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B Specimen Financial Statements: The Procter & Gamble Company

Once each year, a corporation communicates to its stockholders and other interested parties by issuing a complete set of audited financial statements. The **annual report**, as this communication is called, summarizes the financial results of the company's operations for the year and its plans for the future. Many annual reports are attractive, multicolored, glossy public relations pieces, containing pictures of corporate officers and directors as well as photos and descriptions of new products and new buildings. Yet the basic function of every annual report is to report financial information, almost all of which is a product of the corporation's accounting system.

The content and organization of corporate annual reports have become fairly standardized. Excluding the public relations part of the report (pictures, products, etc.), the following are the traditional financial portions of the annual report:

- Financial Highlights
- Letter to the Stockholders
- Management's Discussion and Analysis
- Financial Statements
- Notes to the Financial Statements
- Management's Responsibility for Financial Reporting
- Management's Report on Internal Control over Financial Reporting
- Report of Independent Registered Public Accounting Firm
- Selected Financial Data

The official SEC filing of the annual report is called a **Form 10-K**, which often omits the public relations pieces found in most standard annual reports. On the following pages, we present **The Procter & Gamble Company (P&G)**'s financial statements taken from the company's 2014 Form 10-K. To access P&G's Form 10-K, including notes to the financial statements, follow these steps:

1. Go to <http://www.pginvestor.com/>.
2. Select the Financial Reporting link.
3. Select the 10-K annual report dated June 30, 2014.
4. The Notes to Consolidated Financial Statements begin on page 52.

Consolidated Statements of Earnings

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Amounts in millions except per share amounts; Years ended June 30	2014	2013	2012
NET SALES	\$ 83,062	\$ 82,581	\$ 82,006
Cost of products sold	42,460	41,391	41,411
Selling, general and administrative expense	25,314	26,552	25,984
Goodwill and indefinite-lived intangible asset impairment charges	—	308	1,576
OPERATING INCOME	15,288	14,330	13,035
Interest expense	709	667	769
Interest income	100	87	77
Other non-operating income, net	206	942	185
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	14,885	14,692	12,528
Income taxes on continuing operations	3,178	3,391	3,378
NET EARNINGS FROM CONTINUING OPERATIONS	11,707	11,301	9,150
NET EARNINGS FROM DISCONTINUED OPERATIONS	78	101	1,754
NET EARNINGS	11,785	11,402	10,904
Less: Net earnings attributable to noncontrolling interests	142	90	148
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	\$ 11,643	\$ 11,312	\$ 10,756
BASIC NET EARNINGS PER COMMON SHARE ⁽¹⁾:			
Earnings from continuing operations	\$ 4.16	\$ 4.00	\$ 3.18
Earnings from discontinued operations	0.03	0.04	0.64
BASIC NET EARNINGS PER COMMON SHARE	4.19	4.04	3.82
DILUTED NET EARNINGS PER COMMON SHARE ⁽¹⁾:			
Earnings from continuing operations	\$ 3.98	\$ 3.83	\$ 3.06
Earnings from discontinued operations	0.03	0.03	0.60
DILUTED NET EARNINGS PER COMMON SHARE	4.01	3.86	3.66
DIVIDENDS PER COMMON SHARE	\$ 2.45	\$ 2.29	\$ 2.14

⁽¹⁾ Basic net earnings per common share and diluted net earnings per common share are calculated on net earnings attributable to Procter & Gamble.

Consolidated Statements of Comprehensive Income

Amounts in millions; Years ended June 30	2014	2013	2012
NET EARNINGS	\$ 11,785	\$ 11,402	\$ 10,904
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX			
Financial statement translation	1,044	710	(5,990)
Unrealized gains/(losses) on hedges (net of \$209, \$92 and \$441 tax, respectively)	(347)	144	724
Unrealized gains/(losses) on investment securities (net of \$4, \$5 and \$3 tax, respectively)	9	(24)	(3)
Defined benefit retirement plans (net of \$356, \$637 and \$993 tax, respectively)	(869)	1,004	(2,010)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	(163)	1,834	(7,279)
TOTAL COMPREHENSIVE INCOME	11,622	13,236	3,625
Less: Total comprehensive income attributable to noncontrolling interests	150	94	124
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PROCTER & GAMBLE	\$ 11,472	\$ 13,142	\$ 3,501

Consolidated Balance Sheets

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Amounts in millions; June 30

