Latin America, China, India, Middle East & Africa, Europe and the Asia Pacific.

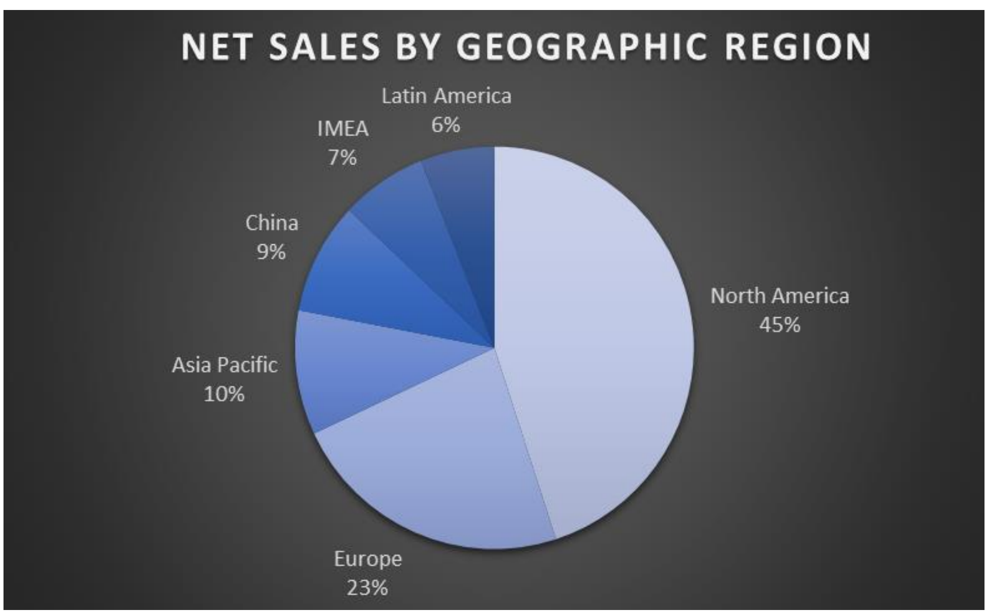

Figure 3: Net Sales Revenue by Geographic Region

As a company based in the United States of America, P&G generates more than 50% of the American region's total revenue to minimize the risks arising from foreign currency exchanges and fluctuations on exchange rates.

3.2. Revenue Recognition Process

Sales are recognized once revenue is completed or realizable and has been attained. The reported revenue is given net of sales and different taxes they tend to collect on behalf of authorities. P&G recognizes its revenue once the title of the product, possession, and risk of loss transfer to the client, which may get on date of the shipment or the client's date of receipt, which is recognized the revenue at the Point of sale. P&G believes using Point of sale for revenue recognition because it indicates the reliability of the financial gain recorded throughout the period. P&G focuses on retail products and recognizes revenue at Point of sale, which may even be the delivery date if the customer takes immediate possession of the product purchased. Since most deals are transacted in credit instead of cash, the sales' revenue to be recognized if the assortment of payment assured reasonably

As a company which offers consumer products; to attract customer attention, they keep provisions for discounts product return allowances, marketing funds, and client coupons should be considered. P&G reported them as a trimming of sales in the identical period which the revenue is recognized. Net of trade marketing spending, which is identified as incurred, is recorded as sales, typically at the time of sale. Marketing accruals and promotion payouts are reported in the accrued liabilities in the financial position.

The Company recognized revenues in six SBUs, ten product categories, two revenue-generating global markets and six geographic regions based on the point-of-sale approach and finalizing their financial statements in a top-notch method.

4. ANALYZING THE CAPITAL AND RATIO ANALYSIS

4.1. Capital Structure

The statement of financial position discloses liabilities and equity, which represent obligations of P&G arising from previous events and its sources of equity capital the settlement of them is a cash outflow of the organization. The Company's purpose in structuring the capital is to identify the importance of obligations. Therefore, liabilities and equity capital has structured so that accountants can prioritize them and continue the repaying activities comfortably.

