RUNNING HEAD: FINANCE ACCOUNTING AND BANKING

Case Study

Coca-Cola Amatil

[Name of the Writer]

[Name of the Institution]

Case Study

***Composition of Income***

Coca Cola Amatil Limited is an international brand of non-alcoholic soft drink, operating in six countries including Australia, Newzealand, Fiji and Samoa, Australia, Indonesia, and Papua New Guinea. In Australia, the company is listed in Australia Stock Exchange ASX as CCL. It is a public limited company found in 1904. The headquarters of Coca-Cola Amatil is in North Sydney, New South Wales, Australia. The company has an extended range of product line including beverages, and food products. The company was listed in ASX in 1972, and the famous and fast selling products are soft drinks and snack foods. Total revenue of the company was $ 4.93 billion in the year 2017, which was reduced by 2.8 % as compared to the previous year. While the total cost of the company before income and interest payment was recorded as $ 68.8 million. Which was reduced up to a greater extent from last few years continuously. The company's total finance costs were $ 73.0 million in 2016, $ 86.2 million, $ 121.9M and $ 124.8M in 2015, 14, and 13 respectively. The decrease in total finance cost is due to the process improvements, and reduction in production costs. Despite the increase in the total debt of the company the total finance cost is lower, that is due to the lower interest rate in Australia. The rate in 2017 was recorded as 29.2 per cent which reflects a higher mix of overseas income where the tax rate is lower than Australia. The non-trading items which are added after the income tax deduction was $ 29.0 million. Which the company received from the sale od Richland facility during 2017. So the net income of the company for the year 2017 was $ 445.2 million which was slightly less than the previous year. The total working capital of the company during the year at the end of the year 2017 was $ 476.3 million which was increased from $ 458.8 million in 2016. The working capital increased because of the increase in sales during the last month, and the company's receivables matured in the last month of the year. The Property, Plant and Equipment (PPE) reduced because of the sale of Richlands facility and FX translation. The company had PPE of $ 1948.9 million in 2016 which was reduced to $ 1864.8 million (Annual Report 2017, 2019, n.p). The decline reflects the sales of the Richland plant. The total intangible assets also reduced because of the sale of FX translation, and amortisation of previous investment. The current liabilities of the company decreased to a greater extent because of the losses on sugar derivatives and the prior year's tax benefits in Australia.

Here we discussed the composition of income during the year 2017. The company followed all the standards of GAAP in Australia because it is a legal obligation, that all the companies will develop the rules of GAAP. However, more than 40 per cent of the 500 listed companies at the Australian Stock Exchange. The income statement is the part of the GAAP standards. The GAAP provides a clear financial position of the company, and these standards are used worldwide. While the Non-GAAP measures are used to give the actual financial performance of the company. The Non-GAAP measures provide meaningful information regarding the company's management and investors. However, the regulatory authorities and investors have a problem with Non-GAAP measures. The Non-GAAP measures are EBITDA, and free cash flow (Malond et al., 2012, p.5). The free cash flow of the company of the company is 429.3 million dollars which are raised during the year 2017. The earnings before interest and tax, depreciation, and amortisation (EBITDA) is the Non-GAAP measure shows better information regarding the profit earned before these deductions. The EBITDA of the company in 2017 was $ 940.5 million while it was $ 952.7 million in 2016.

