



Product Costing: Understanding the Financials of Your Product

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Course Introduction

Instructor Introduction

Course Instructor



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Mike Lepech



UNIVERSITY OF MICHIGAN

- PhD – Civil and Environmental Engineering (Materials)
 - University of Michigan, Ann Arbor
- Masters in Business Administration – Strategy & Finance
 - Ross School of Business, University of Michigan, Ann Arbor
- Post Doctoral Research
 - School of Natural Resources and Environment, University of Michigan, Ann Arbor
- Current Research and Courses
 - Smart and Sustainable Design, Construction, and Operation of Built Environments
 - Director, Center for Sustainable Development and Global Competitiveness
 - Director, Stanford Center at the Incheon Global Campus (South Korea)
 - Teach courses on quantitative sustainability modeling, engineering economics, accounting and finance, and multi-physics modeling and damage mechanics

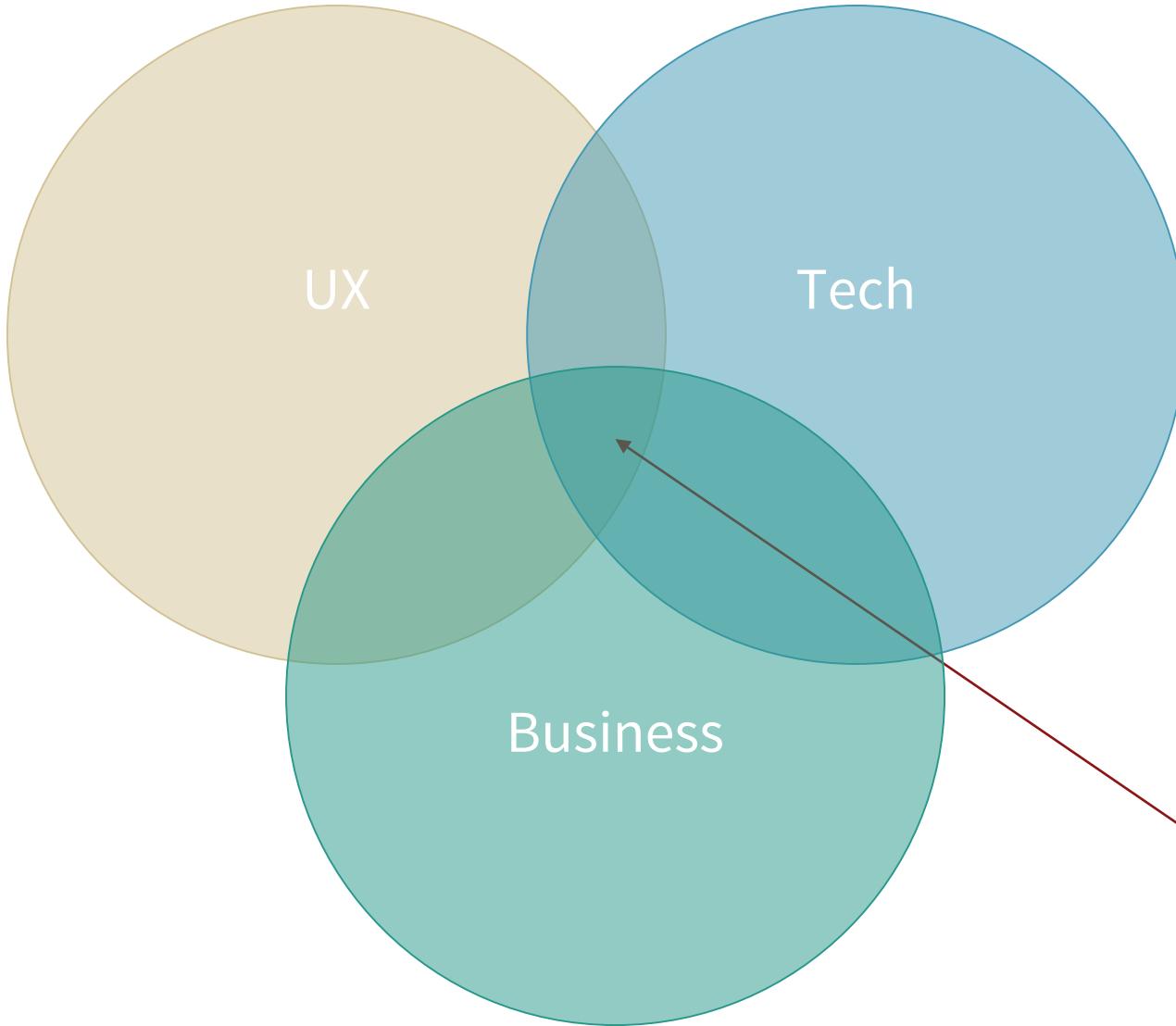


Course Motivation

“

*You may not be responsible for it, but you are responsible
for the success of the outcome.*

”



You are here!

Measurable
Metrics

Profit Margin

Revenue

Cost

Success

SMART Goals

Specific

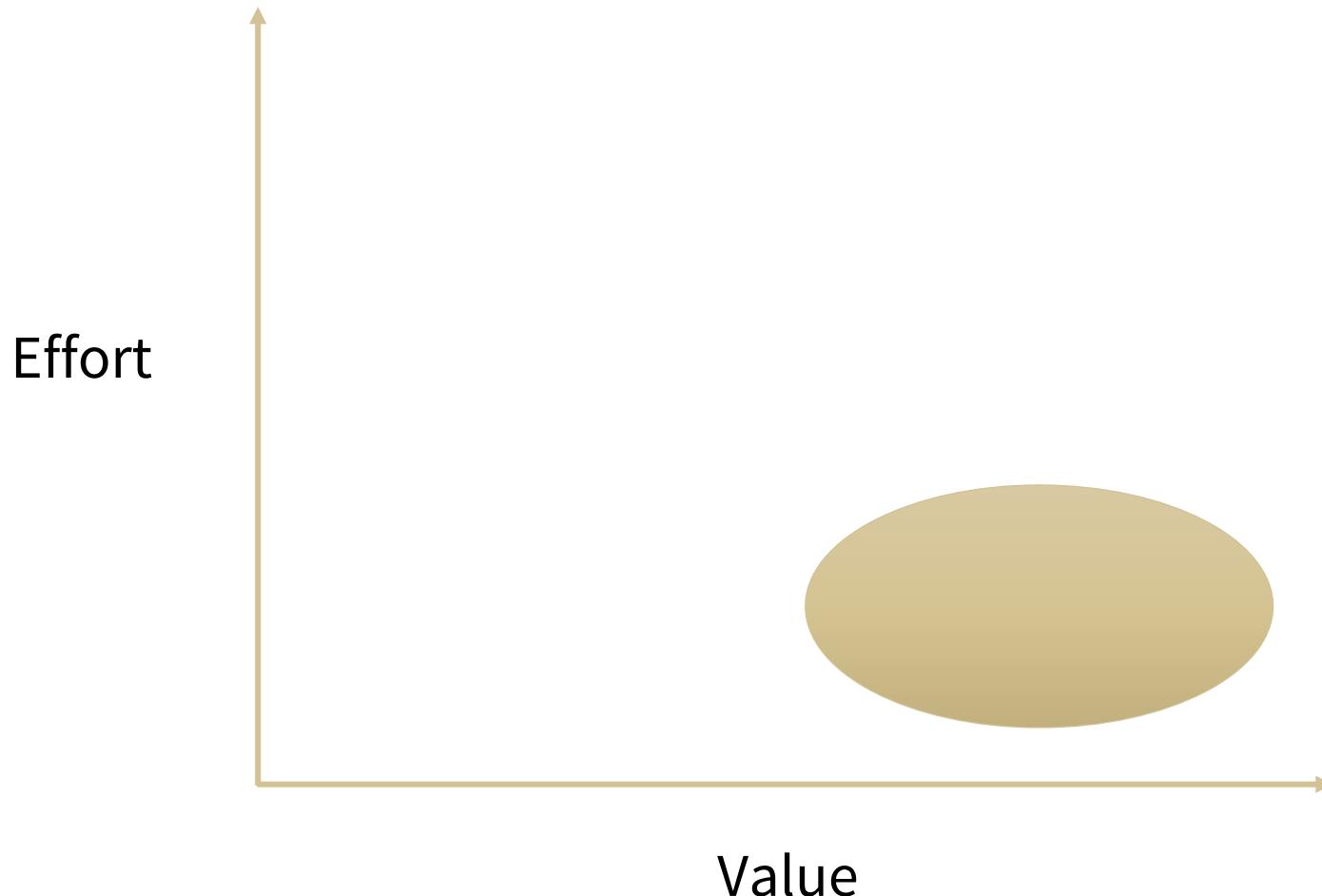
Measureable

Achievable

Relevant

Time-bound

Relevant Goals



Accounting is the language of business

“

*You may not be responsible for it, but you are responsible
for the success of the outcome.*

”

Course Structure

Course Structure

Introduction

Nature of Accounting

Financial Accounting

Financial Statements

Recording Transactions

Balance Sheets

Income Statement (P&L)

Statement of Cashflows

Managerial Accounting

- Costing Methods
- P&L Management
- Product Costing
- Informed Decision Making
- Product Pricing
- Budgeting and Planning
- Conclusion

Learning Objectives

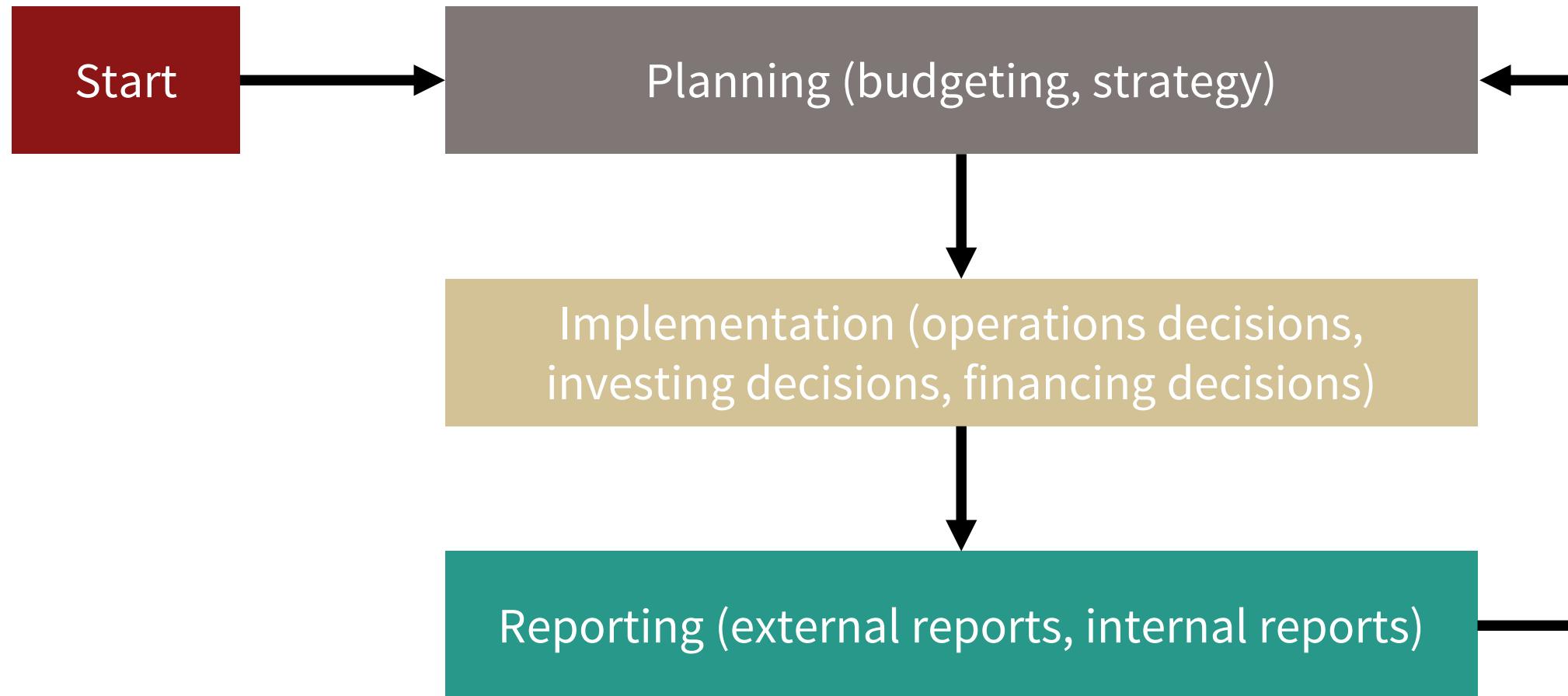
- What is the connection between accounting and cost management and my role as a product manager?
- What are the basic concepts and jargon of accounting?
- How do I leverage accounting and cost management concepts to be a better product manager?

Nature of Accounting

Accounting and Cost Management

- Measuring, recording, classifying, and reporting the financial consequences of business decisions
- Information from accounting is used to help make difficult decisions when selecting between alternatives
- In some cases, accounting considers not only financial costs, but also environmental impacts and costs, and social impacts and costs

The Business Accounting Cycle



Reporting

- External reporting
 - **Generally Accepted Accounting Principles (GAAP)**
 - **International Financial Reporting Standards (IFRS)**
- Internal reporting
 - Provide detailed information on how the business is doing
 - Compares outcomes with past expectations to decide what can be done to improve

Accounting is NOT an exact science!!!

Introduction to Financial Accounting

The Financial Statements

The Financial Statements

- Financial statements can be found in a firm's annual report.
There are **four required financial statements**
 1. Balance Sheet
 2. Income Statement (P&L)
 3. Statement of Cash Flows
 4. Statement of Retained Earnings, Statement of Shareholder Equity

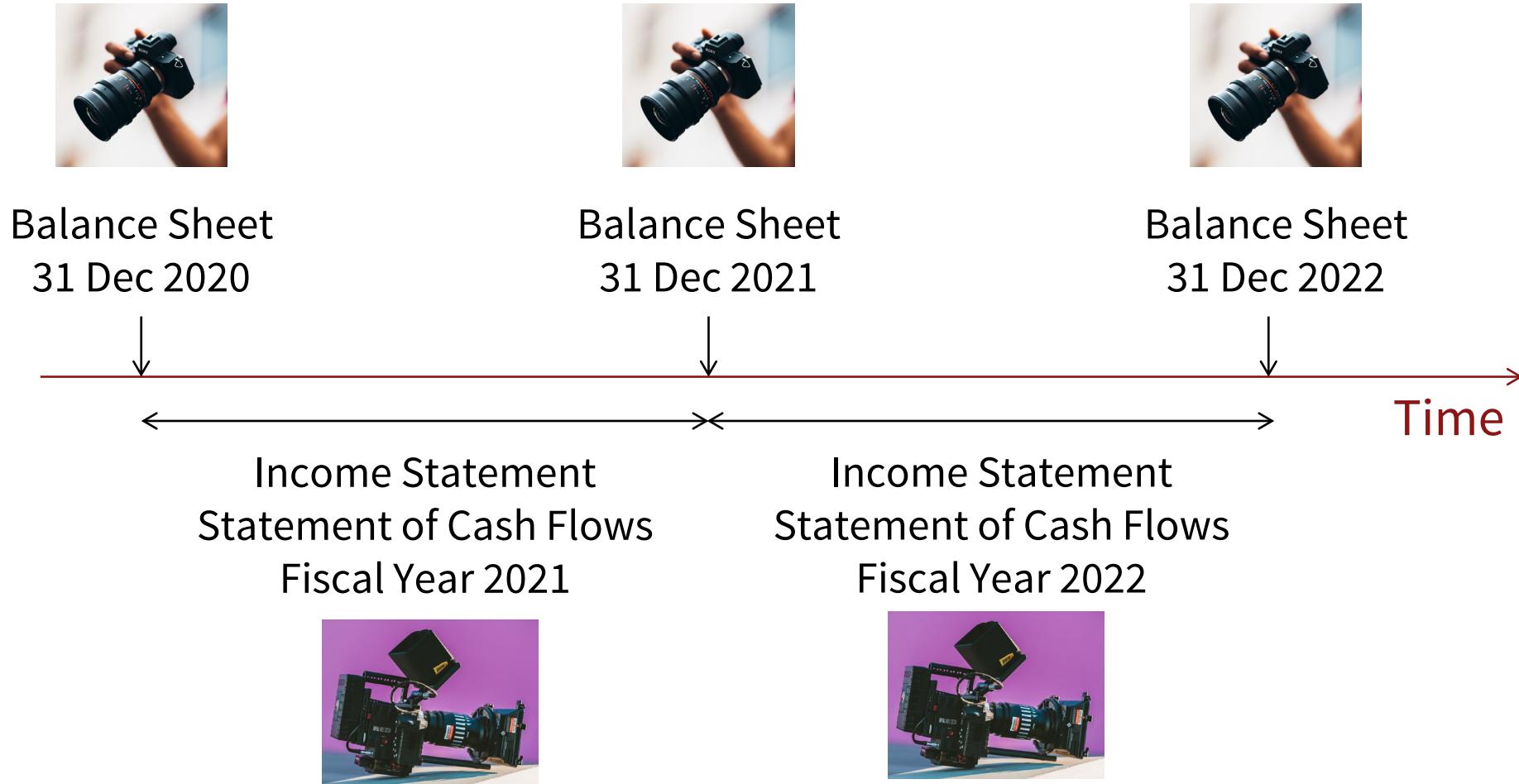
Relationships Between the Financial Statements



VS



Relationships Between the Financial Statements



<https://www.sec.gov/edgar.shtml>



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All companies, foreign and domestic, are required to file registration statements, periodic reports, and other forms electronically through EDGAR. Anyone can access and download this information for free. Here you'll find links to a complete list of filings available through EDGAR and instructions for searching the EDGAR database.