The filtered and uncomplicated capital structure of P&G is as follows,

Table 1: Filtered capital structure of P&G

TOTAL LIABILITIES AND EQUITY OF SHAREHOLDERS	**2019**	**2018**
LIABILITIES (CURRENT)		
Accounts payable	11,260	10,344
Accrued and other liabilities	9,054	7,470
Debt due within one year	9,697	10,423
TOTAL LIABILITIES (CURRENT)	**30,011**	**28,237**
Debt (Long Term)	20,395	20,863
Income Taxes (Deferred)	6,899	6,163
Other Noncurrent Liabilities	10,211	10,164
TOTAL LIABILITIES	**67,516**	**65,427**
Class A Convertible preferred stock ($1 per share)	928	967
Class B Non-Voting preferred stock ($1 per share)	-	-
Common stock, ($1 per share)	4,009	4,009
Capital (Additional paid-in)	63,827	63,846
Reserve for ESOP debt retirement	-1,146	-1,204
Accumulated other comprehensive income/(loss)	-14,936	-14,749
Treasury stock	-100,406	-99,217
Retained earnings	94,918	98,641
Noncontrolling interest	385	590
TOTAL EQUITY OF SHAREHOLDERS	**47,579**	**52,883**
TOTAL LIABILITIES AND EQUITY OF SHAREHOLDERS	**115,095**	**118,310**

4.2. Reasons for capital structure

P&G's current liabilities and non-current liabilities expanded from 2018 to 2019, and as a result, there is growth in total liabilities, and the equity of shareholders dropped from 2018 to 2019. Therefore, P&G need a significant capital injection into the business process. Investors should need to inject fundings. P&G is maintained a structured non-transferable liability system, which means that investors cannot shift between various debt styles within the same approach that a typical loan to manage risk, develop monetary markets, enlarge business reach, and outline the latest financing instruments for complicated emerging markets.

The Company applies a structured capital system to transform monetary flows and reshapes financial portfolios' liquidity, partly by moving risk from sellers to customers. A structured liability mechanism has been utilized to detach specific assets that can be outsourced from their balance sheet.

4.3. Valuation of bonds and shares

Globally operates P&G exposes to exchange rates fluctuations, market risks and interest rates. Therefore P&G has carefully monitored and designates derivative instruments like bond valuations and share valuations and net investment hedges. They report hese instruments based on fair-value presented in Available-for-sale. Theoretically, the fair-value of a bond and shares is computed by discounting the coupon payments' future value by an applicable discount rate.

The Values of P&G's bonds and shares are required reported at fair value. There are changes in estimation techniques of fair values, but P&G accepts there will not be any material impact from them. Fair value measurements of P&G based on below-mentioned levels,

Level 1: Quoted market prices in markets for similar assets or liabilities.

Level 2: Noticeable market-based inputs that are authenticated by market data.

Level 3: Un-noticeable inputs reflecting P&G’s assumptions or external inputs from inactive market

4.4. Ratio Analysis

Liquidity Ratio

The current Ratio shows how a company can pay short-term and long-term obligations (Kenton, Current Ratio, 2020). The Company's performance in current Ratio for the five years is completely inadequate as the Ratio are moderately dropping, means P&G could not reimburse almost all of its liabilities.

Table 2: Current ratio and Quick ratio

	2015	2016	2017	2018	2019
Current Ratio	1	1.1	0.88	0.83	0.75
Acid-test ratio	0.83	0.94	0.72	0.66	0.58