***Generally Accepted Accounting Principles (GAAP)***

GAAP is the standard set of financial measures which are accepted worldwide. These are the accounting principles, measures, standards, and procedures followed by the companies. These standards are supported by the company's accountants when they develop the annual reports, and other routine reports. The annual reports are published and are open for the general public including investors and other stakeholders. These accounting principles are in some countries obligatory. These standards are easy and understandable by all the stakeholders. It improves the clarity and understanding of the financial reports communicated with outside stakeholders. GAAP is contrasted with the IFRS and pro forma accounting because both of these use the Non-GAAP measures and standards (Clinch et al., 2018, p.5). It provides financial information which facilitates the company's stakeholders and management to compare its financial performance with other companies. GAAP ensures the minimum level of consistency in the financial statements of the company. These consistencies in reports and the terms generally help the investors to analyse the company performance through the extracted information. Australian government requires all the listed companies must follow the GAAP principles. GAAP helps the businesses to maintain a consistent presentation of financial information, and minimise the risk of fraud and misrepresentation. Without GAAP corporations and other organisations won't be able to provide authentic and accurate financial information to the investors, suppliers, distributors, government, and shareholder of the company. By law, GAAP is no requirement of a business. However, almost all companies are following these principles which formed uniformity in the reports of the companies (Donelson et al., 2017). Which helps people and businesses to compare the performance and position of one company with other competitors. The GAAP principles are derived from traditional accounting procedures. However, these are organised and helps the companies to change it according to their needs. The key benefits of using GAAP discuss here. The primary interest is, it helps the firm to achieve its financial objectives by utilising the accurate financial data, access of the essential financial reports and records. The concepts of GAAP can interpret and apply in various ways. These principles are used as the foundation for advanced accounting tools. GAAP covers some crucial measures of accounting which helps organisations in decision making. GAAP included such things as balance sheet, revenue recognition, and classification and measurement of shares. If the financial reports are made without using GAAP the investors will be confused. So the companies use both GAAP and non-GAAP techniques to develop their financial statements. The government, brokers, the general public, investors, shareholders, and suppliers are interested in the company financial reports. If these are not made according to the GAAP, it will create confusion for all these stakeholders. This technique helps in producing consistent annual reports in which the company managers and directors could compare the company five years trend or more. It also helps management to analyse the company performance with the industry trend. GAAP is essential for multinational companies which share their annual reports. These organisations need a uniform system of financial reports, to avoid the confusion, and the top management has to analyse the reports without any error and ambiguity. The GAAP and IFRS conversion helped companies to reduce the financial complexness of the company's reports, especially for the big data. The convergence of IFRS and GAAP is beneficial for the transnational organisations, which organise and compile the financial statements in various signifiers. In this case, we selected Coca Cola Amatil limited, which used GAAP, Non-GAAP, and IFRS standards because the company is working in six countries.

***Selection of GAAP***

Coca-Cola Amatil limited used GAAP principles in its annual report 2017 along with some non-GAAP techniques, and IFRS standards. The annual financial report is a detailed document that includes different rules. However, without GAAP none of the financial reports is completed. This financial report contained a Balance Sheet, income statement, state, statement of retained earnings, and statement of cash flow which are according to the GAAP standards. The balance sheet of the company according to the GAAP principles include Assets of the company at one side, while the liabilities and stakeholder's equity. Both sides of the balance sheet must be equal, as all the assets of the business are purchased by the capital invested by its owners, or the debt financings. Companies which follows the GAAP earning reports due to the standard set by the security and exchange commission (SEC) as the least guideline for financial reports. The company which is declared as GAAP following company could use other standards as well for better financial information. However, the company will never miss any one of the standards. Coca-cola Amatil used both the GAAP and the Non-GAAP accounting techniques in the annual financial report of the company published on the company website.

Coca-Cola Amatil used GAAP principles in its annual report, though the company also used some non-GAAP techniques. The annual report 2017 shows that the company has followed GAAP principles in developing income statement, balance sheet, and other financial statements. In Australia following the GAAP is an essential requirement for the companies from the government for taxes. It is also important to communicate the company's performance with the general public and investors (Black et al., 2018, p.263).

For instance, the income statement of the company shows us the company is following the GAAP principles because the income statement reflects the net income or the earnings after tax. While there are no expenses deducted regarding the amortization and depreciation. The income statement does not show the entry of EBITDA, which is commonly used in the non-GAAP financial standards. Depreciation is usually used in the GAAP income statement as well. The actual difference is the entry of amortisation in the non-GAAP accounting techniques.

Similarly, the company used balance sheet similar to the GAAP standard. It proves that Coca-Cola Amatil used mostly in its annual reports the terms of GAAP, however like other companies, Coca-Cola also used non-GAAP accounting techniques as well in its annual reports. Here I would add the Income statement of the company which shows the clear evidence of GAAP principles.