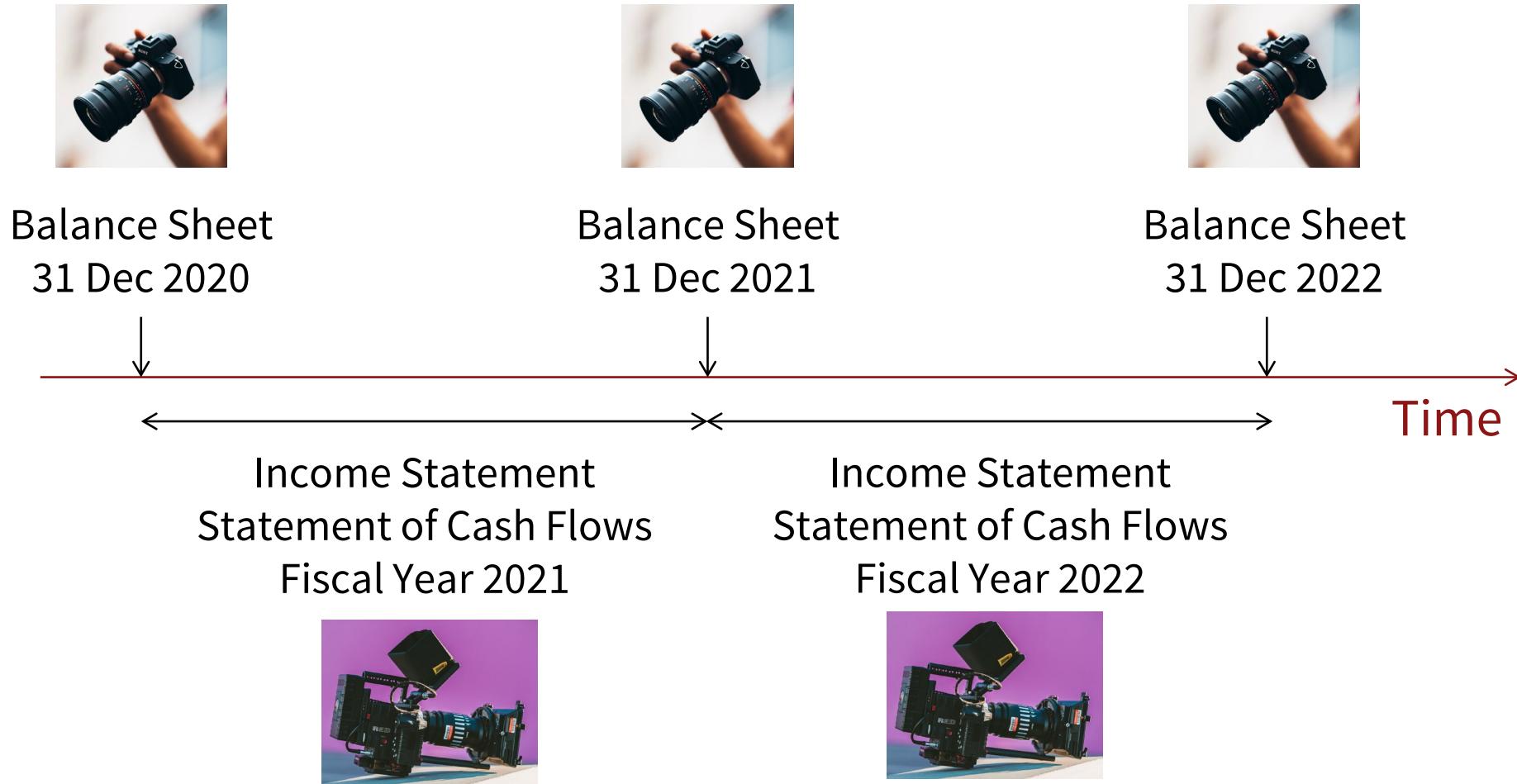
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Introduction to the Balance Sheet

Relationships Between the Financial Statements



The Balance Sheet

YourCo, Inc.
Balance Sheet
31 Dec 2021

Assets

Liabilities

Shareholders' Equity

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 26, 2020.

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 000-06217



INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

94-1672743

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

2200 Mission College Boulevard, Santa Clara, California

95054-1549

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(408) 765-8080**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, \$0.001 par value

Trading symbol

INTC

Name of each exchange on which registered

Nasdaq Global Select Market

Consolidated Balance Sheets

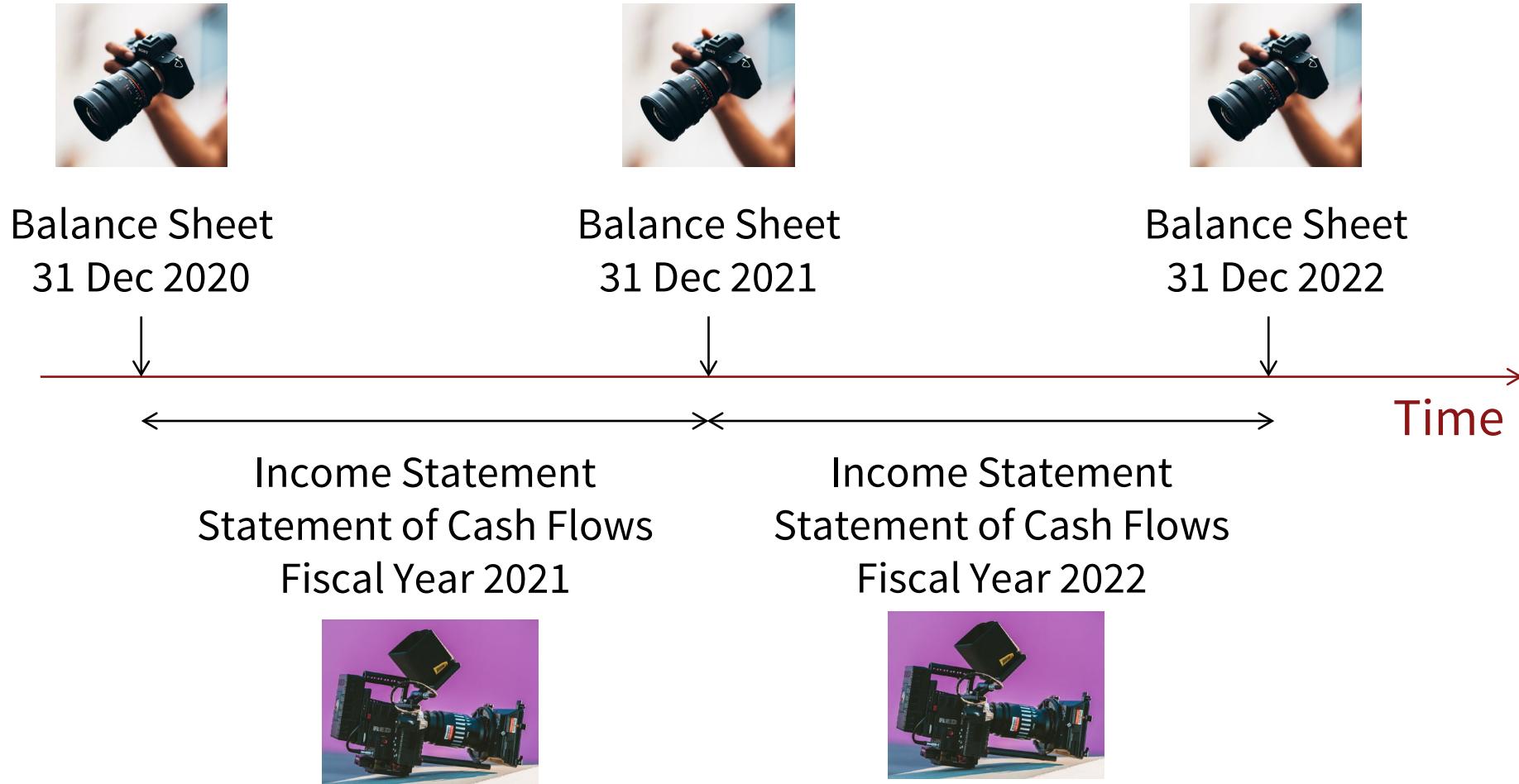
(In Millions, Except Par Value)	Dec 26, 2020	Dec 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,865	\$ 4,194
Short-term investments	2,292	1,082
Trading assets	15,738	7,847
Accounts receivable, net of allowance for doubtful accounts	6,782	7,659
Inventories	8,427	8,744
Assets held for sale	5,400	—
Other current assets	2,745	1,713
Total current assets	47,249	31,239
Property, plant and equipment, net	56,584	55,386
Equity investments	5,152	3,967
Other long-term investments	2,192	3,276
Goodwill	26,971	26,276
Identified intangible assets, net	9,026	10,827
Other long-term assets	5,917	5,553
Total assets	\$ 153,091	\$ 136,524
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 2,504	\$ 3,693
Accounts payable	5,581	4,128
Accrued compensation and benefits	3,999	3,853
Other accrued liabilities	12,670	10,636
Total current liabilities	24,754	22,310
Debt	33,897	25,308
Contract liabilities	1,367	1,368
Income taxes payable	4,578	4,919
Deferred income taxes	3,843	2,044
Other long-term liabilities	3,614	2,916
Commitments and Contingencies (Note 19)		
Temporary equity	—	155
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 10,000 shares authorized; 4,062 shares issued and outstanding (4,290 issued and outstanding in 2019) and capital in excess of par value	25,556	25,261
Accumulated other comprehensive income (loss)	(751)	(1,280)
Retained earnings	56,233	53,523
Total stockholders' equity	81,038	77,504
Total liabilities, temporary equity, and stockholders' equity	\$ 153,091	\$ 136,524

Source: United States Securities and Exchange Commission

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Introduction to the Income Statement

Relationships Between the Financial Statements



The Income Statement

- Also called the Earnings Statement, the Statement of Operations, or the P&L (Profit and Loss Statement)
- Summarizes all activities that resulted in revenues (and gains) or expenses (and losses) over a period of time

The Income Statement

YourCo, Inc.
Income Statement
Fiscal Year 2021

Revenues

Costs and Expenses

Other Income

Net Income

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Nasdaq Global Select Market

Consolidated Statements of Income

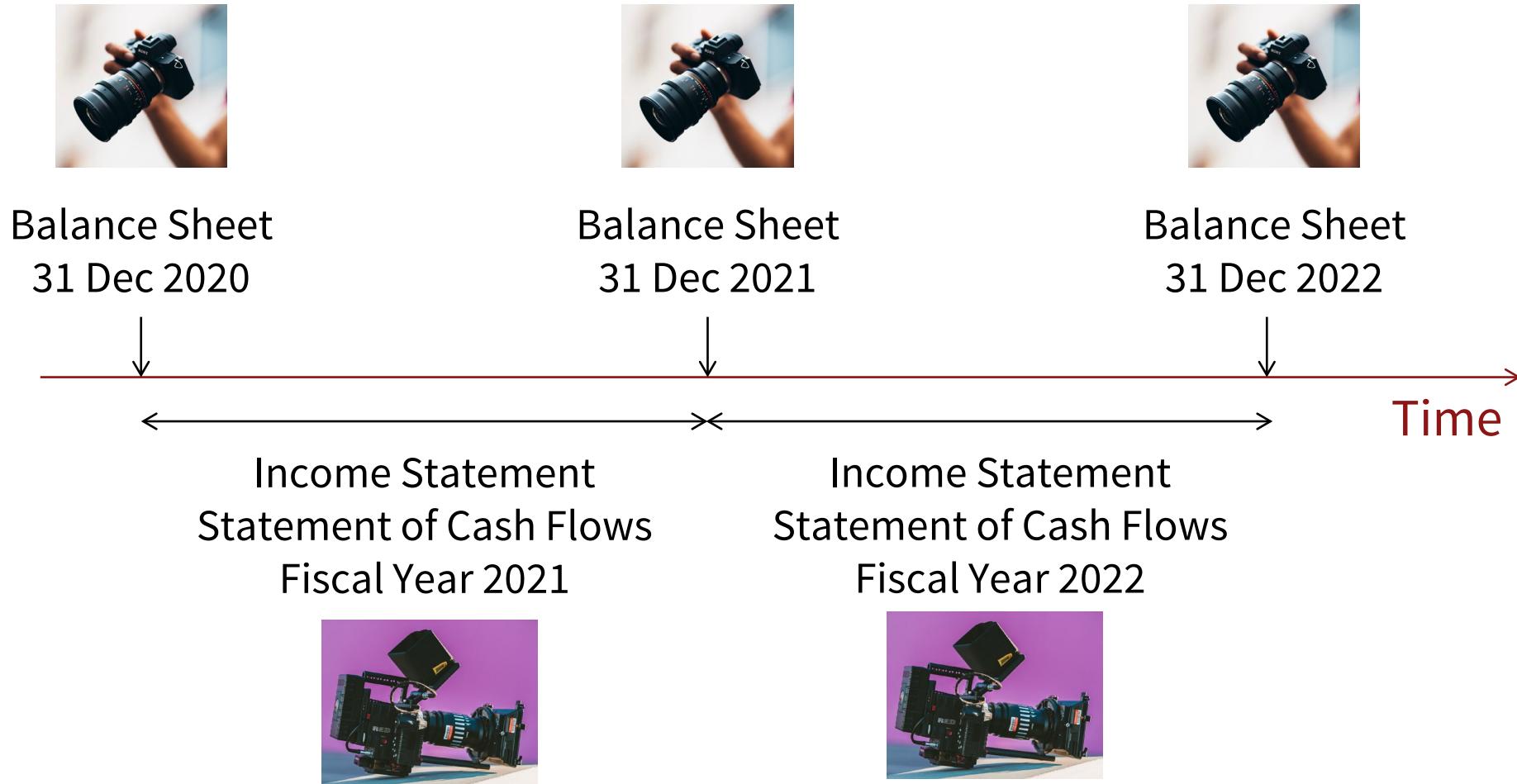
Years Ended (In Millions, Except Per Share Amounts)	Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
	\$	\$	\$
Net revenue	\$ 77,867	\$ 71,965	\$ 70,848
Cost of sales	34,255	29,825	27,111
Gross margin	43,612	42,140	43,737
Research and development	13,556	13,362	13,543
Marketing, general and administrative	6,180	6,350	6,950
Restructuring and other charges	198	393	(72)
Operating expenses	19,934	20,105	20,421
Operating income	23,678	22,035	23,316
Gains (losses) on equity investments, net	1,904	1,539	(125)
Interest and other, net	(504)	484	126
Income before taxes	25,078	24,058	23,317
Provision for taxes	4,179	3,010	2,264
Net income	\$ 20,899	\$ 21,048	\$ 21,053