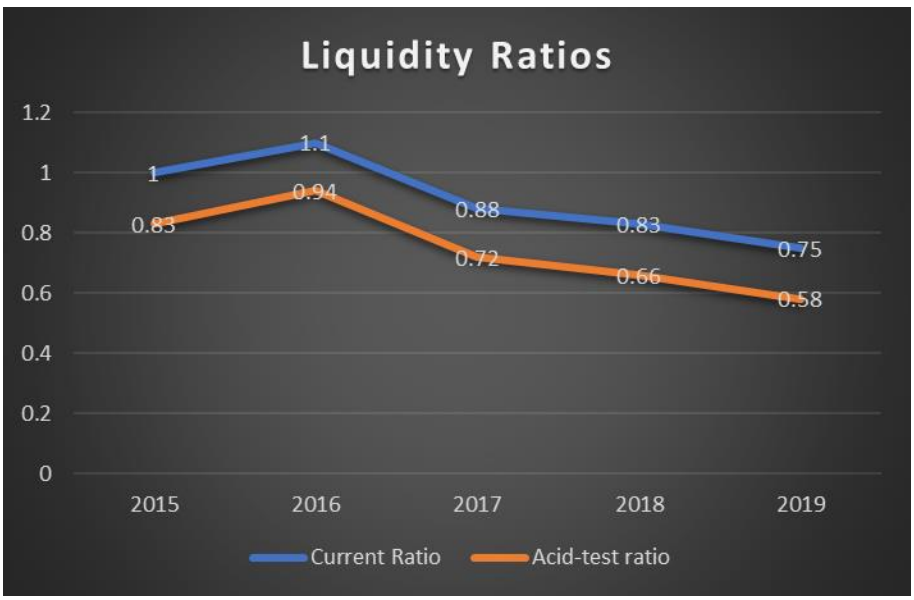

Figure 4 : Current ratio and Quick ratio

The low current Ratio of P&G indicates issues with inventory management, unsuccessful standards for the collection of receivables, or excessive monetary burning rate. This decline happened because of a growth in short debt and the drop in current assets. The decline in the current Ratio means that a diminished ability to get cash. But this does not indicate a vital drawback. As P&G has better long-term prospects, it will be ready to borrow against those prospects to satisfy the current commitments.

The quick Ratio measures the Company's ability to meet its short-term obligations with its most liquid assets (Kenton, Quick Ratio, 2020), which shows that performance decreases and means that the short-term or long-term commitments are not utilized. This Ratio shows P&G's capability to pay its current liabilities without selling its inventory or generating further finance. Still, the lower the quantitative relation, predicted the organization could struggle with re-paying its debts.

Solvency Ratio

Table 3: Debt ratio and Interest coverage

	2015	**2016**	**2017**	**2018**	**2019**
Debt-to-total assets	51%	54%	54%	55%	59%
Times interest earned ratio	17.65	23.21	30.01	26.41	27.17

The debt ratio is a financial ratio that measures the extent of leverage of a company (Haye, 2020). P&G's debt-to-total assets ratio is excellent. P&G experienced constructive growth that is a better indication of the development and the share prices of the P&G gets positively impacted. The Company experienced a boost in the ratios from the year 2016.