<u>Assets</u>	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,558	\$ 5,947
Available-for-sale investment securities	2,128	—
Accounts receivable	6,386	6,508
INVENTORIES		
Materials and supplies	1,742	1,704
Work in process	684	722
Finished goods	4,333	4,483
Total inventories	6,759	6,909
Deferred income taxes	1,092	948
Prepaid expenses and other current assets	3,845	3,678
Assets held for sale	2,849	—
TOTAL CURRENT ASSETS	31,617	23,990
PROPERTY, PLANT AND EQUIPMENT, NET	22,304	21,666
GOODWILL	53,704	55,188
TRADEMARKS AND OTHER INTANGIBLE ASSETS, NET	30,843	31,572
OTHER NONCURRENT ASSETS	5,798	6,847
TOTAL ASSETS	\$ 144,266	\$ 139,263
Liabilities and Shareholders' Equity		
CURRENT LIABILITIES		
Accounts payable	\$ 8,461	\$ 8,777
Accrued and other liabilities	8,999	8,828
Liabilities held for sale	660	—
Debt due within one year	15,606	12,432
TOTAL CURRENT LIABILITIES	33,726	30,037
LONG-TERM DEBT	19,811	19,111
DEFERRED INCOME TAXES	10,218	10,827
OTHER NONCURRENT LIABILITIES	10,535	10,579
TOTAL LIABILITIES	74,290	70,554
SHAREHOLDERS' EQUITY		
Convertible Class A preferred stock, stated value \$1 per share (600 shares authorized)	1,111	1,137
Non-Voting Class B preferred stock, stated value \$1 per share (200 shares authorized)	—	—
Common stock, stated value \$1 per share (10,000 shares authorized; shares issued: 2014 - 4,009.2, 2013 - 4,009.2)	4,009	4,009
Additional paid-in capital	63,911	63,538
Reserve for ESOP debt retirement	(1,340)	(1,352)
Accumulated other comprehensive income/(loss)	(7,662)	(7,499)
Treasury stock, at cost (shares held: 2014 - 1,298.4, 2013 - 1,266.9)	(75,805)	(71,966)
Retained earnings	84,990	80,197
Noncontrolling interest	762	645
TOTAL SHAREHOLDERS' EQUITY	69,976	68,709
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 144,266	\$ 139,263

Consolidated Statements of Shareholders' Equity

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Dollars in millions/Shares in thousands	Common Shares Outstanding	Common Stock	Preferred Stock	Additional Paid-In Capital	Reserve for ESOP Debt Retirement	Accumulated Other Comprehensive Income/ (Loss)	Treasury Stock	Retained Earnings	Non-controlling Interest	Total
BALANCE JUNE 30, 2011	2,765,737	\$ 4,008	\$ 1,234	\$ 62,405	\$ (1,357)	\$ (2,054)	\$ (67,278)	\$ 70,682	\$ 361	\$ 68,001
Net earnings								10,756	148	10,904
Other comprehensive loss						(7,279)				(7,279)
Dividends to shareholders:										
Common								(5,883)		(5,883)
Preferred, net of tax benefits								(256)		(256)
Treasury purchases	(61,826)						(4,024)			(4,024)
Employee plan issuances	39,546			550			1,665			2,215
Preferred stock conversions	4,576		(39)	6			33			—
ESOP debt impacts								50		50
Noncontrolling interest, net				220					87	307
BALANCE JUNE 30, 2012	2,748,033	4,008	1,195	63,181	(1,357)	(9,333)	(69,604)	75,349	596	64,035
Net earnings								11,312	90	11,402
Other comprehensive income						1,834				1,834
Dividends to shareholders:										
Common								(6,275)		(6,275)
Preferred, net of tax benefits								(244)		(244)
Treasury purchases	(84,234)						(5,986)			(5,986)
Employee plan issuances	70,923	1		352			3,573			3,926
Preferred stock conversions	7,605		(58)	7			51			—
ESOP debt impacts								55		60
Noncontrolling interest, net				(2)					(41)	(43)
BALANCE JUNE 30, 2013	2,742,327	4,009	1,137	63,538	(1,352)	(7,499)	(71,966)	80,197	645	68,709
Net earnings								11,643	142	11,785
Other comprehensive loss						(163)				(163)
Dividends to shareholders:										
Common								(6,658)		(6,658)
Preferred, net of tax benefits								(253)		(253)
Treasury purchases	(74,987)						(6,005)			(6,005)
Employee plan issuances	40,288			364			2,144			2,508
Preferred stock conversions	3,178		(26)	4			22			—
ESOP debt impacts								61		73
Noncontrolling interest, net				5					(25)	(20)
BALANCE JUNE 30, 2014	2,710,806	\$ 4,009	\$ 1,111	\$ 63,911	\$ (1,340)	\$ (7,662)	\$ (75,805)	\$ 84,990	\$ 762	\$ 69,976

Consolidated Statements of Cash Flows

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