Source: United States Securities and Exchange Commission

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Introduction to the Statement of Cash Flows

Relationships Between the Financial Statements



The Statement of Cash Flows

YourCo, Inc.
Statement of Cash Flows
Fiscal Year 2021

Operating Cash Flows

Cash provided (used) by operating activities

Investing Cash Flows

Cash provided (used) by investing activities

Financing Cash Flows

Cash provided (used) by investing activities

Net increase (decrease) in cash

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Consolidated Statements of Cash Flows

Years Ended (In Millions)	Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
	\$ 4,194	\$ 3,019	\$ 3,433
Cash and cash equivalents, beginning of period	\$ 4,194	\$ 3,019	\$ 3,433
Cash flows provided by (used for) operating activities:			
Net income	20,899	21,048	21,053
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,482	9,204	7,520
Share-based compensation	1,854	1,705	1,546
Amortization of intangibles	1,757	1,622	1,565
(Gains) losses on equity investments, net	(1,757)	(892)	155
(Gains) losses on divestitures	(30)	(690)	(497)
Changes in assets and liabilities:			
Accounts receivable	883	(935)	(1,714)
Inventories	(687)	(1,481)	(214)
Accounts payable	412	696	211
Accrued compensation and benefits	463	91	(260)
Prepaid supply agreements	(181)	(782)	1,367
Income taxes	1,620	885	(1,601)
Other assets and liabilities	(331)	2,674	301
Total adjustments	14,485	12,097	8,379
Net cash provided by operating activities	35,384	33,145	29,432
Cash flows provided by (used for) investing activities:			
Additions to property, plant and equipment	(14,259)	(16,213)	(15,181)
Additions to held for sale NAND property, plant and equipment	(194)	—	—
Acquisitions, net of cash acquired	(837)	(1,958)	(190)
Purchases of available-for-sale debt investments	(6,862)	(2,268)	(3,843)
Maturities and sales of available-for-sale debt investments	6,781	4,226	3,163
Purchases of trading assets	(22,377)	(9,162)	(9,503)
Maturities and sales of trading assets	15,377	7,178	12,111
Purchases of equity investments	(720)	(522)	(874)
Sales of equity investments	910	2,688	2,802
Proceeds from divestitures	123	911	548
Other investing	1,262	715	(272)
Net cash used for investing activities	(20,796)	(14,405)	(11,239)
Cash flows provided by (used for) financing activities:			
Issuance of term debt, net of issuance costs	10,247	3,392	423
Repayment of term debt and debt conversions	(4,525)	(2,627)	(3,026)
Proceeds from sales of common stock through employee equity incentive plans	897	750	555
Repurchase of common stock	(14,229)	(13,576)	(10,730)
Payment of dividends to stockholders	(5,568)	(5,576)	(5,541)
Other financing	261	72	(288)
Net cash provided by (used for) financing activities	(12,917)	(17,565)	(18,607)
Net increase (decrease) in cash and cash equivalents	1,671	1,175	(414)

Source: United States Securities and Exchange Commission

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Accounting for Metrics of Success

Fundamental Accounting Principles and Concepts

- The Entity Concept – The accounting unit is the business, separate from its shareholders and owners.
- The Cost Principle – All assets are recorded at their cost to the business, with cost being the amount of cash or other consideration given to obtain the items, at the date of purchase.
- Stable Dollar Assumption – Changes in the value of currency are ignored.
- Reliability Concept – Information regarding accounting transactions is objective.
- Relevance Concept – Information regarding accounting transactions is relevant.

SMART Goals

Specific

Measureable

Achievable

Relevant

Time-bound

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Nasdaq Global Select Market

OKRs

Note 4 : Earnings Per Share

Years Ended (In Millions, Except Per Share Amounts)	Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
Net income available to common stockholders	\$ 20,899	\$ 21,048	\$ 21,053
Weighted average shares of common stock outstanding—basic	4,199	4,417	4,611
Dilutive effect of employee incentive plans	33	41	50
Dilutive effect of convertible debt	—	15	40
Weighted average shares of common stock outstanding—diluted	4,232	4,473	4,701
Earnings per share—basic	\$ 4.98	\$ 4.77	\$ 4.57
Earnings per share—diluted	\$ 4.94	\$ 4.71	\$ 4.48

Source: United States Securities and Exchange Commission

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Recording the Transactions of Business

The Accounting Spreadsheet



The Accounting Spreadsheet

The accounting spreadsheet helps us to;

1. Think about the event or transaction in a formal fashion
2. Ask which accounts are affected
3. Record the impact such that the spreadsheet remains in balance

Accounting Doesn't Track Everything!

Business decisions are classified into three major groups

- Operating activities – ultimately provide goods and services to customers or users
- Investing activities – transactions that create the long-term tangible and intangible assets needed to run the firm
- Financing activities – determine where the money will be sourced to operate the business and provide money for investing activities

Accounting systems only track accounting transactions that alter assets, liabilities, and shareholders' equity of the business, and its balance sheet.

The Accounting Spreadsheet

The Accounting Spreadsheet

Double Entry Bookkeeping



Double Entry Bookkeeping

Cash Account (Account A-1)

Date	Event or Transaction	Ref.	Increase	Decrease	Balance
1-Jan	Beginning Balance				\$48,326.23
3-Jan	Pay Wages	L-15		\$12,488.36	\$35,837.87
5-Jan	Cash from Accounts Recievable #2567	A-3	\$7,253.26		\$43,091.13
5-Jan	Pay Invoice #8760 - Supplier #876	L-1		\$10,295.23	\$32,795.90

T-Accounts and Journal Entries

Double Entry Bookkeeping

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T-Accounts

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Cash A-1		
Balance	48,326.23	
3-Jan		35,837.87
5-Jan	7,253.25	
5-Jan		10,295.23

Connecting the Accounting Spreadsheet to T-Accounts

Description	Date	Cash	Accounts Receivable	Supplies	Prepaid Rent	Land	Building	Accounts Payable	Notes Payable	Contributed Capital	Retained Earnings	Note: Net Income Impact
	1-Jan	1,000,000								500,000	500,000	None

Debit + Credit -

Cash A-1	
1,000,000.00	

Debit - Credit +

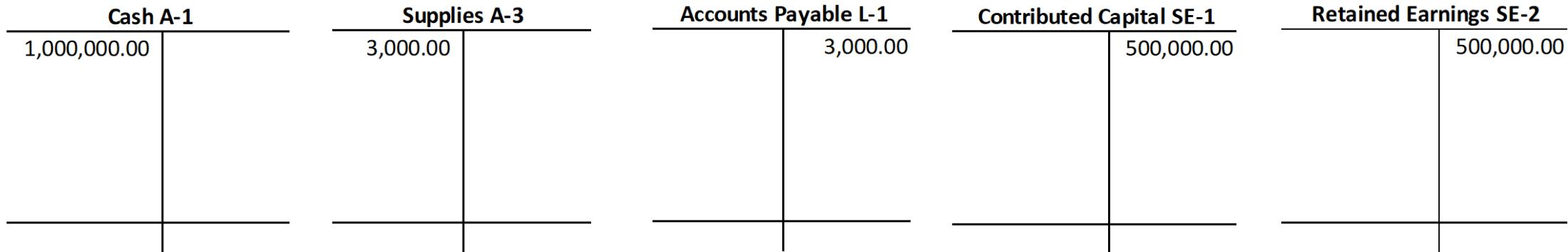
Contributed Capital SE-1	
	500,000.00

Debit - Credit +

Retained Earnings SE-2	
	500,000.00

Connecting the Accounting Spreadsheet to T-Accounts

Description	Date	Cash	Accounts Recievable	Supplies	Prepaid Rent	Land	Building	Accounts Payable	Notes Payable	Contributed Capital	Retained Earnings	Note: Net Income Impact
	1-Jan	1,000,000								500,000	500,000	None
Buy Supplies	23-Jan			3,000				3,000				None



Connecting the Accounting Spreadsheet to T-Accounts

Description	Date	Cash	Accounts Recievable	Supplies	Prepaid Rent	Land	Building	Accounts Payable	Notes Payable	Contributed Capital	Retained Earnings	Note: Net Income Impact
	1-Jan	1,000,000								500,000	500,000	None
Buy Supplies	23-Jan			3,000				3,000				None
Pay Inovice	15-Feb	(3,000)						(3,000)				None

Cash A-1		Supplies A-3		Accounts Payable L-1		Contributed Capital SE-1		Retained Earnings SE-2	
1,000,000.00	3,000.00	3,000.00		3,000.00	3,000.00		500,000.00		500,000.00

Connecting the Accounting Spreadsheet to T-Accounts

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	1-Jan	1,000,000								500,000	500,000	None
Buy Supplies	23-Jan			3,000				3,000				None
Pay Invoive	15-Feb	(3,000)						(3,000)				None

$$997,000 + 3,000 = 0 + 500,000 + 500,000$$

Cash A-1		Supplies A-3		Accounts Payable L-1		Contributed Capital SE-1		Retained Earnings SE-2	
1,000,000.00	3,000.00	3,000.00		3,000.00	3,000.00		500,000.00		500,000.00
997,000.00		3,000.00		0			500,000.00		500,000.00

Journal Entries

Cash Account (Account A-1)

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Journal			Page 1056	
Date	Accounts (Explanation)	Reference	Debit	Credit
5-Jan	Cash Accounts Recieveable <i>(cash from Accounts Recieveable #2576)</i>	A-1 A-3	\$7,253.26	\$7,253.26

Accrual, Revenue Recognition, and the Accounting Cycle

Cash Accounting



Accrual Accounting

Many of the assets procured or liabilities taken on by the firm are used or accrued, respectively, over a period of time.



Accrual-based accounting is required by GAAP/IFRS.

Reporting Interval Concept

- What is the real need for accrual-based accounting?
- The Reporting Interval Concept defines how often a firm will report on its activities (i.e., annual corporate reports, quarterly management updates)
- When reported, the value of assets which remain partially consumed, or liabilities which remain partially accrued, must be adjusted to provide a more accurate picture of the accounts.

Matching Principle

- Earning revenue usually requires the consumption of resources.
- The Matching Principle helps us to identify the resources and expenses associated with revenues recognized during a reporting period.
- Once the revenues for a specific reporting period have been identified, all of the resources and expenses associated with that revenue are recorded during that same reporting period.

The Accounting Cycle

1. Analyze transactions and events and record all necessary journal entries
2. Post the journal entries into T-accounts
3. Prepare the “trial balance”
4. Prepare the adjusting journal entries and post them to T-accounts
5. Prepare the adjusted trial balance
6. Prepare the financial statements from the adjusted trial balance
7. Close the temporary accounts

Cash versus Accrual Accounting

SMART Goals

Specific

Measureable

Achievable

Relevant

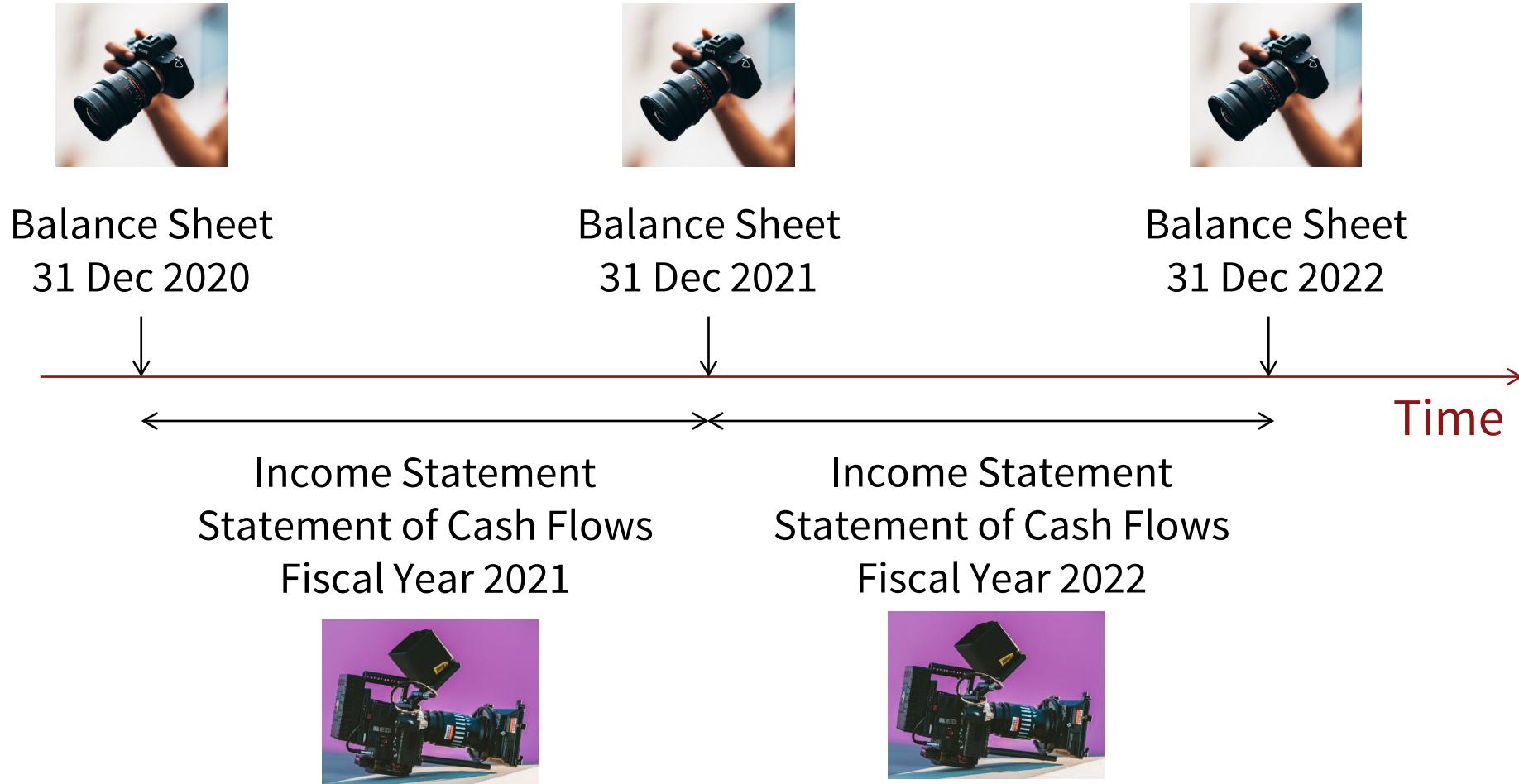
Time-bound

The Balance Sheet

The Financial Statements

- 1. Balance Sheet**
2. Income Statement (P&L)
3. Statement of Cash Flows
4. Statement of Retained Earnings, Statement of Shareholder Equity

