

ACCOUNTING in the headlines

What are the accounts payable turnover ratios at Kellogg, Post, and General Mills?

In a recent New York Times article ("[Big Companies Pay Later, Squeezing Their Suppliers](#)," April 6, 2015), it was reported that several large companies are forcing their much-smaller suppliers to extend longer payment terms. Several large companies, such as Procter & Gamble, Heinz, and Anheuser-Busch, have told their suppliers that they want three or four months to pay their invoices. Companies are taking longer to pay their bills not because they are struggling financially, but because they want to maximize the use of their cash. These companies are using their suppliers as a financing source, making it part of their business strategy to demand more generous payment terms.

At least one cereal manufacturer has been reported as asking its suppliers for extended payment terms. Cereal manufacturers in general are facing a challenging market for their cereals. Cereal consumption peaked in the 1990s according to *The New York Times* ("[Cereals Begin to Lose Their Snap, Crackle and Pop](#)," September 10, 2014.) Now cereal sales have declined due to consumer concerns with processed foods, sugar, gluten, and similar issues. In addition, the declining birthrate has hurt cereal sales because children have typically been the largest consumers of cereal. New kitchen gadgets that make creating a smoothie or fresh juice easier also drive down the demand for cereal.

Three of the largest cereal manufacturers in the United States are:

- Kellogg Company ([K](#))
- Post Holdings, Inc. ([POST](#))
- General Mills, Inc. ([GIS](#))

Balance sheets and income statements from these three cereal manufacturers' most recent financial statements are included in the following pages.

To analyze how long these cereal manufacturers take to pay their suppliers, the accounts payable turnover ratio ($\text{cost of goods sold}/\text{average accounts payable}$) and the days' payable outstanding ($365/\text{turnover}$) can be calculated. (Note that, for our purposes here, "average" means that the prior year end balance is added to the current year end balance and that total is divided by two to arrive at the average.)

See the next page for discussion questions.

Questions

1. Calculate the 2014 accounts payable turnover (Equation = Cost of goods sold / Average accounts payable) for Kellogg, Post, and General Mills for the most recent year.
2. Calculate the 2014 days' payable outstanding (Equation = 365 / Accounts payable turnover) for Kellogg, Post, and General Mills for the most recent year.
3. Which of the three companies takes the longest, on average, to pay its accounts payables? Show support for your answer.
4. Do you think it is ethical for a large company to demand that its suppliers extend its payment terms to 60, 90, or even 120 days? Why or why not?

Source: <http://investor.kelloggs.com/investor-relations/annual-reports/default.aspx>

Kellogg Company and Subsidiaries

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CONSOLIDATED BALANCE SHEET

(millions, except share data)	2014	2013
Current assets		
Cash and cash equivalents	\$ 443	\$ 273
Accounts receivable, net	1,276	1,424
Inventories	1,279	1,248
Other current assets	342	322
Total current assets	3,340	3,267
Property, net	3,769	3,856
Goodwill	4,971	5,051
Other intangibles, net	2,295	2,367
Other assets	778	933
Total assets	\$15,153	\$15,474
Current liabilities		
Current maturities of long-term debt	\$ 607	\$ 289
Notes payable	828	739
Accounts payable	1,528	1,432
Other current liabilities	1,401	1,375
Total current liabilities	4,364	3,835
Long-term debt	5,935	6,330
Deferred income taxes	726	928
Pension liability	777	277
Other liabilities	500	497
Commitments and contingencies		
Equity		
Common stock, \$.25 par value, 1,000,000,000 shares authorized Issued: 420,125,937 shares in 2014 and 419,923,540 shares in 2013	105	105
Capital in excess of par value	678	626
Retained earnings	6,689	6,749
Treasury stock, at cost 64,123,181 shares in 2014 and 57,121,760 shares in 2013	(3,470)	(2,999)
Accumulated other comprehensive income (loss)	(1,213)	(936)
Total Kellogg Company equity	2,789	3,545
Noncontrolling interests	62	62
Total equity	2,851	3,607
Total liabilities and equity	\$15,153	\$15,474

Refer to Notes to Consolidated Financial Statements.

