CONFLICTING ACCOUNTING PRINCIPLE

2011

The Company

The organization chosen for my analysis is the publicly traded Green Mountain Coffee Roasters Inc in Waterbury, Vermont. In June 2009, its revenue exceeded $715 million USD, and it has been ranked as number 1 in “The Best Corporate Citizens” in 2006 and 2007.

After having acquired the Canadian company Van Houtte in 2010 the company’s stock rose to an all time high. After markets closed on September 28, 2010 the company reported that the Securities and Exchange Commission had requested documents and data from it, in relation to an investigation into it’s revenue accounting practices. Shares would fall 11 percent the next day.

Underlying problems

The issues concerned revenue recognition practices and the company’s relationship with a vendor. One of the points that came out were the fact that Green Mountain transfers and stores inventory at M. Block, one of it’s vendors. However a sale is reported only when this vendor would ship coffee out to retailers.

The latest 10-K filed by the company suggested that M. Block was also processing the majority of orders for Green Mountain’s At-Home single-cup business sold through retailers. Infact receivables from this company were over 51 percent of their consolidated accounts at the time of the inquiry (Dalal, 2010).

The particular situation here allows for a lot of room for manipulation of revenue which is why the inquiry was instigated. M. Block physically stores inventory (Keurig machines and K-Cups) and upon orders, sends them out, collecting receivables.

It was suggested that these two companies engaged in a series of “bill-and-hold” transactions to boost Green Mountain’s revenue. Green Mountain would book revenue and accounts receivables through sales made to M. Block but continue to hold onto stock. The contention was that Green Mountain would be able to show consistent increases in revenue.

Additionally, around the same time, Green Mountain reported an accounting discrepancy in it’s K-Cup margin percentages. Then on November 19, 2010, it disclosed four new errors, leading to a restatement of financial reports from 2007 to the quarter ended 2010 to incorporate corrections.

Recommendation

At the time, recommendation would be that Green Mountain comply with Regulation G. This would include reconciliation between it’s GAAP and Non-GAAP incomes. The reconciliation occurred shortly thereafter.

References

Dalal, Mihir. (2010, September 29). Green mountain shares slump on sec inquiry . *Reuters Magazine*, Retrieved from http://uk.reuters.com/article/2010/09/29/greenmountain-idUKSGE68S0FX20100929