Relationships Between the Financial Statements



The Balance Sheet

YourCo, Inc.
Balance Sheet
31 Dec 2021

Assets

Liabilities

Shareholders' Equity

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Name of each exchange on which registered

Nasdaq Global Select Market

Consolidated Balance Sheets

(In Millions, Except Par Value)	Dec 26, 2020	Dec 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,865	\$ 4,194
Short-term investments	2,292	1,082
Trading assets	15,738	7,847
Accounts receivable, net of allowance for doubtful accounts	6,782	7,659
Inventories	8,427	8,744
Assets held for sale	5,400	—
Other current assets	2,745	1,713
Total current assets	47,249	31,239
Property, plant and equipment, net	56,584	55,386
Equity investments	5,152	3,967
Other long-term investments	2,192	3,276
Goodwill	26,971	26,276
Identified intangible assets, net	9,026	10,827
Other long-term assets	5,917	5,553
Total assets	\$ 153,091	\$ 136,524
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 2,504	\$ 3,693
Accounts payable	5,581	4,128
Accrued compensation and benefits	3,999	3,853
Other accrued liabilities	12,670	10,636
Total current liabilities	24,754	22,310
Debt	33,897	25,308
Contract liabilities	1,367	1,368
Income taxes payable	4,578	4,919
Deferred income taxes	3,843	2,044
Other long-term liabilities	3,614	2,916
Commitments and Contingencies (Note 19)		
Temporary equity	—	155
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 10,000 shares authorized; 4,062 shares issued and outstanding (4,290 issued and outstanding in 2019) and capital in excess of par value	25,556	25,261
Accumulated other comprehensive income (loss)	(751)	(1,280)
Retained earnings	56,233	53,523
Total stockholders' equity	81,038	77,504
Total liabilities, temporary equity, and stockholders' equity	\$ 153,091	\$ 136,524

Source: United States Securities and Exchange Commission

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The Accounting Cycle

1. Analyze transactions and events and record all necessary journal entries
2. Post the journal entries into T-accounts
3. Prepare the “trial balance”
4. Prepare the adjusting journal entries and post them to T-accounts
5. Prepare the adjusted trial balance
6. Prepare the financial statements from the adjusted trial balance
7. Close the temporary accounts

Step 1: Recording Journal Entries

Journal					Page 897
Date	Accounts (<i>Explanation</i>)	Reference	Debit	Credit	
23-Jan	Supplies Accounts Payable <i>(buying supplies)</i>	A-3 L-1	\$3,000	\$3,000	
15-Feb	Accounts Payable Cash <i>(to pay invoice from vendor)</i>	L-1 A-1	\$3,000	\$3,000	

Step 2: Posting to the T-accounts

Cash A-1	Supplies A-3	Accounts Payable L-1	Contributed Capital SE-1	Retained Earnings SE-2
1,000,000.00	3,000.00	3,000.00	500,000.00	500,000.00

Step 3: Prepare the Trial Balance

Cash A-1		Supplies A-3		Accounts Payable L-1		Contributed Capital SE-1		Retained Earnings SE-2	
1,000,000.00	3,000.00	3,000.00		3,000.00	3,000.00		500,000.00		500,000.00
997,000.00		3,000.00		0			500,000.00		500,000.00

Step 4: Prepare the Adjusting Journal Entries and Post

All transactions and events take place during the same reporting period and are instantaneous.

Step 5: Prepare the Adjusted Trial Balance

No adjusting journal entries were created.

Step 6: Prepare the Financial Statements

Assets (A)		Liabilities (L)		Shareholders' Equity (SE)	
Cash A-1	Supplies A-3	Accounts Payable L-1		Contributed Capital SE-1	Retained Earnings SE-2
1,000,000.00	3,000.00	3,000.00	3,000.00	500,000.00	500,000.00
997,000.00	3,000.00	0		500,000.00	500,000.00

Balance Sheet
31 Dec

Assets	
Cash	\$997,000
Supplies	\$3,000
Total Assets	\$1,000,000

Liabilities	
	- 0 -
Shareholders' Equity	
Contributed Capital	\$500,000
Retained Earnings	\$500,000
Total Liabilities Plus Shareholders' Equity	\$1,000,000

Cash A-1	Accounts Receivable A-2	Prepaid Insurance A-3	Equipment A-4	Buildings A-5	Land A-6	Accounts Payable L-1	Customer Avances L-2	Salaries Payable L-3
1400	18500	300	38300	97500	20920	3250	11500	18250
38783	43855	38783	3960			2150	2350	
6855		6855					835	
9350		36500					1595	
7900								
3500								
2378	16717	4260	38300	97500	20920	5880	20850	0
Income Tax Payable L-4	Contributed Capital SE-1	Retained Earnings SE-2	Sales Revenue R-1	Salaries Expense E-1	Laundry Expense E-2	Supplies Expense E-3	Insurance Expense E-5	Income Tax Expense E-8
7900	9300	100000	19345	453075	397275	4225	3300	9800
				43855	18250	1595		
					3500			
75	1475	100000	19345	496930	419025	5820	3300	9875
Deprec. Exp. Eq. E-9	Deprec. Exp. Bldg. E-10	Repair Expense E-4	Dividends D-1	Dividends Payable L-9				
5500	4000	835	14800	14800				
5500	4000	835	14800	14800				

Consolidated Balance Sheets

(In Millions, Except Par Value)

		Dec 26, 2020	Dec 28, 2019
Assets			
Current assets:			
Cash and cash equivalents		\$ 5,865	\$ 4,194
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Temporary equity		—	155
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Total stockholders' equity		81,038	77,504
Total liabilities, temporary equity, and stockholders' equity		\$ 153,091	\$ 136,524

$$A = L + SE$$

Source: United States Securities and Exchange Commission

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Current Assets

The Balance Sheet

YourCo, Inc.
Balance Sheet
31 Dec 2021

Assets

Current Assets

Long-term Assets

Liabilities

Shareholders' Equity

Current Assets

Consolidated Balance Sheets

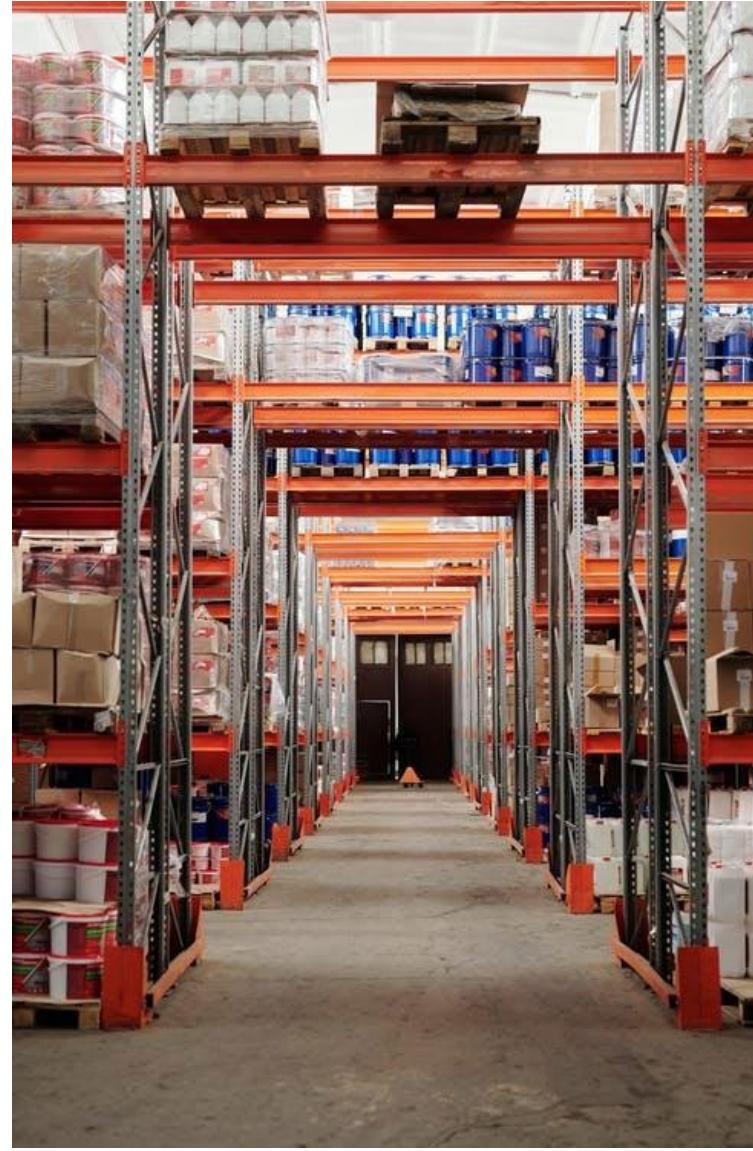
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Inventories	8,427	8,744
Assets held for sale	5,400	—
Other current assets	2,745	1,713
Total current assets	47,249	31,239

Source: United States Securities and Exchange Commission

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Inventory

- When inventory is sold, the expense associated with that inventory is referred to as “cost of goods sold”, or (COGS).
- When COGS is deducted from sale revenue, it provides the most elementary measure of profit, called “gross profit”, or “gross margin.”
- LTV (lifetime value) of a customer = profit x visits
- There are two main types of inventory
 - Merchandise inventory
 - Manufacturing Inventory



How do we account for inventory?

Inventory Systems

1. Perpetual

2. Periodic

- First-in, first-out (FIFO) cost flow
- Last-in, first-out (LIFO) cost flow
- Average cost flow

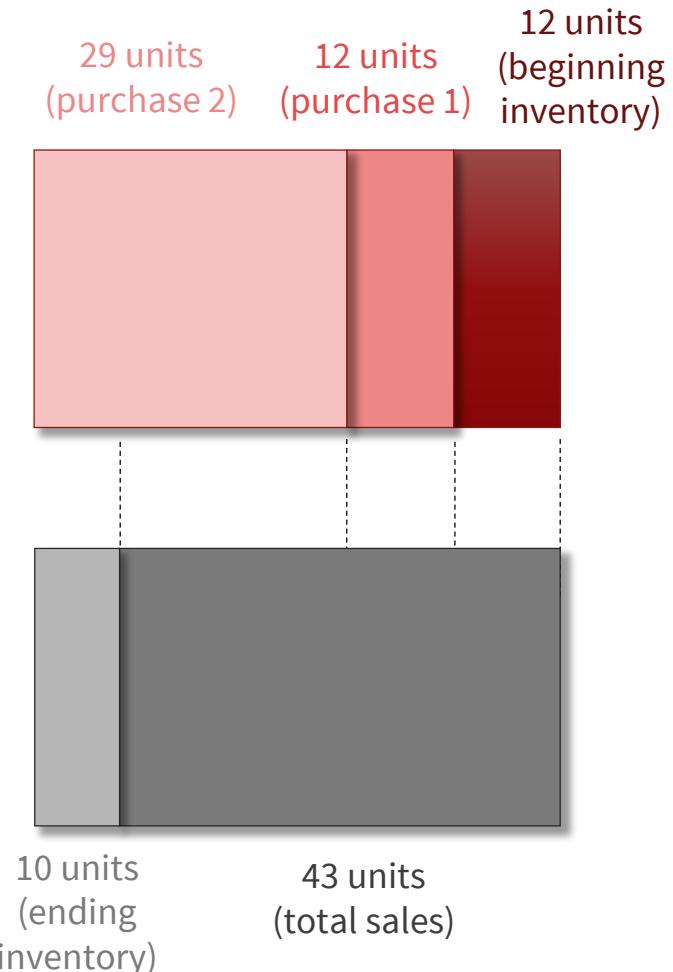


Determining Gross Profit from Cost of Goods Sold

Sales of 43 Units	\$95,000
Minus cost of goods sold:	
Beginning Inventory (12 units @ \$1,800 each)	\$21,600
Purchases:	
#1 (12 units @ \$1,900 each)	\$22,800
#2 (29 units @ \$2,200 each)	\$63,800
Total Purchases	\$86,600
Cost of Goods Sold available for sale	\$108,200
Ending Inventory (10 units)	-
Cost of Goods Sold (43 units)	-
Gross profit on Sales	-

Determining Gross Profit from Cost of Goods Sold: FIFO

Sales of 43 Units		\$95,000
Minus cost of goods sold:		
Beginning Inventory (12 units @ \$1,800 each)		\$21,600
Purchases:		
#1 (12 units @ \$1,900 each)	\$22,800	
#2 (29 units @ \$2,200 each)	\$63,800	
Total Purchases		\$86,600
Cost of Goods Sold available for sale		\$108,200
Ending Inventory (10 units)	- \$22,000	
Cost of Goods Sold (43 units)	- \$86,200	
Gross profit on Sales		\$8,800



Determining Gross Profit from Cost of Goods Sold: LIFO

Sales of 43 Units	\$95,000	29 units (purchase 2)	43 units (total sales)
Minus cost of goods sold:			
Beginning Inventory (12 units @ \$1,800 each)	\$21,600		
Purchases:			
#1 (12 units @ \$1,900 each)	\$22,800		
#2 (29 units @ \$2,200 each)	\$63,800		
	<hr/>		
Total Purchases	\$86,600		
Cost of Goods Sold available for sale	\$108,200		
	<hr/>		
Ending Inventory (10 units)	- \$18,000		
Cost of Goods Sold (43 units)	- \$90,200		
Gross profit on Sales	<hr/> \$4,800	12 units (beginning inventory)	10 units (ending inventory)

Determining Gross Profit from Cost of Goods Sold: Average

Sales of 43 Units		\$95,000	29 units (purchase 2)	43 units (total sales)
Minus cost of goods sold:				
Beginning Inventory (12 units @ \$1,800 each)		\$21,600		
Purchases:				
#1 (12 units @ \$1,900 each)	\$22,800			
#2 (29 units @ \$2,200 each)	\$63,800			
Total Purchases	<hr/>	\$86,600		
Cost of Goods Sold available for sale		\$108,200		
Ending Inventory (10 units)	-	\$20,415	12 units (purchase 1)	10 units (ending inventory)
Cost of Goods Sold (43 units)	-	\$87,785	12 units (beginning inventory)	
Gross profit on Sales		\$7,215		

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 26, 2020.

or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number 000-06217



INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1672743

(I.R.S. Employer Identification No.)

2200 Mission College Boulevard, Santa Clara, California

(Address of principal executive offices)

95054-1549

(Zip Code)

Registrant's telephone number, including area code **(408) 765-8080**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, \$0.001 par value

Trading symbol

INTC

Name of each exchange on which registered

Nasdaq Global Select Market

Current Assets

Consolidated Balance Sheets

(In Millions, Except Par Value)	Dec 26, 2020	Dec 28, 2019
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Inventories	8,427	8,744
Assets held for sale	5,400	—
Other current assets	2,745	1,713
Total current assets	47,249	31,239

Inventories

We compute inventory cost on a first-in, first-out basis. Our process and product development life cycle corresponds with substantive engineering milestones. These engineering milestones are regularly and consistently applied in assessing the point at which our activities and associated costs change in nature from R&D to cost of sales, and when cost of sales can be capitalized as inventory.

For a product to be manufactured in high volumes and sold to our customers under our standard warranty, it must meet our rigorous technical quality specifications. This milestone is known as PRQ. We have identified PRQ as the point at which the costs incurred to manufacture our products are included in the valuation of inventory. A single PRQ has previously valued inventory up to \$870 million in the quarter the PRQ milestone was achieved. Prior to PRQ, costs that do not meet the criteria for R&D are included in cost of sales in the period incurred.

