BT 200: Financial Accounting

Spring 2017

Written Assignment # 2

This assignment is based on the financial statements of a real company. Each student should prepare his or her own assignment independently without collaboration.

Your assignment should be handwritten, not typed. The assignment is due at the beginning of class on Thursday February 9th.[[1]](#footnote-1) In case you are unable to attend class for any reason on February 9th, you can submit your assignment early.

**Instructions:**

1. Select one of the following companies:

* Starbucks Corporation (NASDAQ:SBUX)
* Dunkin Brands Group Inc (NASDAQ:DNKN)
* Apple Inc. (NASDAQ:AAPL)
* Microsoft Corporation (NASDAQ:MSFT)

1. Locate the company’s most recent Form 10-K on the SEC website [www.sec.gov](http://www.sec.gov)[[2]](#footnote-2) or on the company’s Investor Relations website, and answer the following questions, using complete sentences where appropriate. *You can express amounts as thousands, millions, or billions of dollars.*
2. Identify the company’s total net sales (revenues) for the most recent fiscal year. What was the percentage change in total net sales (revenues) from the prior year?
3. How much net income (or net loss) did the company earn in the most recent year? Based on net income, was the most recent year better or worse than the prior year?
4. Calculate the company’s Return on Assets for the most recent year.
5. Calculate the company’s Debt Ratio for the most recent year and the prior year. Based on the Debt Ratio, did the company become more leveraged or less leveraged?
6. Summarize item 4 in your own words.

Grading Rubric

|  |  |  |
| --- | --- | --- |
| Excellent | 100 | * Complies with all requirements. * Correct information. * Content shows evidence of thoughtfulness. * Impeccable spelling and grammar. |
| Good | 90 | * Complies with all requirements. * Correct information. |
| Okay | 80 | * Complies with all requirements. * Some incorrect information. |
| Poor | 60 | * Does not comply with all requirements. * Incorrect information. |
| Unacceptable | 0 | * Incomplete or missing. OR * Uses directly quoted information without proper attribution. |

Example of Assignment using Under Armour, Inc.

*This example is based on the most recent Form 10-K available at the time of this writing, Under Armour’s 2015 Form 10-K which was filed on February 22, 2016.*

1. Identify the company’s total net sales (revenues) for the most recent fiscal year. What was the percentage change in total net sales (revenues) from the prior year?

Under Armour’s total net revenues for the year ended December 31,2015 were $3,963.3 million. The year-on-year percent change in revenues was 28.5%.

Calculation:

Y.O.Y. Percent Change = (New – Old)/Old [[3]](#footnote-3)

= ($3,963,313 - $3,084,370)/ $3,084,370 = 28.5%

1. How much net income (or net loss) did the company earn in the most recent year? Based on net income, was the most recent year better or worse than the prior year?

Under Armour’s net income for the year ended December 31, 2015 was $232.6 million. Net income increased by 11.8% from the prior year. Based on net income, 2015 was a better year than 2014.

Calculation:

Y.O.Y. Percent Change = (New – Old)/Old [[4]](#footnote-4)

= ($232,573 - $208,042)/ $208,042 = 11.8%

1. Calculate the company’s Return on Assets for the most recent year.

Under Armour’s Return on Assets for 2015 was 9.4%

Calculation

ROA = Net Income/ Average Total Assets

= $232,573/[($2,868,900 + $2,095,083)/2] = 9.4%

1. Calculate the company’s Debt Ratio as of the most recent year end and as of the prior year end. Based on the Debt Ratio, did the company become more leveraged or less leveraged?

Under Armour’s Debt Ratio increased from 35.6% as of December 31, 2014 to 41.9% as of December 31, 2015. Based on the Debt Ratio, Under Armour became more leveraged.

Calculation

Debt Ratio = Total Liabilities/Total Assets

= 1,200,678/ 2,868,900 = 41.9% as of FYE 12/31/2015

= 744,783/ 2,095,083 = 35.6% as of FYE 12/31/2014

1. Summarize item 4 in your own words.

The increase in Under Armour’s Debt Ratio indicates that the company is financing a greater proportion of total assets with liabilities. Thus the company faces more financial risk. In summary, with respect to leverage, the company’s financial position is not as strong at the end of 2015 as it was at year-end 2014.