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Source: <http://investor.kelloggs.com/investor-relations/annual-reports/default.aspx>

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Kellogg Company and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(millions, except per share data)	2014	2013	2012
Net sales	\$14,580	\$14,792	\$14,197
Cost of goods sold	9,517	8,689	8,763
Selling, general and administrative expense	4,039	3,266	3,872
Operating profit	\$ 1,024	\$ 2,837	\$ 1,562
Interest expense	209	235	261
Other income (expense), net	10	4	24
Income before income taxes	825	2,606	1,325
Income taxes	186	792	363
Earnings (loss) from joint ventures	(6)	(6)	(1)
Net income	\$ 633	\$ 1,808	\$ 961
Net income (loss) attributable to noncontrolling interests	1	1	—
Net income attributable to Kellogg Company	\$ 632	\$ 1,807	\$ 961
Per share amounts:			
Basic	\$ 1.76	\$ 4.98	\$ 2.68
Diluted	\$ 1.75	\$ 4.94	\$ 2.67
Dividends per share	\$ 1.90	\$ 1.80	\$ 1.74

Refer to Notes to Consolidated Financial Statements.

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Source: <http://www.postholdings.com/investor-relations>

POST HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except par value)

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	September 30,	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 268.4	\$ 402.0
Restricted cash	84.8	38.1
Receivables, net	413.7	83.2
Inventories	380.7	121.9
Deferred income taxes	27.0	11.9
Prepaid expenses and other current assets	44.4	11.0
Total Current Assets	1,219.0	668.1
Property, net	831.9	388.5
Goodwill	2,886.7	1,489.7
Other intangible assets, net	2,643.0	898.4
Deferred income taxes	—	2.4
Other assets	150.5	26.7
Total Assets	\$ 7,731.1	\$ 3,473.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 25.6	\$ —
Accounts payable	225.0	77.1
Other current liabilities	269.3	68.9
Total Current Liabilities	519.9	146.0
Long-term debt	3,830.5	1,408.6
Deferred income taxes	915.1	304.3
Other liabilities	182.4	116.3
Total Liabilities	5,447.9	1,975.2
Commitments and Contingencies (See Note 15)		
Stockholders' Equity		
Preferred Stock, \$0.01 par value, 50.0 shares authorized		
3.75% Series B, 2.4 shares issued and outstanding		
2.50% Series C, 3.2 shares issued and outstanding	0.1	—
Common stock, \$0.01 par value, 300.0 shares authorized, 44.8 and 32.7 shares outstanding, respectively	0.5	0.3
Additional paid-in capital	2,669.3	1,517.2
(Accumulated deficit) retained earnings	(305.7)	47.6
Accumulated other comprehensive loss	(27.6)	(13.1)
Treasury stock, at cost, 1.8 shares in each year	(53.4)	(53.4)
Total Stockholders' Equity	2,283.2	1,498.6
Total Liabilities and Stockholders' Equity	\$ 7,731.1	\$ 3,473.8

See accompanying Notes to Consolidated Financial Statements.

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Source: <http://www.postholdings.com/investor-relations>

POST HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

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	Year Ended September 30,		
	2014	2013	2012
Net Sales	\$ 2,411.1	\$ 1,034.1	\$ 958.9
Cost of goods sold	1,789.9	609.2	530.0
Gross Profit	621.2	424.9	428.9
Selling, general and administrative expenses	444.4	294.3	274.0
Amortization of intangible assets	70.8	14.6	12.6
Loss on foreign currency	14.0	0.1	0.5
Restructuring expenses	1.1	3.8	—
Impairment of goodwill and other intangible assets	295.6	2.9	—
Other operating expenses, net	3.0	1.4	2.7
Operating (Loss) Profit	(207.7)	107.8	139.1
Interest expense, net	183.7	85.5	60.3
Other expense (income)	35.5	—	(1.6)
(Loss) Earnings before Income Taxes	(426.9)	22.3	80.4
Income tax (benefit) provision	(83.7)	7.1	30.5
Net (Loss) Earnings	(343.2)	15.2	49.9
Preferred stock dividends	(15.4)	(5.4)	—
Net (Loss) Earnings Available to Common Stockholders	\$ (358.6)	\$ 9.8	\$ 49.9
(Loss) Earnings per share:			
Basic	\$ (9.03)	\$ 0.30	\$ 1.45
Diluted	\$ (9.03)	\$ 0.30	\$ 1.45
Weighted-Average Common Shares Outstanding:			
Basic	39.7	32.7	34.3
Diluted	39.7	33.0	34.5