The valuation of inventory includes determining which fixed production overhead costs can be included in inventory based on the normal capacity of our manufacturing and assembly and test facilities. We apply our historical loadings compared to our total available capacity in a statistical model to determine our normal capacity level. If the factory loadings are below the established normal capacity level, a portion of our fixed production overhead costs would not be included in the cost of inventory; instead, it would be recognized as cost of sales in that period. We refer to these costs as excess capacity charges. Excess capacity charges are insignificant in the years presented. Charges in years prior to those presented have ranged up to \$1.1 billion taken in connection with the 2009 economic recession.

Inventory is valued at the lower of cost or net realizable value, based upon assumptions about future demand and market conditions. Product-specific facts and circumstances reviewed in the inventory valuation process include a review of our customer base, the stage of the product life cycle, variations in market pricing, and an assessment of selling price in relation to product cost. Lower of cost or net realizable value inventory reserves fluctuate as we ramp new process technologies with costs improving over time due to scale and improved yields. Additionally, inventory valuation is impacted by cyclical changes in market conditions and the associated pricing environment.

FIFO, LIFO, or Other?



Long-term Assets

The Balance Sheet

YourCo, Inc.
Balance Sheet
31 Dec 2021

Assets

Current Assets

Long-term Assets

Liabilities

Shareholders' Equity

Long-term Assets

Consolidated Balance Sheets

(In Millions, Except Par Value)	Dec 26, 2020	Dec 28, 2019
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Other long-term assets	5,917	5,553

Source: United States Securities and Exchange Commission

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Long-term Tangible Assets

- Long-term tangible assets (machinery, equipment, buildings, computers) represent future benefits that will eventually be used in the course of business.
- The cost of any long-term tangible asset (except for land), less its expected salvage value, is expensed over the expected useful life of the asset.
 - Depreciation



Long-term Intangible Assets

The value of intangible assets stems from ownership rights rather than from their physical form.

- Identifiable intangibles
- Unidentifiable intangibles (Goodwill)

Identifiable intangibles

- Patents
- Copyrights
- Trademarks and Brand Names
- Franchises and Licenses

Unidentifiable Intangible Assets

Goodwill is the net unrecorded assets obtained when one entity purchases another entity.

US\$24.17B

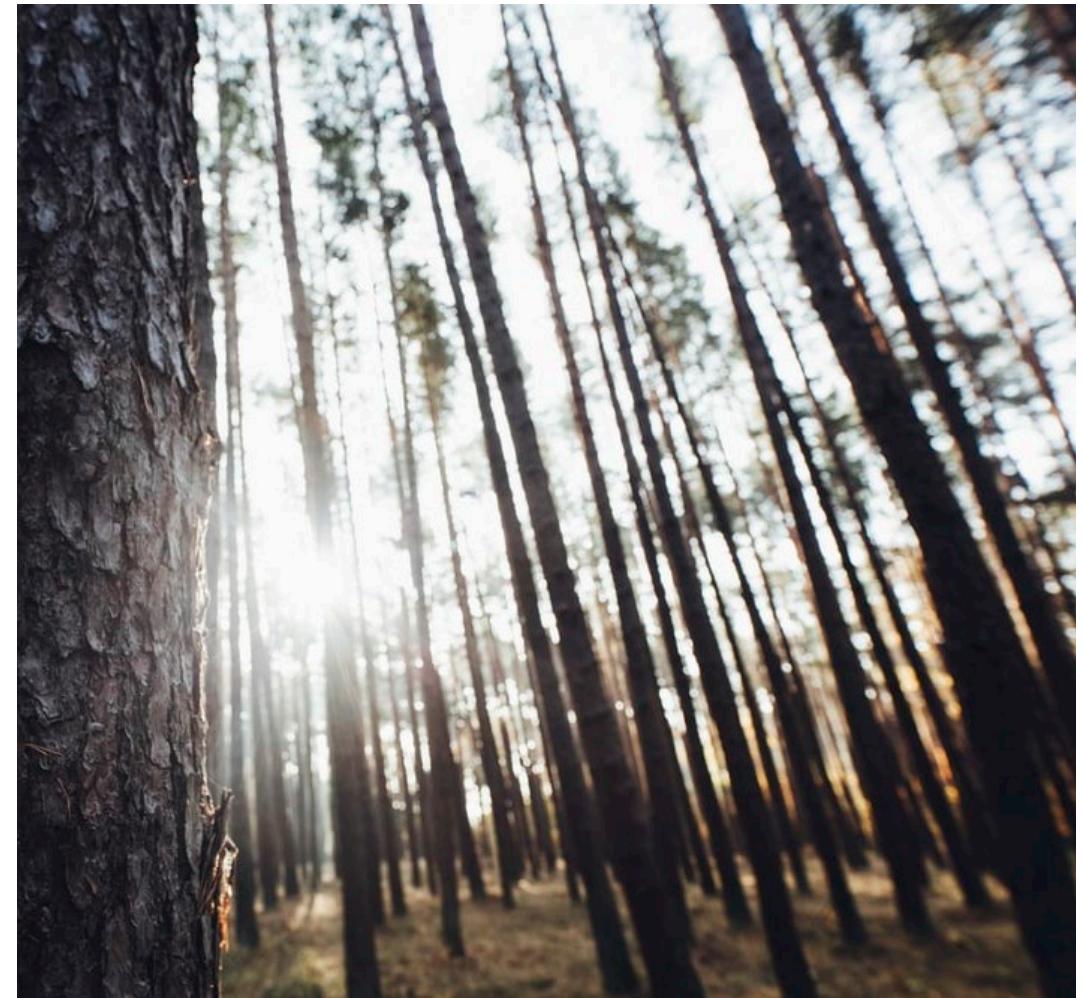
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US\$11.14B



Long-term Tangible Assets – Natural Resources

- Tangible “wasting” assets
- Usually obtained through discovery, development, or both
- The asset value is reduced in each period and matched to the amount depleted



Long-term Assets

Consolidated Balance Sheets

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Liabilities and Shareholders' Equity

The Balance Sheet

YourCo, Inc.
Balance Sheet
31 Dec 2021

Assets

Current Assets

Long-term Assets

Liabilities

Shareholders' Equity

Liabilities and Shareholders' Equity

Consolidated Balance Sheets

(In Millions, Except Par Value)

	Dec 26, 2020	Dec 28, 2019
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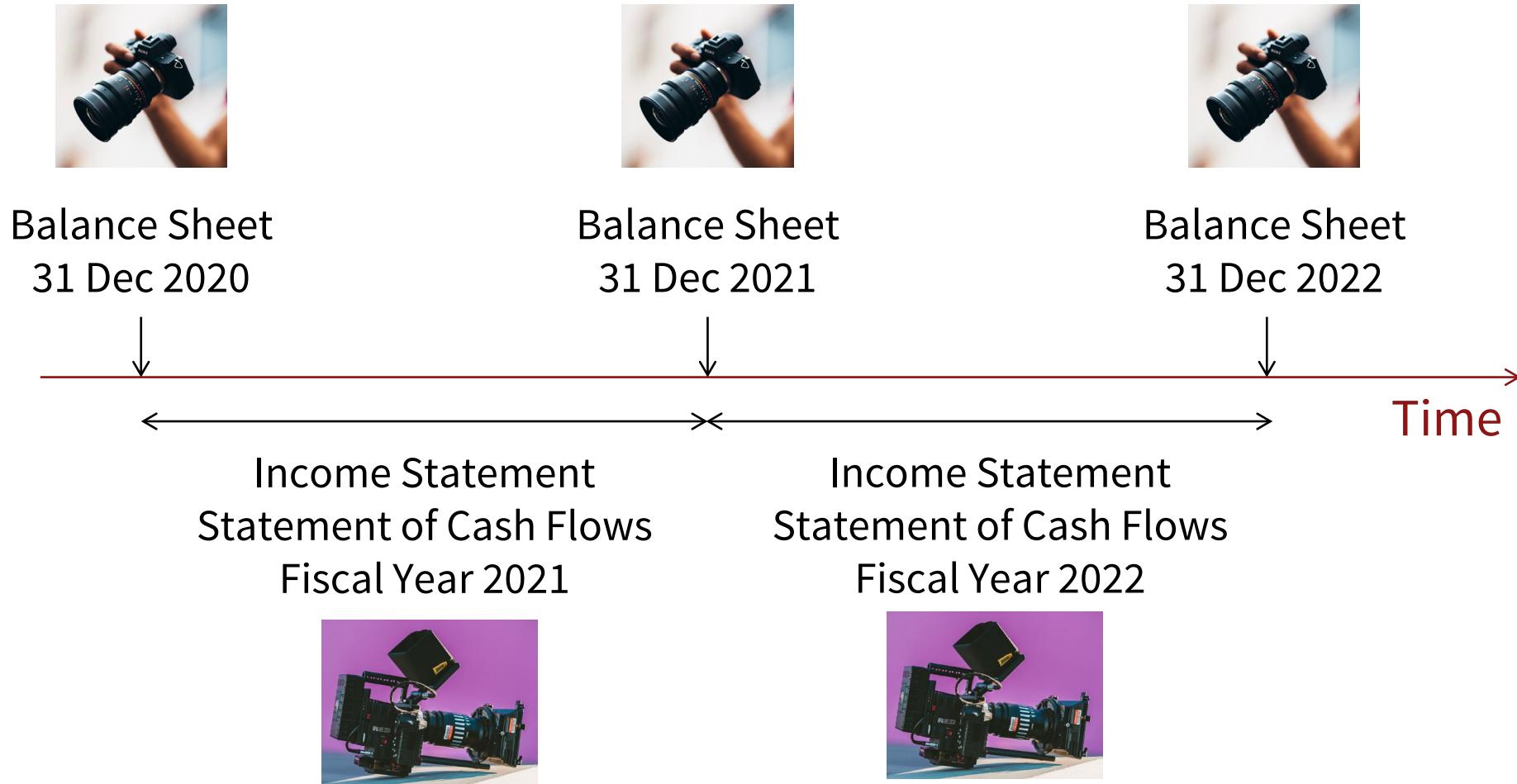
Income Measurement and Statement of Cash Flows

The Income Statement (P&L)

The Financial Statements

1. Balance Sheet
2. **Income Statement (P&L)**
3. Statement of Cash Flows
4. Statement of Retained Earnings, Statement of Shareholder Equity

Relationships Between the Financial Statements



The Income Statement

YourCo, Inc.
Income Statement
Fiscal Year 2021

Revenues

Costs and Expenses

Other Income

Net Income

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 26, 2020.
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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Commission File Number 000-06217



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(Exact name of registrant as specified in its charter)

Delaware

94-1672743

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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95054-1549

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (408) 765-8080

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, \$0.001 par value

Trading symbols

INTC

Name of each exchange on which registered

Nasdaq Global Select Market

Consolidated Statements of Income

Years Ended (In Millions, Except Per Share Amounts)	Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
	\$ 77,867	\$ 71,965	\$ 70,848
Net revenue	\$ 77,867	\$ 71,965	\$ 70,848
Cost of sales	34,255	29,825	27,111
Gross margin	43,612	42,140	43,737
Research and development	13,556	13,362	13,543
Marketing, general and administrative	6,180	6,350	6,950
Restructuring and other charges	198	393	(72)
Operating expenses	19,934	20,105	20,421
Operating income	23,678	22,035	23,316
Gains (losses) on equity investments, net	1,904	1,539	(125)
Interest and other, net	(504)	484	126
Income before taxes	25,078	24,058	23,317
Provision for taxes	4,179	3,010	2,264
Net income	\$ 20,899	\$ 21,048	\$ 21,053

Source: United States Securities and Exchange Commission

The Accounting Spreadsheet

The Accounting Spreadsheet

Description	Date	Cash	Accounts Recievable	Supplies	Prepaid Rent	Land	Building	Accounts Payable	Notes Payable	Contributed Capital	Retained Earnings	Note: Net Income Impact
	1-Jan	1,000,000								500,000	500,000	None
Buy Supplies	23-Jan			3,000				3,000				None
Pay Invoice	15-Feb	(3,000)						(3,000)				None
Record Sales	15-Mar		26,000								26,000	Sales Revenue
Pay Salary	21-Mar	(15,000)									(15,000)	Salary Expense

Journal					Page 598
Date	Accounts (<i>Explanation</i>)		Reference	Debit	Credit
15-Mar	Accounts Recievable Sales Revenue <i>(record sales)</i>		A-2 R-1	\$26,000	\$26,000
21-Mar	Salaries Expense Cash <i>(to pay salary expense)</i>		E-31 A-1	\$15,000	\$15,000

Posting Revenues and Expenses

Journal				Page 598
Date	Accounts (<i>Explanation</i>)	Reference	Debit	Credit
15-Mar	Accounts Recievable Sales Revenue <i>(record sales)</i>	A-2 R-1	\$26,000	\$26,000
21-Mar	Salaries Expense Cash <i>(to pay salary expense)</i>	E-31 A-1	\$15,000	\$15,000

Cash A-1	Accounts Recievable A-2	Sales Revenue R-1	Salary Expense E-31
15,000.00	26,000.00	26,000.00	15,000.00

The Accounting Cycle

1. Analyze transactions and events and record all necessary journal entries
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3. Prepare the “trial balance”
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5. Prepare the adjusted trial balance
6. Prepare the financial statements from the adjusted trial balance
7. Close the temporary accounts

Step 6: Prepare the Financial Statements

Revenues (R)	
Sales Revenue R-1	
	26,000.00

Expenses (E)	
Salary Expense E-31	
	15,000.00

Income Statement
Fiscal Year 2021

Revenues	\$26,000
----------	----------

Costs of Sales	
Salaries	\$15,000

Net Income	\$11,000
-------------------	----------

Cash A-1	Accounts Receivable A-2	Prepaid Insurance A-3	Equipment A-4	Buildings A-5	Land A-6	Accounts Payable L-1	Customer Avances L-2	Salaries Payable L-3
1400	18500	300	38300	97500	20920	2150	11500	18250
38783	43855	3960				2350	9350	
6855	38783	2150				835	18250	
9350	6855	36500				1595		
		7900						
		3500						
2378	16717	4260	38300	97500	20920	5880	20850	0
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1475	100000	19345	496930	419025	16050	5820	3300	9875
Deprec. Exp. Eq. E-9	Deprec. Exp. Bldg. E-10	Repair Expense E-4	Dividends D-1	Dividends Payable L-9				
5500	4000	835	14800	14800				
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Consolidated Statements of Income

Years Ended (In Millions, Except Per Share Amounts)	Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
Net revenue	\$ 77,867	\$ 71,965	\$ 70,848
Cost of sales	34,255	29,825	27,111
Gross margin	43,612	42,140	43,737
Research and development	13,556	13,362	13,543
Marketing, general and administrative	6,180	6,350	6,950
Restructuring and other charges	198	393	(72)
Operating expenses	19,934	20,105	20,421
Operating income	23,678	22,035	23,316
Gains (losses) on equity investments, net	1,904	1,539	(125)
Interest and other, net	(504)	484	126
Income before taxes	25,078	24,058	23,317
Provision for taxes	4,179	3,010	2,264
Net income	\$ 20,899	\$ 21,048	\$ 21,053