**Income Statement**

**Coca-Cola Amatil Limited**

**For the year 2017**

|  |  |
| --- | --- |
| **Description** | **In $M** |
| Trading Revenue | 4.93 |
| CGS | (2839.6) |
| Delivery | (229.3) |
| **Gross Proft** | **1865.9** |
| Other Revenue | 54.8 |
| Selling Expense | (686.2) |
| Warehouse and Distribution Expense | (173.4) |
| Support services and Others | (382.6) |
| **Total administrative Expense** | **(1242.2)** |
| Share of loss of joint venture entity | (0.1) |
| **Earnings before interest and tax** | **678.4** |
| Finance income | 35.6 |
| Finance cost | (104.4) |
| **Earning before tax** | **609.6** |
| Income tax expense | (148.6) |
| **Net profit** | **461.0** |

The table as mentioned above shows the income statement of Coca-Cola Amatil Limited. It is based on GAAP principles. Similarly, the company's balance sheet, earning per shares, and cash flow statement mentioned in the annual report is following the generally accepted accounting principles standards. Mostly the companies provide the GAAP financial statements due to the requirements of the publically traded companies at the stock exchange. However, it is found that these companies are also following some Non-GAAP earnings as part of their annual reports.

***Selection Of Non-GAAP***

The Non-GAAP earnings are the measures of profit which doesn’t follow the standard calculations for the companies and not even required their disclosure (Rainsbury, 2017, p.483). The requirements of the Securities and Exchange Commission (SEC) is that all the listed companies should follow the GAAP accounting techniques so that the SEC will offer their shares to the general public. However, these listed companies are found using Non-GAAP accounting methods to understand the clear financial position of the company. We can understand the importance of Non-GAAP accounting techniques by the statement of ASX, that out of 500 large corporations in Australia 40 % of these are using Non-GAAP in their annual reports, and internal reports. These include the earning before interest, tax, depreciation, and amortisation denoted as (EBITDA) (Coulton, 2016, p.16). Amortisation is the cost of non-tangible assets, similar to the depreciation which is the cost of tangible assets. The other crucial Non-GAAP method is the statement of free cash flow(Sherman & Young, 2018, p.60). Free cash flow statement shows the cash of the company which is produced through business activities, minus the cost of expenditures on assets. It is denoted by FCF and CAPEX, which measure the amount of cash provided by the business after the accounting for its capital expenditures, that is buildings and equipment (Chen et al., 2018, p.12). The cash received by the business which is treated in the free cash flow could be used for the expansion of business, dividends, retained earnings, and payback of the company's debts, and some other purposes. Many Australian companies are using pro forma, non-IFRS, and non-statutory earning information presenting these measures in their annual financial reports. (Johnson et al., 2014, p.209). The non-IFRS financial information is the information not disclosed but with the relevant standards of accounting. In the USA the investors' perceptions are changed, they now analyse the non-GAAP earning information and the features of these findings in the annual report (Black et al., 2012, p.639). The international business activities in the modern world have raise which resulted in the comparability of the financial information among the businesses of different countries(Marques, 2017, p.320). To achieve the competitive edge, and analyse the business activities every organisation struggle accurately to apply new techniques. These techniques could be the modern theories of management, new tactics of marketing or the latest accounting methods. According to Kothari et al., (2010, p.248) the non-GAAP institutions provide balance sheet with all the economic demands of the shareholders and trying to manage the agency conflicts properly.

Coca-Cola Amatil's annual financial report provided evidence of using non-GAAP earnings. The financial report clearly shows the EBITDA, and the free cash flow statements. These provide clear information regarding the cash received by the business, and the profit earned by the company. The earnings before interest, tax, depreciation, and amortisation clearly show profit made by the business activities. The GAAP earnings are the EBIT, EBT, and Earnings After Tax or Net Income. In the GAAP the depreciation and amortisation are not subtracted in the profit and loss statement. Moreover, the company also calculated the free cash flow in the financial report in 2017. The free cash flow is used explicitly in the non-GAAP accounting techniques.