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Source: <http://investors.generalmills.com/quarterly-earnings>

Consolidated Balance Sheets
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except Par Value)

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	May 25, 2014	May 26, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 867.3	\$ 741.4
Receivables	1,483.6	1,446.4
Inventories	1,559.4	1,545.5
Deferred income taxes	74.1	128.0
Prepaid expenses and other current assets	409.1	437.6
Total current assets	4,393.5	4,298.9
Land, buildings, and equipment	3,941.9	3,878.1
Goodwill	8,650.5	8,622.2
Other intangible assets	5,014.3	5,015.1
Other assets	1,145.5	843.7
Total assets	<u>\$23,145.7</u>	<u>\$22,658.0</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 1,611.3	\$ 1,423.2
Current portion of long-term debt	1,250.6	1,443.3
Notes payable	1,111.7	599.7
Other current liabilities	1,449.9	1,827.7
Total current liabilities	5,423.5	5,293.9
Long-term debt	6,423.5	5,926.1
Deferred income taxes	1,666.0	1,389.1
Other liabilities	1,643.2	1,952.9
Total liabilities	<u>15,156.2</u>	<u>14,562.0</u>
Redeemable interest	984.1	967.5
Stockholders' equity:		
Common stock, 754.6 shares issued, \$0.10 par value	75.5	75.5
Additional paid-in capital	1,231.8	1,166.6
Retained earnings	11,787.2	10,702.6
Common stock in treasury, at cost, shares of 142.3 and 113.8	(5,219.4)	(3,687.2)
Accumulated other comprehensive loss	(1,340.3)	(1,585.3)
Total stockholders' equity	6,534.8	6,672.2
Noncontrolling interests	470.6	456.3
Total equity	<u>7,005.4</u>	<u>7,128.5</u>
Total liabilities and equity	<u>\$23,145.7</u>	<u>\$22,658.0</u>

See accompanying notes to consolidated financial statements.

Source: <http://investors.generalmills.com/quarterly-earnings>

Consolidated Statements of Earnings
GENERAL MILLS, INC. AND SUBSIDIARIES
(In Millions, Except per Share Data)

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	Fiscal Year		
	2014	2013	2012
Net sales	\$17,909.6	\$17,774.1	\$16,657.9
Cost of sales	11,539.8	11,350.2	10,613.2
Selling, general, and administrative expenses	3,474.3	3,552.3	3,380.7
Divestiture (gain)	(65.5)	—	—
Restructuring, impairment, and other exit costs	3.6	19.8	101.6
Operating profit	2,957.4	2,851.8	2,562.4
Interest, net	302.4	316.9	351.9
Earnings before income taxes and after-tax earnings from joint ventures	2,655.0	2,534.9	2,210.5
Income taxes	883.3	741.2	709.6
After-tax earnings from joint ventures	89.6	98.8	88.2
Net earnings, including earnings attributable to redeemable and noncontrolling interests	1,861.3	1,892.5	1,589.1
Net earnings attributable to redeemable and noncontrolling interests	36.9	37.3	21.8
Net earnings attributable to General Mills	\$ 1,824.4	\$ 1,855.2	\$ 1,567.3
Earnings per share - basic	\$ 2.90	\$ 2.86	\$ 2.42
Earnings per share - diluted	\$ 2.83	\$ 2.79	\$ 2.35
Dividends per share	\$ 1.55	\$ 1.32	\$ 1.22

See accompanying notes to consolidated financial statements.