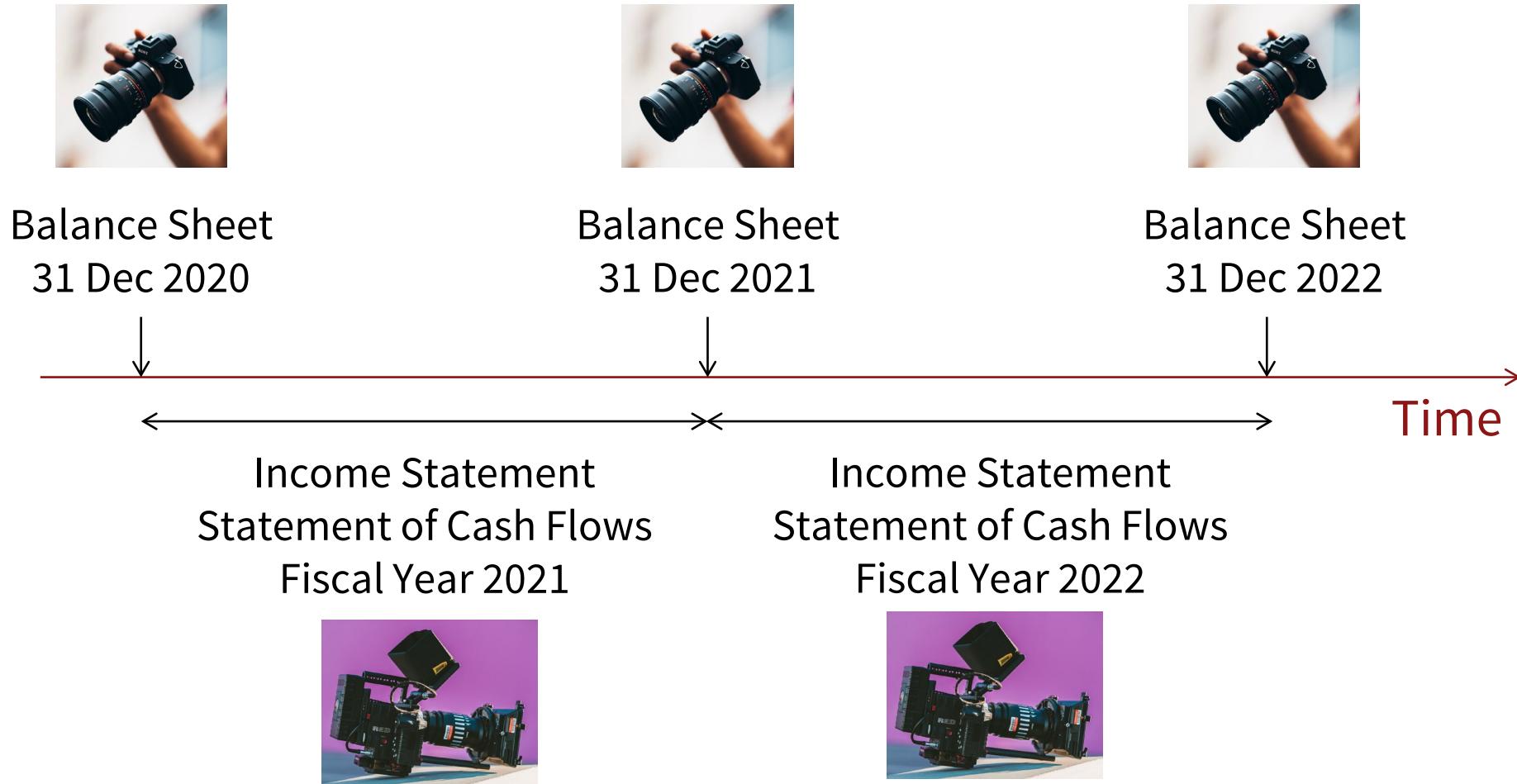
Source: United States Securities and Exchange Commission

The Statement of Cash Flows

The Financial Statements

1. Balance Sheet
2. Income Statement (P&L)
- 3. Statement of Cash Flows**
4. Statement of Retained Earnings, Statement of Shareholder Equity

Relationships Between the Financial Statements



The Statement of Cash Flows

YourCo, Inc.
Statement of Cash Flows
Fiscal Year 2021

Operating Cash Flows

Cash provided (used) by operating activities

Investing Cash Flows

Cash provided (used) by investing activities

Financing Cash Flows

Cash provided (used) by investing activities

Net increase (decrease) in cash

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 26, 2020.
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number 000-06217



INTEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

94-1672743

(I.R.S. Employer Identification No.)

2200 Mission College Boulevard, Santa Clara, California

95054-1549

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(408) 765-8080**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, \$0.001 par value

Trading symbol

INTC

Name of each exchange on which registered

Nasdaq Global Select Market

Consolidated Statements of Cash Flows

Years Ended (In Millions)		Dec 26, 2020	Dec 28, 2019	Dec 29, 2018
	\$	4,194	\$	3,019
Cash and cash equivalents, beginning of period				\$ 3,433
Cash flows provided by (used for) operating activities:				
Net income		20,899	21,048	21,053
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		10,482	9,204	7,520
Share-based compensation		1,854	1,705	1,546
Amortization of intangibles		1,757	1,622	1,565
(Gains) losses on equity investments, net		(1,757)	(892)	155
(Gains) losses on divestitures		(30)	(690)	(497)
Changes in assets and liabilities:				
Accounts receivable		883	(935)	(1,714)
Inventories		(687)	(1,481)	(214)
Accounts payable		412	696	211
Accrued compensation and benefits		463	91	(260)
Prepaid supply agreements		(181)	(782)	1,367
Income taxes		1,620	885	(1,601)
Other assets and liabilities		(331)	2,674	301
Total adjustments		14,485	12,097	8,379
Net cash provided by operating activities		35,384	33,145	29,432
Cash flows provided by (used for) investing activities:				
Additions to property, plant and equipment		(14,259)	(16,213)	(15,181)
Additions to held for sale NAND property, plant and equipment		(194)	—	—
Acquisitions, net of cash acquired		(837)	(1,958)	(190)
Purchases of available-for-sale debt investments		(6,862)	(2,268)	(3,843)
Maturities and sales of available-for-sale debt investments		6,781	4,226	3,163
Purchases of trading assets		(22,377)	(9,162)	(9,503)
Maturities and sales of trading assets		15,377	7,178	12,111
Purchases of equity investments		(720)	(522)	(874)
Sales of equity investments		910	2,688	2,802
Proceeds from divestitures		123	911	548
Other investing		1,262	715	(272)
Net cash used for investing activities		(20,796)	(14,405)	(11,239)
Cash flows provided by (used for) financing activities:				
Issuance of term debt, net of issuance costs		10,247	3,392	423
Repayment of term debt and debt conversions		(4,525)	(2,627)	(3,026)
Proceeds from sales of common stock through employee equity incentive plans		897	750	555
Repurchase of common stock		(14,229)	(13,576)	(10,730)
Payment of dividends to stockholders		(5,568)	(5,576)	(5,541)
Other financing		261	72	(288)
Net cash provided by (used for) financing activities		(12,917)	(17,565)	(18,607)
Net increase (decrease) in cash and cash equivalents		1,671	1,175	(414)

Source: United States Securities and Exchange Commission

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Preparing the Statement of Cash Flows

- Operating cash flows can be determined by converting the accrual-based accounting of net income to a cash-based accounting of cash flow
- Investing cash flows are primarily based upon the long-term asset section of the balance sheet
- Financing cash flows are based on both the long-term liability and shareholders' equity sections of the balance sheet

Consolidated Balance Sheets

(In Millions, Except Par Value)	Dec 26, 2020	Dec 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,865	\$ 4,194
Short-term investments	2,292	1,082
Trading assets	15,738	7,847
Accounts receivable, net of allowance for doubtful accounts	6,782	7,659
Inventories	8,427	8,744
Assets held for sale	5,400	—
Other current assets	2,745	1,713
Total current assets	47,249	31,239
Property, plant and equipment, net	56,584	55,386
Equity investments	5,152	3,967
Other long-term investments	2,192	3,276
Goodwill	26,971	26,276
Identified intangible assets, net	9,026	10,827
Other long-term assets	5,917	5,553
Total assets	\$ 153,091	\$ 136,524
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 2,504	\$ 3,693
Accounts payable	5,581	4,128
Accrued compensation and benefits	3,999	3,853
Other accrued liabilities	12,670	10,636
Total current liabilities	24,754	22,310
Debt	33,897	25,308
Contract liabilities	1,367	1,368
Income taxes payable	4,578	4,919
Deferred income taxes	3,843	2,044
Other long-term liabilities	3,614	2,916
Commitments and Contingencies (Note 19)		
Temporary equity	—	155
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 10,000 shares authorized; 4,062 shares issued and outstanding (4,290 issued and outstanding in 2019) and capital in excess of par value	25,556	25,261
Accumulated other comprehensive income (loss)	(751)	(1,280)
Retained earnings	56,233	53,523
Total stockholders' equity	81,038	77,504
Total liabilities, temporary equity, and stockholders' equity	\$ 153,091	\$ 136,524

Source: United States Securities and Exchange Commission

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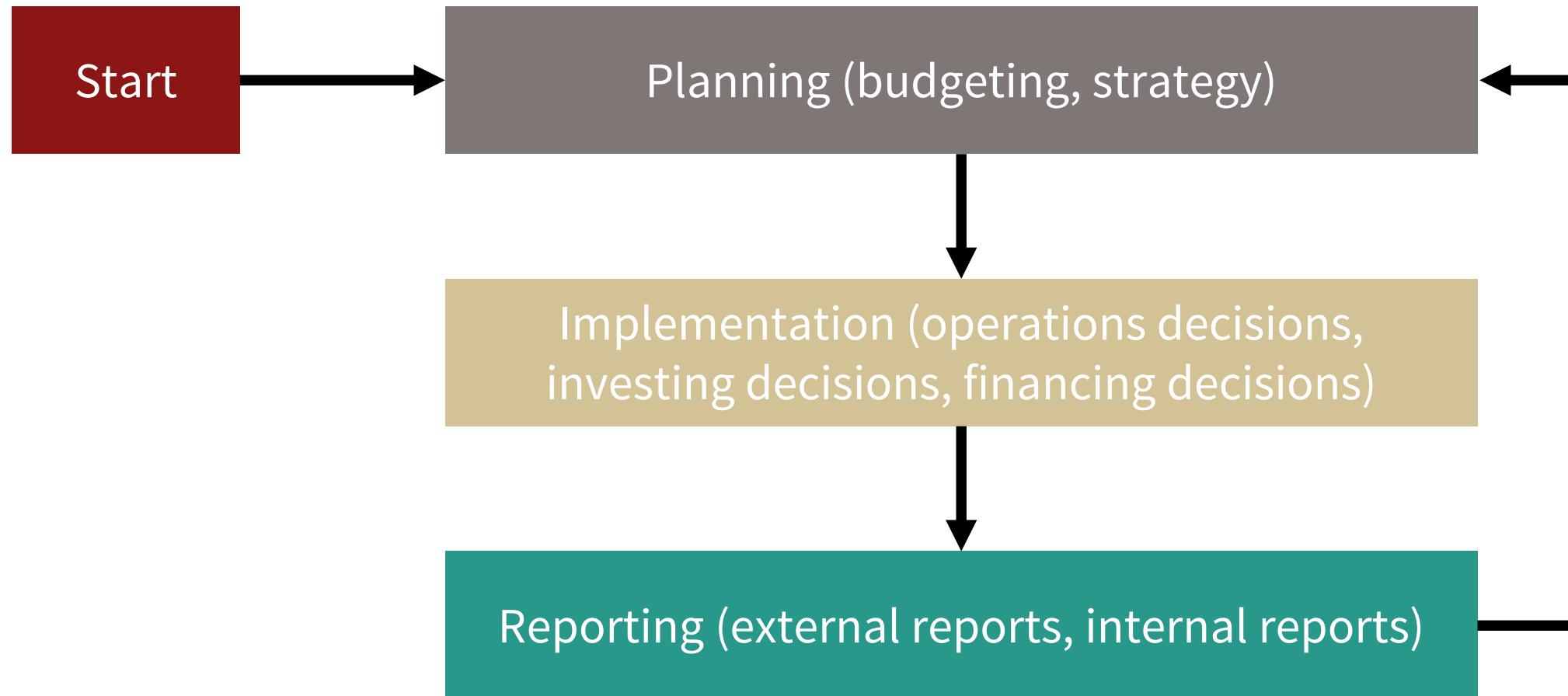
Managing the Product P&L

Introduction to P&L Management

Managing and Decision-making

- Managers, including product managers, add value to the organization and generate profit by making good decisions
- Actively managing the product P&L via budgeting, taking actions, and evaluating performance
- Selecting a production process or supplier based on cost information that indicates a cheaper option
- Identifying and eliminating nonvalue-added activities
- Maximizing customer LTV

The Business Accounting Cycle



Product P&L

Product Income Statement (Product P&L)
Year Ended December 31
(measured in thousands of dollars)

Sales Revenue	\$58,814
Cost of Goods Sold	<u>\$37,676</u>
Gross Margin	\$21,139
Marketing and Administrative Costs	<u>\$11,073</u>
Operating Profit Before Taxes	<u>\$10,066</u>

Product P&L

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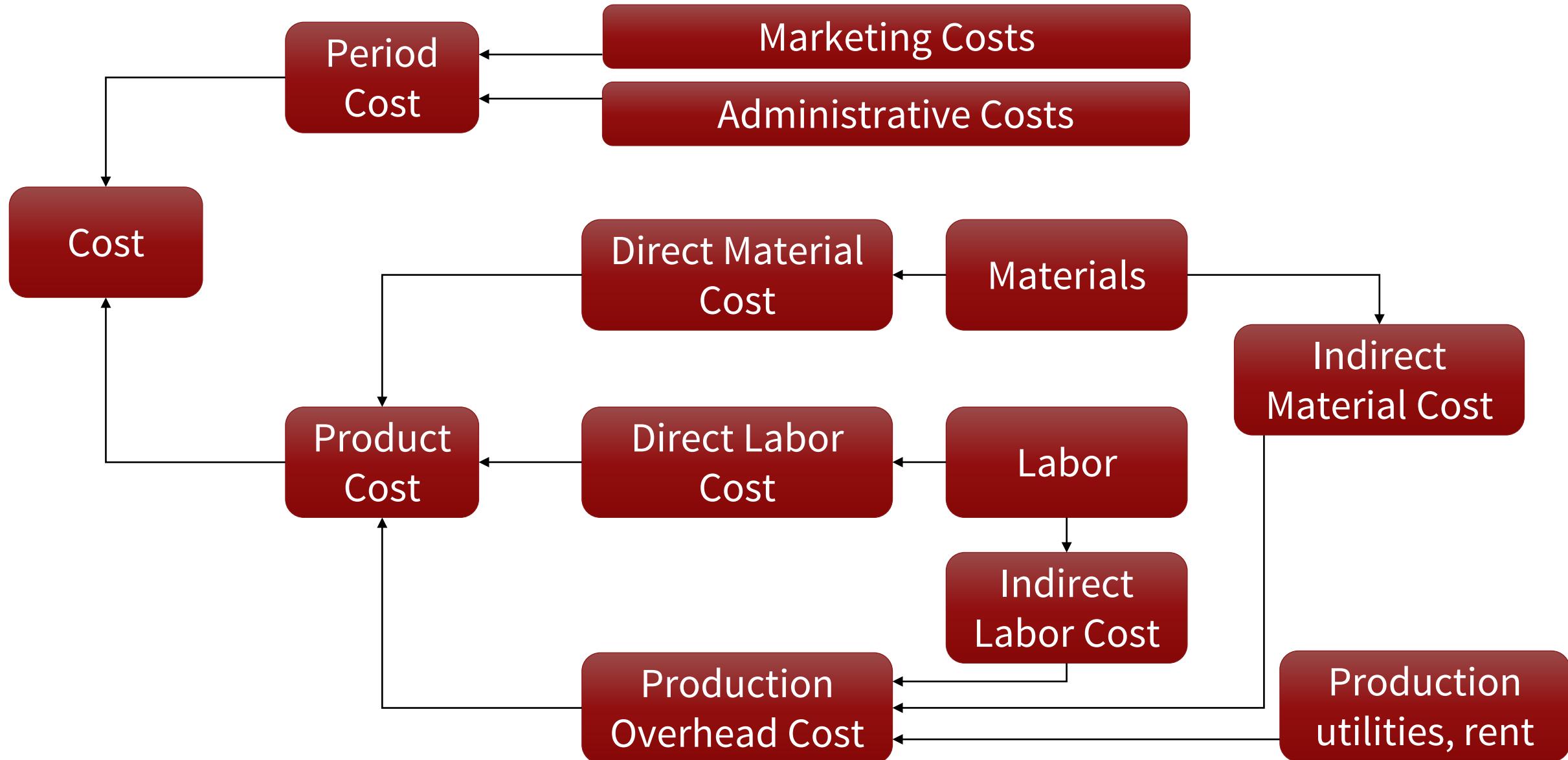
Cost of Goods Sold Statement Year Ended December 31 (measured in thousands of dollars)