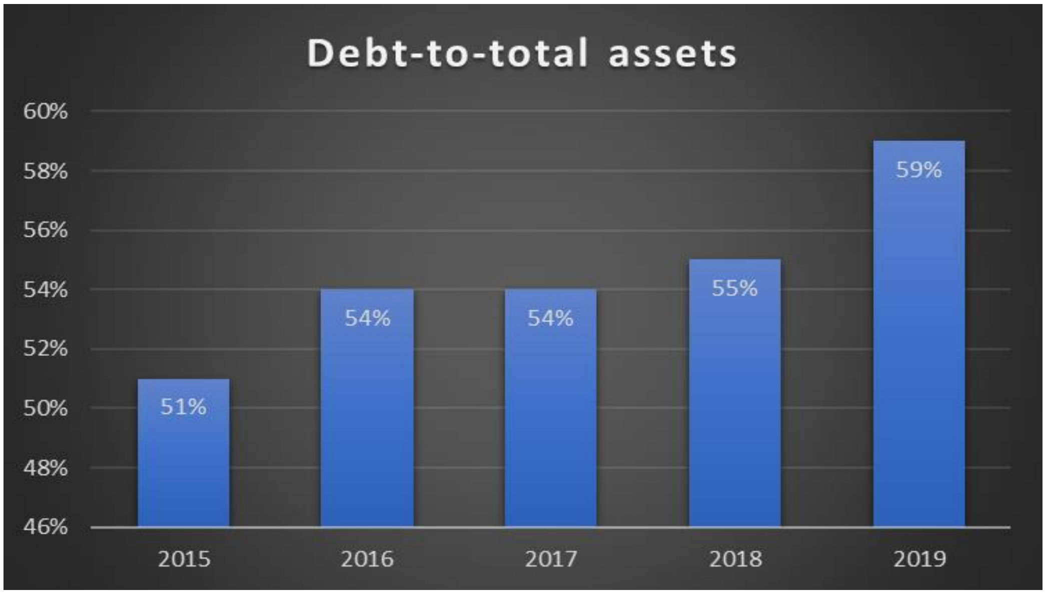

Figure 5 : Debt-to-total assets ratio

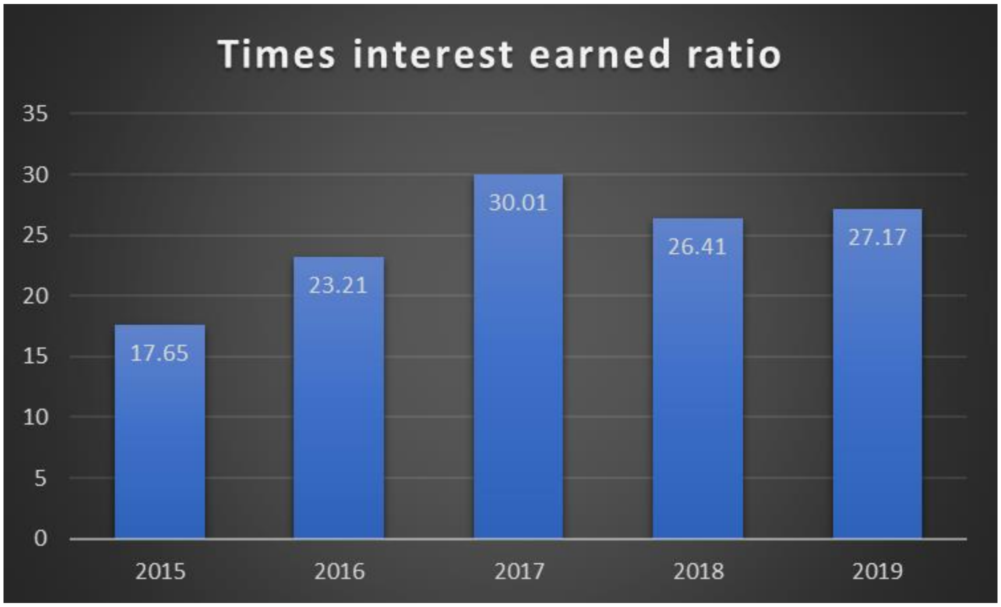

Figure 6: Times interest earned ratio

The times interest earned ratio measures P&G's ability pay its claim on its outstanding debt. It can be seen that P&G has high Ratio over the last years, and it indicates that the organization can pay its interest several times over and over.