**Under Armour, Inc. and Subsidiaries**

**Consolidated Statements of Income**

**(In thousands, except per share amounts)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Year Ended December 31,** | | | | | | | | | | |
|  | **2015** | | |  | **2014** | | |  | **2013** | | |
| Net revenues | $ | 3,963,313 |  |  | $ | 3,084,370 |  |  | $ | 2,332,051 |  |
| Cost of goods sold | 2,057,766 | |  |  | 1,572,164 | |  |  | 1,195,381 | |  |
| Gross profit | 1,905,547 | |  |  | 1,512,206 | |  |  | 1,136,670 | |  |
| Selling, general and administrative expenses | 1,497,000 | |  |  | 1,158,251 | |  |  | 871,572 | |  |
| Income from operations | 408,547 | |  |  | 353,955 | |  |  | 265,098 | |  |
| Interest expense, net | (14,628 | | ) |  | (5,335 | | ) |  | (2,933 | | ) |
| Other expense, net | (7,234 | | ) |  | (6,410 | | ) |  | (1,172 | | ) |
| Income before income taxes | 386,685 | |  |  | 342,210 | |  |  | 260,993 | |  |
| Provision for income taxes | 154,112 | |  |  | 134,168 | |  |  | 98,663 | |  |
| Net income | $ | 232,573 |  |  | $ | 208,042 |  |  | $ | 162,330 |  |
| **Net income available per common share** |  | | |  |  | | |  |  | | |
| Basic | $ | 1.08 |  |  | $ | 0.98 |  |  | $ | 0.77 |  |
| Diluted | $ | 1.05 |  |  | $ | 0.95 |  |  | $ | 0.75 |  |
| **Weighted average common shares outstanding** |  | | |  |  | | |  |  | | |
| Basic | 215,498 | |  |  | 213,227 | |  |  | 210,696 | |  |
| Diluted | 220,868 | |  |  | 219,380 | |  |  | 215,958 | |  |

**Under Armour, Inc. and Subsidiaries** **Consolidated Balance Sheets** *(In thousands, except share data)*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **December 31, 2015** | | |  | **December 31, 2014** | | |
| **Assets** |  | | |  |  | | |
| Current assets |  | | |  |  | | |
| Cash and cash equivalents | $ | 129,852 |  |  | $ | 593,175 |  |
| Accounts receivable, net | 433,638 | |  |  | 279,835 | |  |
| Inventories | 783,031 | |  |  | 536,714 | |  |
| Prepaid expenses and other current assets | 152,242 | |  |  | 87,177 | |  |
| Deferred income taxes | — | |  |  | 52,498 | |  |
| Total current assets | 1,498,763 | |  |  | 1,549,399 | |  |
| Property and equipment, net | 538,531 | |  |  | 305,564 | |  |
| Goodwill | 585,181 | |  |  | 123,256 | |  |
| Intangible assets, net | 75,686 | |  |  | 26,230 | |  |
| Deferred income taxes | 92,157 | |  |  | 33,570 | |  |
| Other long term assets | 78,582 | |  |  | 57,064 | |  |
| Total assets | $ | 2,868,900 |  |  | $ | 2,095,083 |  |
| **Liabilities and Stockholders’ Equity** |  | | |  |  | | |
| Current liabilities |  | | |  |  | | |
| Accounts payable | $ | 200,460 |  |  | $ | 210,432 |  |
| Accrued expenses | 192,935 | |  |  | 147,681 | |  |
| Current maturities of long term debt | 42,000 | |  |  | 28,951 | |  |
| Other current liabilities | 43,415 | |  |  | 34,563 | |  |
| Total current liabilities | 478,810 | |  |  | 421,627 | |  |
| Long term debt, net of current maturities | 352,000 | |  |  | 255,250 | |  |
| Revolving credit facility, long term | 275,000 | |  |  | — | |  |
| Other long term liabilities | 94,868 | |  |  | 67,906 | |  |
| Total liabilities | 1,200,678 | |  |  | 744,783 | |  |
| Commitments and contingencies (see Note 7) |  | |  |  |  | |  |
| Stockholders’ equity |  | | |  |  | | |
| Class A Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of December 31, 2015 and 2014; 181,646,468 shares issued and outstanding as of December 31, 2015 and 177,295,988 shares issued and outstanding as of December 31, 2014. | 61 | |  |  | 59 | |  |
| Class B Convertible Common Stock, $0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of December 31, 2015 and 36,600,000 shares authorized, issued and outstanding as of December 31, 2014. | 11 | |  |  | 12 | |  |
| Class C Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of December 31, 2015; 0 shares issued and outstanding as of December 31, 2015. | — | |  |  | — | |  |
| Additional paid-in capital | 636,630 | |  |  | 508,350 | |  |
| Retained earnings | 1,076,533 | |  |  | 856,687 | |  |
| Accumulated other comprehensive loss | (45,013 | | ) |  | (14,808 | | ) |
| Total stockholders’ equity | 1,668,222 | |  |  | 1,350,300 | |  |
| Total liabilities and stockholders’ equity | $ | 2,868,900 |  |  | $ | 2,095,083 |  |

1. Late assignments will be penalized 10 points. [↑](#footnote-ref-1)
2. On the home page of the SEC, select “company filings” in the top right corner. On the next page type the company’s name. On the next page, in the box labeled “Filing type” enter 10-K. [↑](#footnote-ref-2)
3. (New – Old)/Old, or we can simplify to New/Old – 1. [↑](#footnote-ref-3)
4. (New – Old)/Old, or we can simplify to New/Old – 1. [↑](#footnote-ref-4)