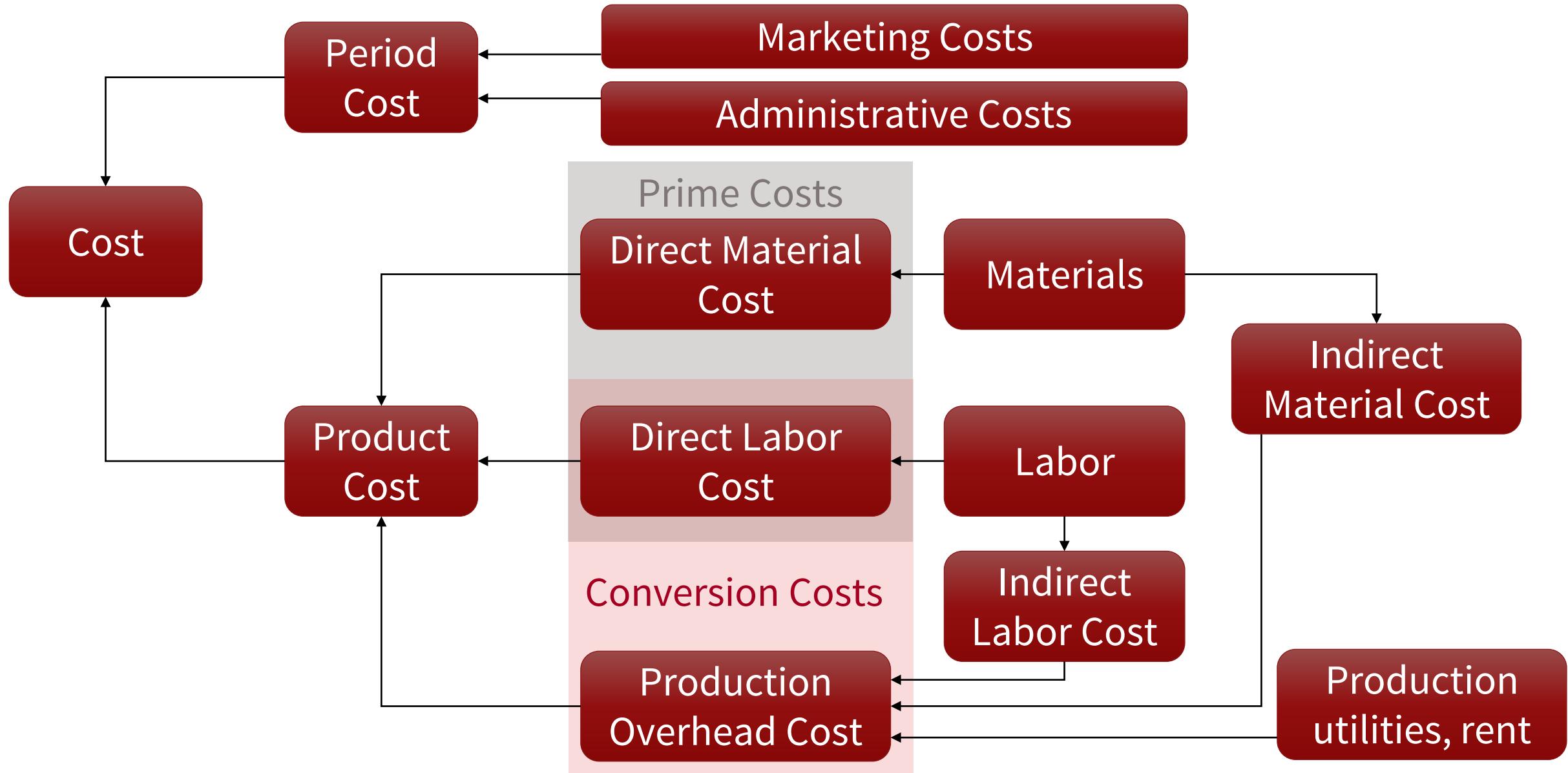
Beginning Work-in-process Inventory (January 1)	\$777
Manufacturing Costs for the Year	
Direct Materials	
Beginning Inventory (January 1)	\$273
Add Purchases	<u>\$16,183</u>
Direct Materials Available	\$16,456
Less Ending Inventory (December 31)	<u>\$207</u>
Direct Materials Put Into Production	\$16,249
Direct Labor	\$3,509
Manufacturing Overhead	<u>\$19,499</u>
Total Manufacturing Costs Incurred	\$39,257
Total Work-in-process During the Year	\$40,034
Less Ending Work-in-Process Inventory (December 31)	<u>\$892</u>
Cost of Goods Manufactured	\$39,142
Beginning Finished Good Inventory (January 1)	<u>\$1,208</u>
Finished Goods Available for Sale	\$40,350
Less Ending Finished Goods Inventory (December 31)	<u>\$2,675</u>
Cost of Goods Sold	\$37,676

Components of Production Costs

Costs at Production Companies

Cost





Product P&L

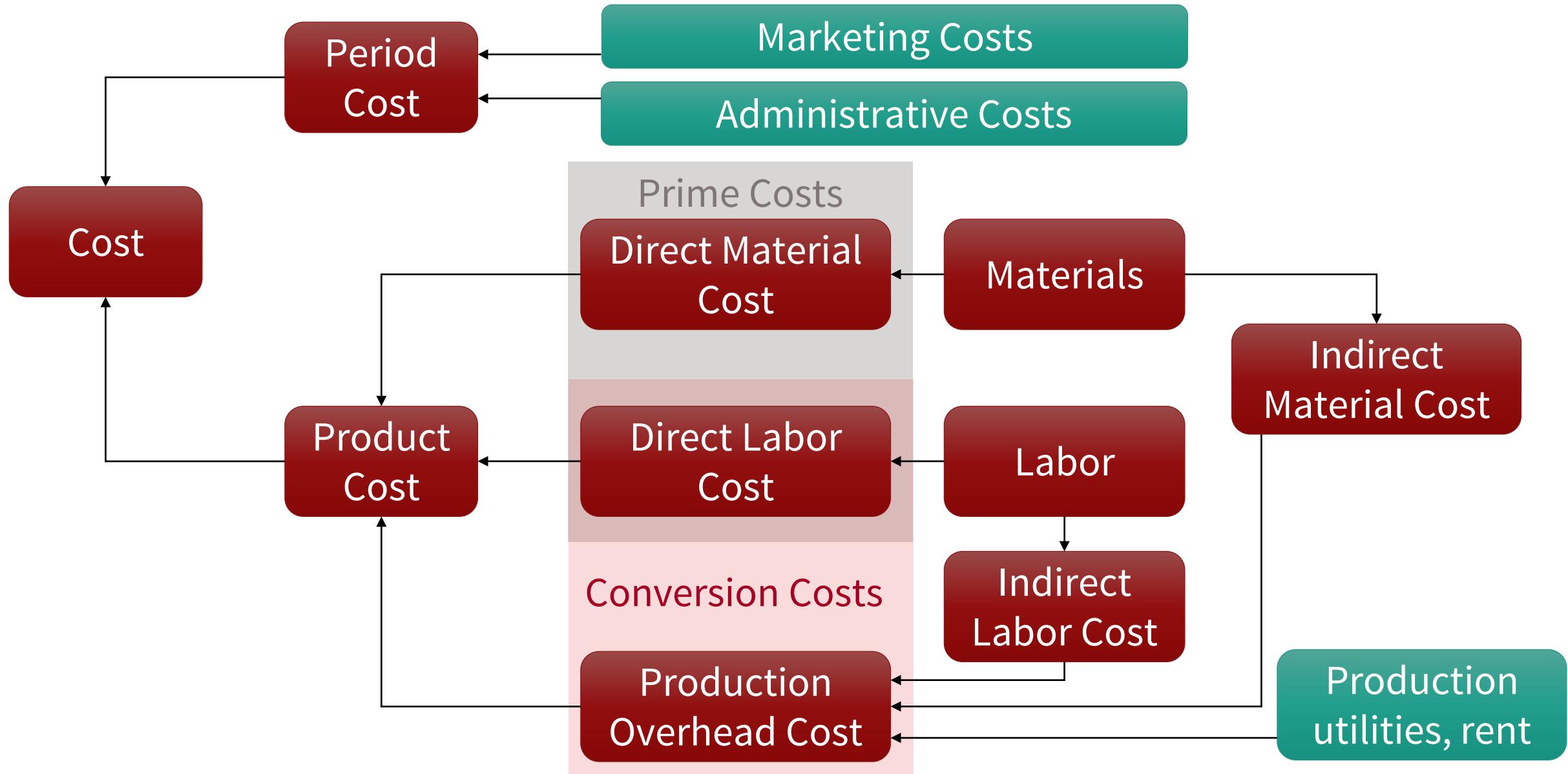
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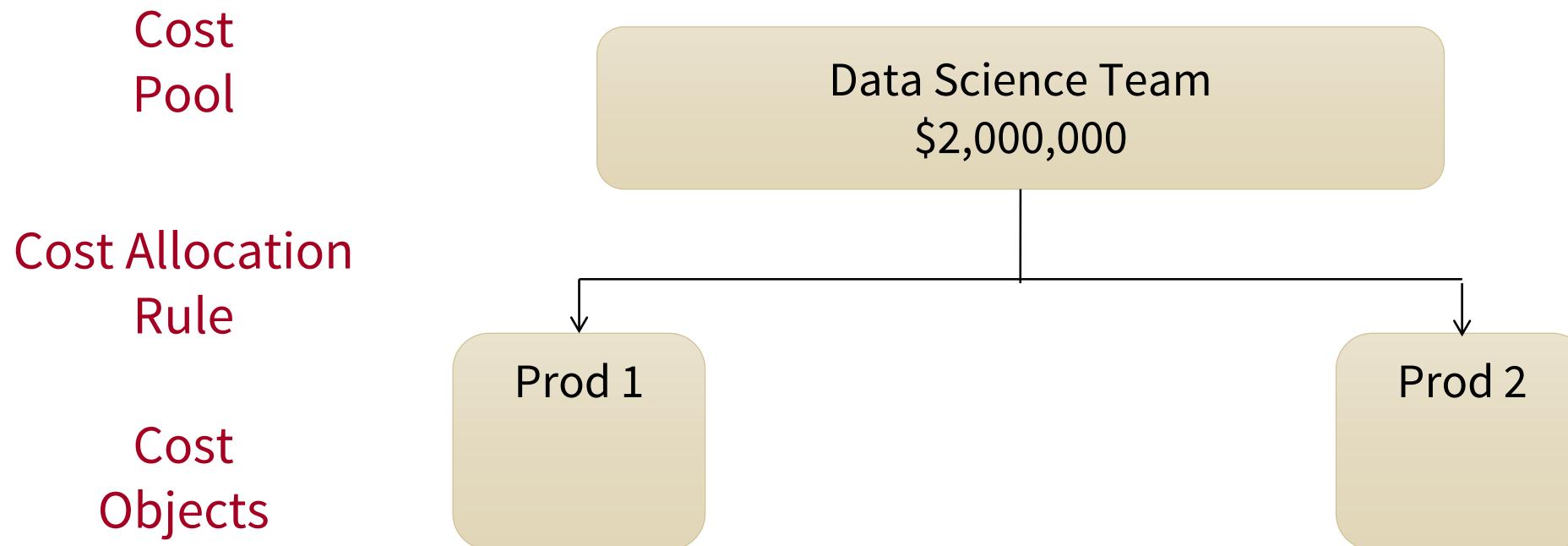
Cost Allocation



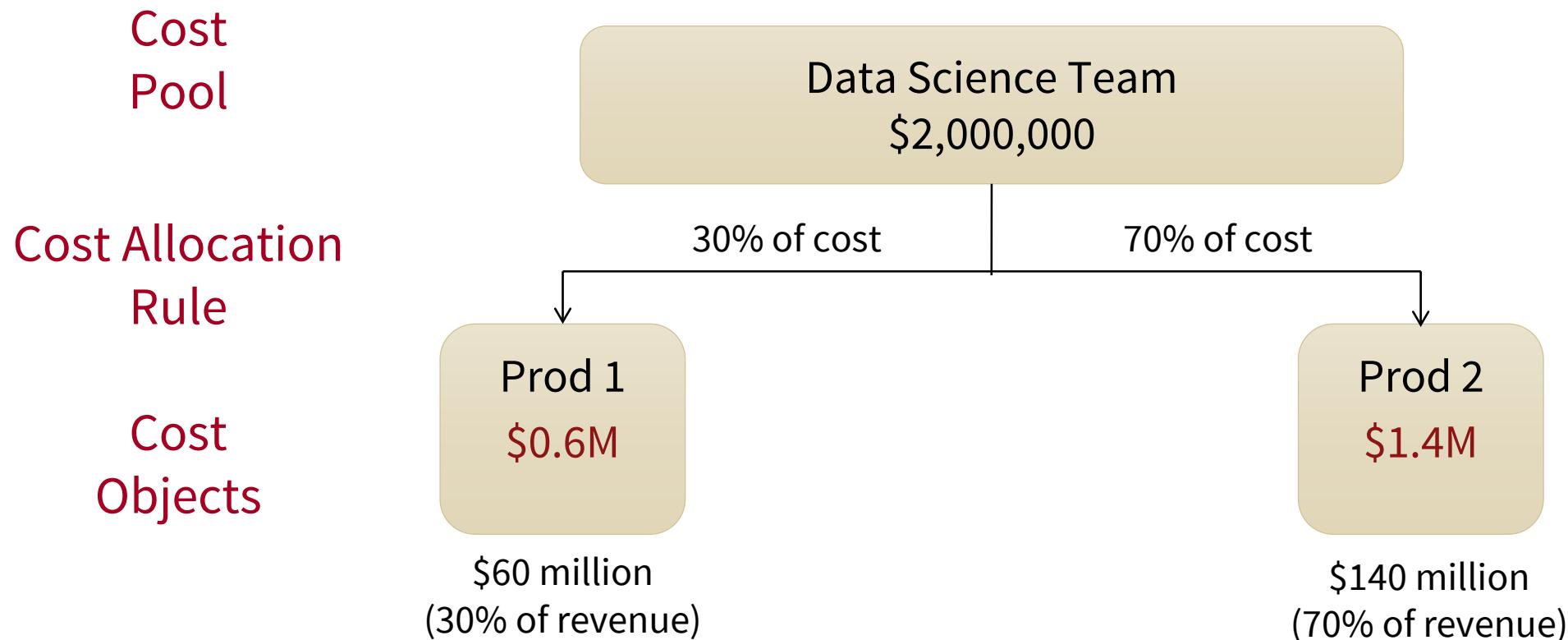
Cost Allocation

- Cost Object – any end to which a cost is assigned (e.g., a unit of product or service, a department, or a customer)
- Cost Pool – the cost we want to assign to the cost objects (e.g., department costs, rental costs, travel costs to multiple clients)
- Cost Allocation Rule – method or process used to assign the costs in the cost pool to the cost object