5. COMPENSATION SYSTEM

5.1. Formation of the compensation system

P&G's philosophy of compensation includes four main sections,

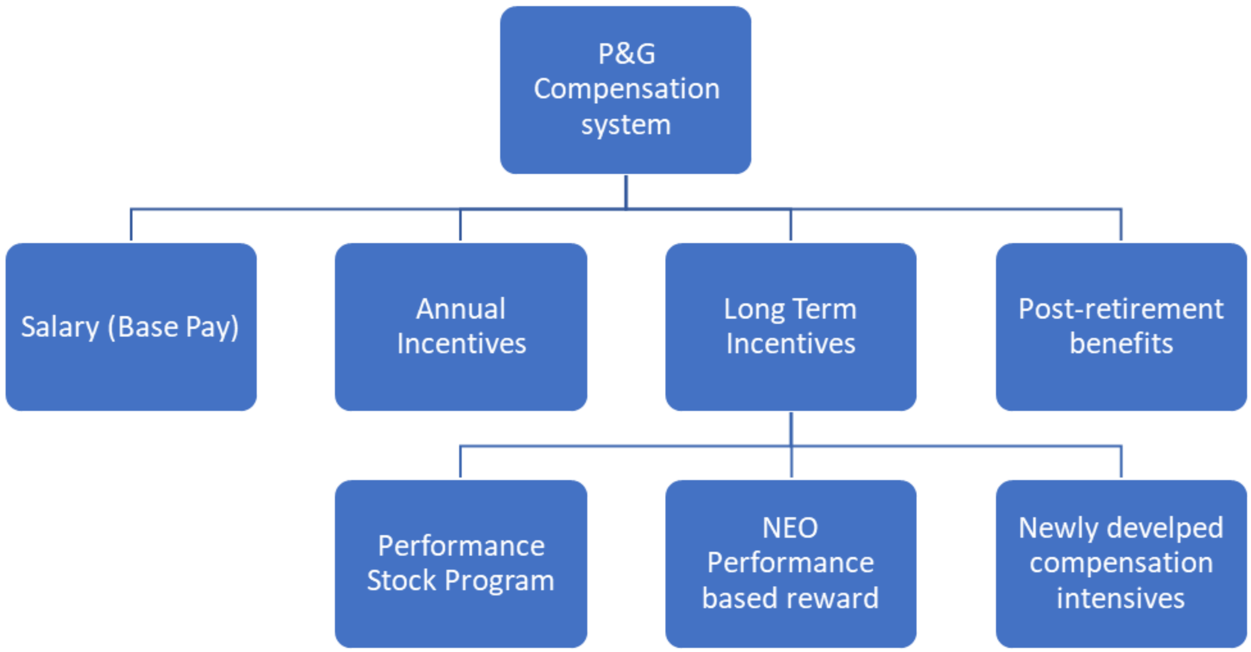

Figure 7: Compensation system

Salary

P&G offers their staff flexible work hours to balance a balance between their personal and working carrier. Staff are paid with Competitive pay within the market. P&G provides staff health insurances and grants their feminine team by giving them leaves in maternity period accordingly. The Company encourages its staff that they can discontinue utilization contract in line with their will.

Annual Intensives

Staff more than 10000 who reached annual business goals received Short term action rewards.

5.2. Long term Incentives (Stock Compensation Plan)

Stock Compensation Plan selects key operational measures over 3-year business cycles for a limited group of executives considering general sales growth, earnings per share growth, running profit and income generation. This Performance Stock Program (PSP) will be paid out at a median of 31% over the past five years. P&G annually grants stock choices named Restricted Stock Unit (RSU) and Performance Stock Unit (PSU). Share compensation could be an approach businesses usage Share or Share choices to reimburse staff rather than paying direct money. Important managers will choose to gather choices of RSUs. Exercise costs on choices will be similar to market value on the date of the issuing. Top management executives can join in awards of PSUs, which are rewarded directly in shares after three years of Performance with achieving targeted performance goals. In addition to those in-depth routed stock compensation programs, P&G awards RSUs to the organization's non-employee administrators and builds trivial alternative options.

A mixture of 185 million common shares was accepted for provision within the share-based stock compensation set up in agreement by stockholders in 2014, where 41 million shares stay empty for issuance. P&G acknowledges expenses of stock-based compensations, supported the fair value of the shares at the date of issuance. The straight-line method uses to amortize the fair value shares.

Table 4: Stock compensation

	2019	2018	2017
Stock Options	246	220	216
RSUs and PSUs	269	175	150
Total Stock-based expense	515	395	366
Income Tax Benefit	101	87	111

NEO Performance-based rewards will reward 88% of P&G's staff, who achieved 61% of the targeted sales based on five years of performance. As well as, Newly developed compensation intensives will reward sales professionals for improving the accountability and sales targets, product categories, and product regions will be considered.

5.3. Post-retirement benefits

This program consists of life assurance, monetary assistant, vacations, medical plans, welfares, Expatriate coaching and relocation program a differed-compensation arrangement such as share or stock options. The organization practices both Contribution Retirement Plans and Benefits Retirement Plans.

As these compensation programs include life and health insurance, it will cover employees and accidents and improve the Company's productivity. Workers sensed a way of safety. P&G offers flexible working hours workers show outstanding performance. The development of the Company has extended to the top executives. It conjointly has placed some pressure on them; however, no matters as they're obtaining a high-class salary. As well as top management feel pressure for meeting with updated targets. P&G needs to incur more funds to maintain the latest technology and highly skilled labor to pressure the pressure from top to down.

Contribution Retirement Plans

P&G utilize fully funded contribution plans and make contributions to bank accounts based on service years. The total contribution expense was $272 in 2019 and $292 in 2018. For the United States, the originated country of P&G, the contribution rate is set annually. P&G contributed to this program approximated 15% total employees' annual salaries & wages in 2019 and 2018. The P&G Employee Stock Ownership Plan and profit-sharing trust grant funding for the program.

Benefit Retirement Plans

P&G utilizes this program to offer retiree benefits. Health insurance based on age and service. In general, the health care plans need price sharing with retired employees and pay a direct proportion of expenses, reduced by deductibles and alternative coverages. The Employee Stock Ownership Plan measures these advantages.

6. LEASING ENVIRONMENT

The Company's updated information provides an optional method of transition technique, which is applying a technique that permits for the adoption date with no statement of previous amount amounts. The Company is on the process of executing an accounting software system for lease and investigating the influence which the new transition technique on its financial sheets. The effect of the transition technique can consist of a collaboration of lease assets and lease liabilities.