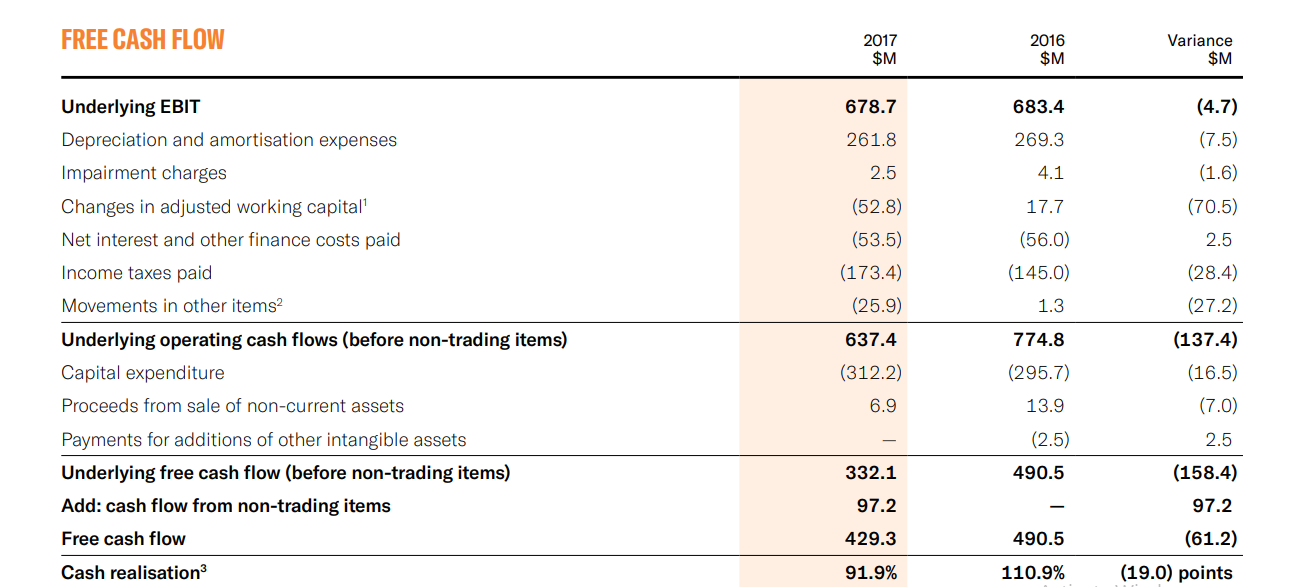


Figure Free Cash Flow

***Change of GAAP***

Coca-Cola Amatil uses non-GAAP methods to measure its profit. The company reported a solid operating performance at the end of the year 2017. The decline in the operating profit of the company recorded in the first quarter of the financial year 2018 is due to the renewal of franchising and currency headwinds. The company was delivering the organic revenue which is the non-GAAP revenue, shows the growth and achievement towards its long-term target, and also getting the value that is shared globally (Coca-Cola Reports, 2018, n.p). Coca-Cola Amatil's annual financial report provided evidence of using non-GAAP earnings. The financial report clearly shows the EBITDA, and the free cash flow statements. These provide clear information regarding the cash received by the business, and the profit earned by the company. The earnings before interest, tax, depreciation, and amortisation clearly show profit made by the business activities. The GAAP earnings are mostly measured as the Net Income. The company is using both GAAP accounting techniques and non-GAAP accounting techniques. Because both these techniques have their benefits and limitations. The GAAP is worldwide used and understood accounting standards. It is mostly the requirement of the stock exchanges where the shares of the company are traded. While the non-GAAP are the modern techniques of measuring the earnings of the company, we can understand the importance of Non-GAAP accounting techniques by the statement of ASX, that out of 500 large corporations in Australia 40 % of these are using Non-GAAP in their annual reports, and internal reports (Islam et al., 2018, p.13). These include the earning before interest, tax, depreciation, and amortisation denoted as (EBITDA). Amortisation is the cost of non-tangible assets, similar to the depreciation which is the cost of tangible assets.

The other crucial Non-GAAP method is the statement of free cash flow. The psychological research revealed that the presentation and format of data have a significant influence on its effectiveness. Both the techniques are almost the same, but the display of data is entirely different, which affects the perceptions of the potential investors and other stakeholders (Tromatman et al., 2011, p.). This study further demonstrated that proper disclosure of the display of pieces of information, the investors' cognition should be avoided. Moreover, the comparison of GAAP and non-GAAP earnings information disclose the interpretation of the investors primarily in the environment where the data is communicated. Nowadays the top companies of the world are using both GAAP and non-GAAP earning measurements to get the advantage of both techniques. The general public and the investors are now getting aware of the non-GAAP earnings in the USA according to the research. In this case, the company is using both the accounting methods to get the proper information regarding the operations and performance of the company.

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