P&G lease or own its main regional offices in China, Panama, Switzerland, Singapore, and its shared service centers in the UK, Philippines and Costa Rica. Top management accepts that all sites are sufficient to support the business.

The Company can drive its business with better class with acquiring more expensive properties through operating and capital leases. As well as P&G could utilize high-cost assets without paying a more considerable amount of money. It will create P&G's low cash outflows and finally, high cash inflows and better cash flow NPV. On the other hand, P&G could upgrade its leased IT systems and vehicles during the leasing period.

Total lease value of the Company is 1.1% of the total liability.

6.1. Operating lease

Operating Leases work comparably to a rental contract. Once the leasing period ends, P&G capitulates the leased business property to the lessor. The leased properties and equipment for last years and its Future rental loyalties of operating leases are as follows:

Table 5: Operating leases I

	2020	**2021**	**2022**	**2023**	**2024**	**After that**
Operating Leases	$ 255.00	$ 213.00	$ 162.00	$ 166.00	$ 134.00	$ 288.00

Operating lease value of P&G represented 1.06% of its total liability. As a result of Operating leases, P&G experienced greater flexibility to update their plant and equipment without transferring ownership. The Accounting practises of an operating lease is uncomplicated and tax-deductible.

P&G operating lease payments (before the adoption of FASB Topic 842)

Table 6: Operating leases II

• US$ in millions	**30-Jun-19**	**30-Jun-18**	**30-Jun-17**	**30-Jun-16**	**30-Jun-15**
Total undiscounted future operating lease payments	1,218	1,338	1,493	1,563	1,617
Discount rate	1.79%	1.90%	1.70%	2.00%	2.05%
Total present value of future operating lease payments	**1,143**	**1,253**	**1,403**	**1,440**	**1,483**

6.2. Capital Lease

Capital Leases are very similar to a financed purchase. Once the leasing period ends, the leased property remains with the Company. They represent the total liability lasting over one year. P&G accounts the amount equal according to the present value at the period starting and deduct lease instalment payments during the term. P&G records the interest paid over capital leases in the income statement. The Company utilizes capital leases with different maturity dates and interest rate.

Table 7: Capital leases

	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Capital Leases	$ 33	$ 9	$ 15	$ 7	$ 2

Capital lease obligations of P&G recorded to USD 33 Mn for the Year 2019 and USD 107 Mn for the Year 2018; this is a reduction of USD 74 Mn with 69.2%. Company's Assets bought over non-cash capital leases are unimportant for all periods as Capital lease value of P&G reported 0.03% from the total liability. As a result of capital leases, P&G allowed depreciating the assets, which decrease the taxable income. As well as the paid interest expense reduces the P&G's taxable income.

P&G offered more operating leases than capital leases because of budgeting costs properly, receive tax advantages, make only monthly repayments, no balloon payments and no depreciation. Therefore, operating leases represented more than 96% of total leases.

7. CONCLUSION

P&G starts its accounting cycle with analyzed events to find the effect on the financial position or specific the impacts on the accounting equation. They initially categorized them into 6 Sector Business Units (SBU) based on industry and managed 10 product categories. P&G believes using Point of sale for revenue recognition because it indicates the reliability of the financial gain recorded throughout the period. The Company's purpose in structuring the capital is to identify the importance of obligations. Therefore, liabilities and equity capital has structured so that accountants can prioritize them and continue the repaying activities comfortably. The Values of P&G's bonds and shares are required reported at fair value. The Company's liquidity ratio performance for the five years is quite inadequate as the ratio is moderately reducing. But the Company maintains excellent solvency ratio. It’s philosophy of compensation includes four main sections including stock compensation plans and retirement benefits. P&G is offered operating leases than capital leases because of budgeting costs properly,

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9. APPENDIX

Future operating lease payments

Year	Future operating lease payments (as reported)	Year	Future operating lease payments (estimated)	The present value at 1.79%
2020	255	2020	255	251
2021	213	2021	213	206
2022	162	2022	162	154
2023	166	2023	166	155
2024	134	2024	134	123
2025 and after that	288	2025	*134*	120
		2026	*134*	118
		2027	*20*	17
Total:	**1,218**		**1,218**	**1,143**