Allocating Costs



Allocating Costs



Direct versus Indirect Costs

- Is a cost direct or indirect?
- One difficulty with these concepts is that a cost may be direct to one cost object and indirect to another
- “With respect to what cost object?”
- Whether a cost is direct or indirect also depends on the costs of tracking it with respect to the cost object

Cost Behaviors

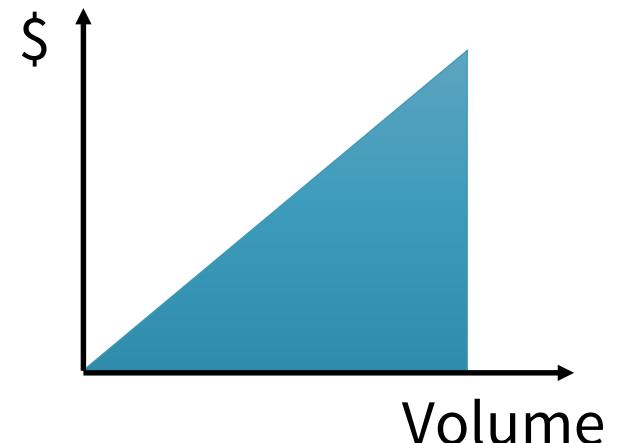
Cost Behavior

- Fixed Costs
- Variable Costs
- Semi-variable Costs
- Step Costs

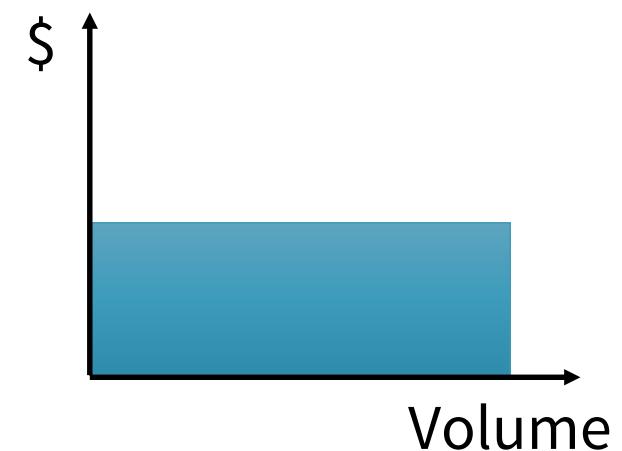


Cost Behaviors

Variable costs are those that change in direct proportion to the volume of activity

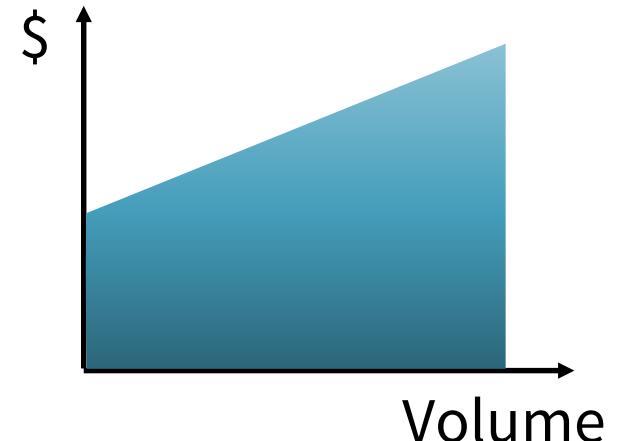


Fixed costs are those that remain unchanged as the volume of activity changes

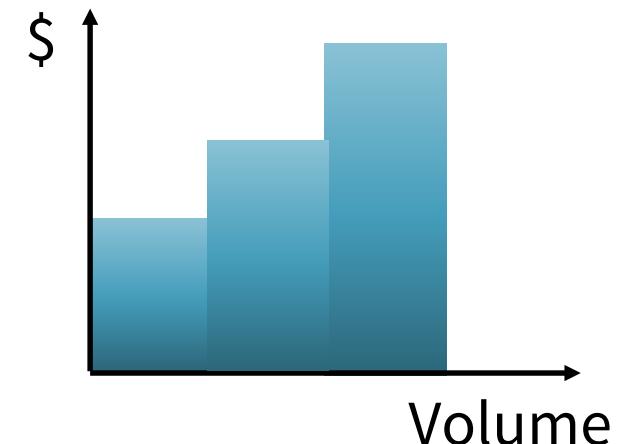


Cost Behaviors

Semi-variable costs are those with both fixed and variable components



Step costs, or semi-fixed costs, increase with volume in “steps.”



Determining Product Cost Behavior

Cost Item	Amount	Notes
Modify Product Specs	\$5,000	One-time expenditure for modifications to product specs
Direct Materials	\$12.00	Cost per modified product
Direct Labor	\$5.00	Cost per modified product
Set-up Machinery	\$2,000	Up to 3,000 modified products can be produced in a single run
Inspect Modified Products		
Equipment	\$400	Purchase of a new inspection device
Labor	\$0.50	Cost per modified product

T-Shirt Sizing



Small



Medium



Large



Extra Large

Unit Costs, Margins, and Price

Components of Cost

Cost Item	Amount	Notes
Modify Product Specs	\$5,000	One-time expenditure for modifications to product specs
Direct Materials	\$12.00	Cost per modified product
Direct Labor	\$5.00	Cost per modified product
Set-up Machinery	\$2,000	Up to 3,000 modified products can be produced in a single run
Inspect Modified Products		
Equipment	\$400	Purchase of a new inspection device
Labor	\$0.50	Cost per modified product

Components of Product Costs

Direct Materials = \$12

Direct Labor = \$5

Variable Manufacturing
Overhead = \$12

Fixed manufacturing overhead
= \$4

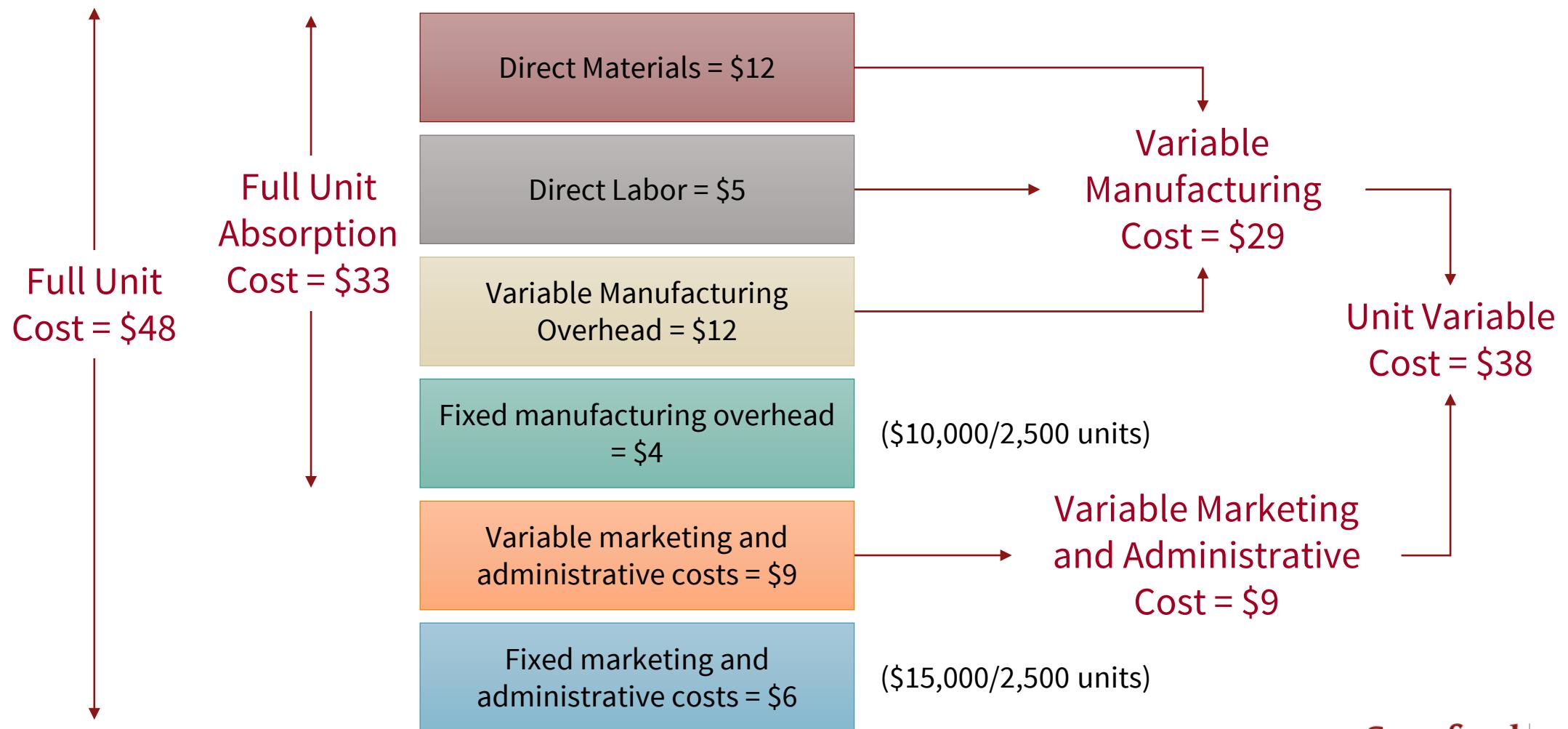
$(\$10,000/2,500 \text{ units})$

Variable marketing and
administrative costs = \$9

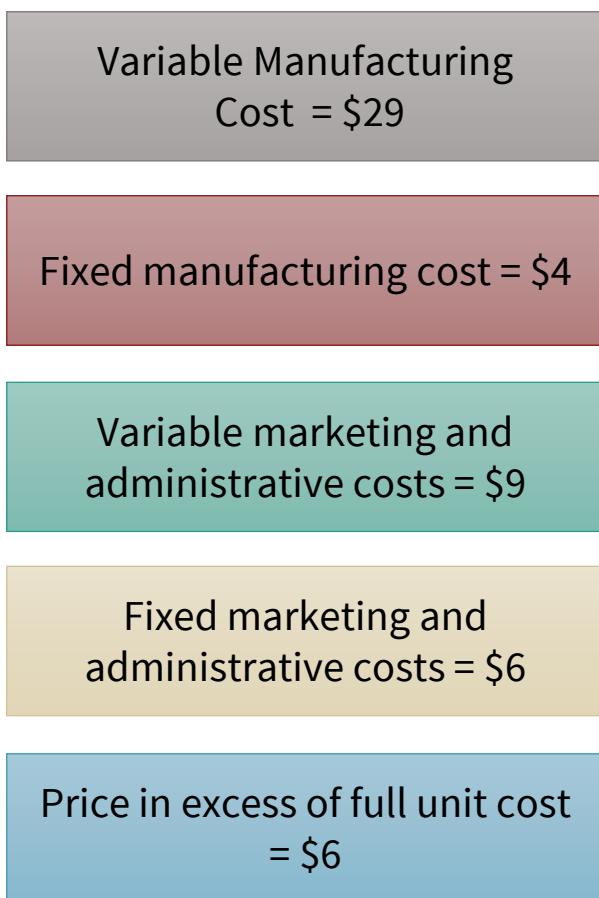
$(\$15,000/2,500 \text{ units})$

Fixed marketing and
administrative costs = \$6

Components of Product Costs

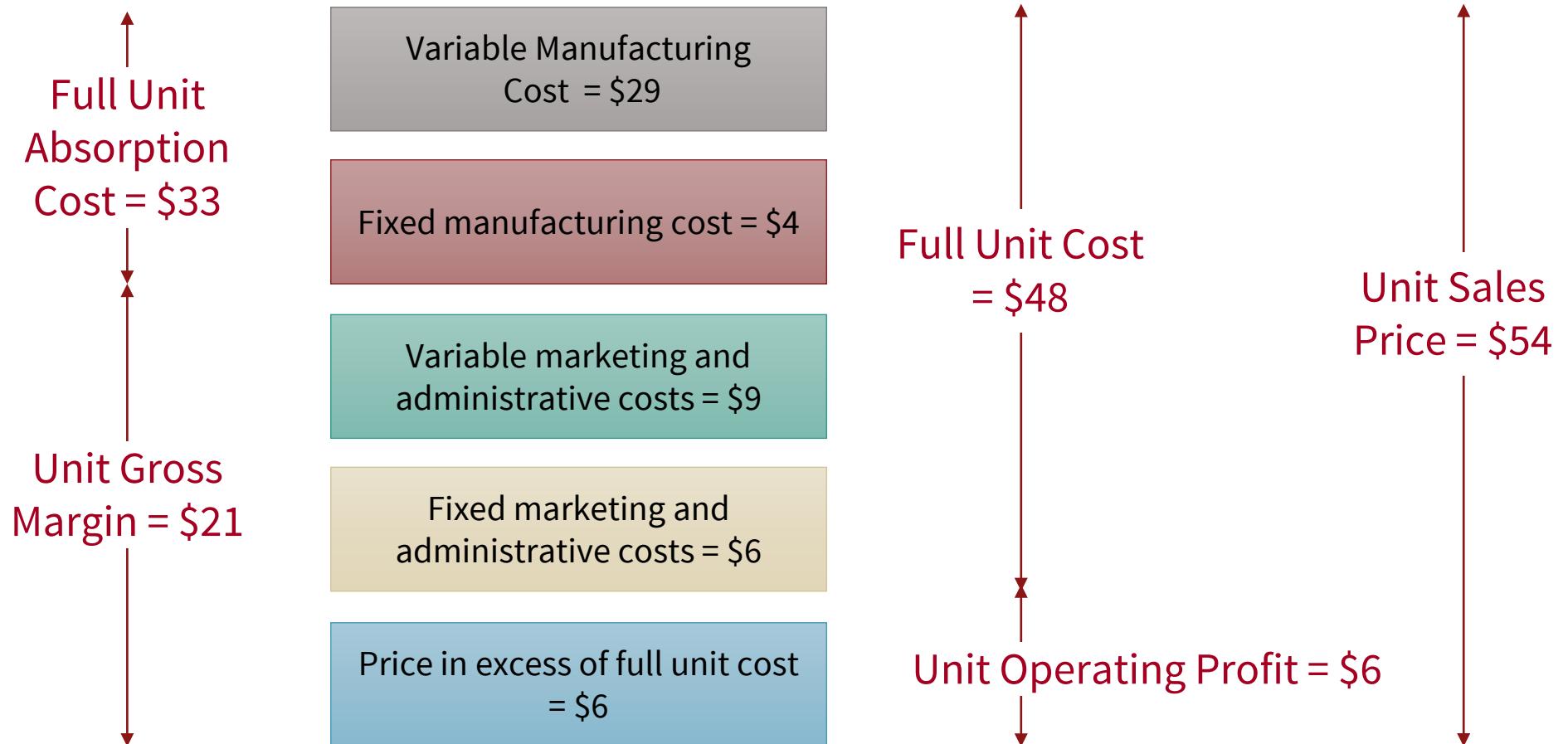


Gross Margin



Unit Sales Price = \$54

Gross Margin



Contribution Margin

Variable Manufacturing
Cost = \$29

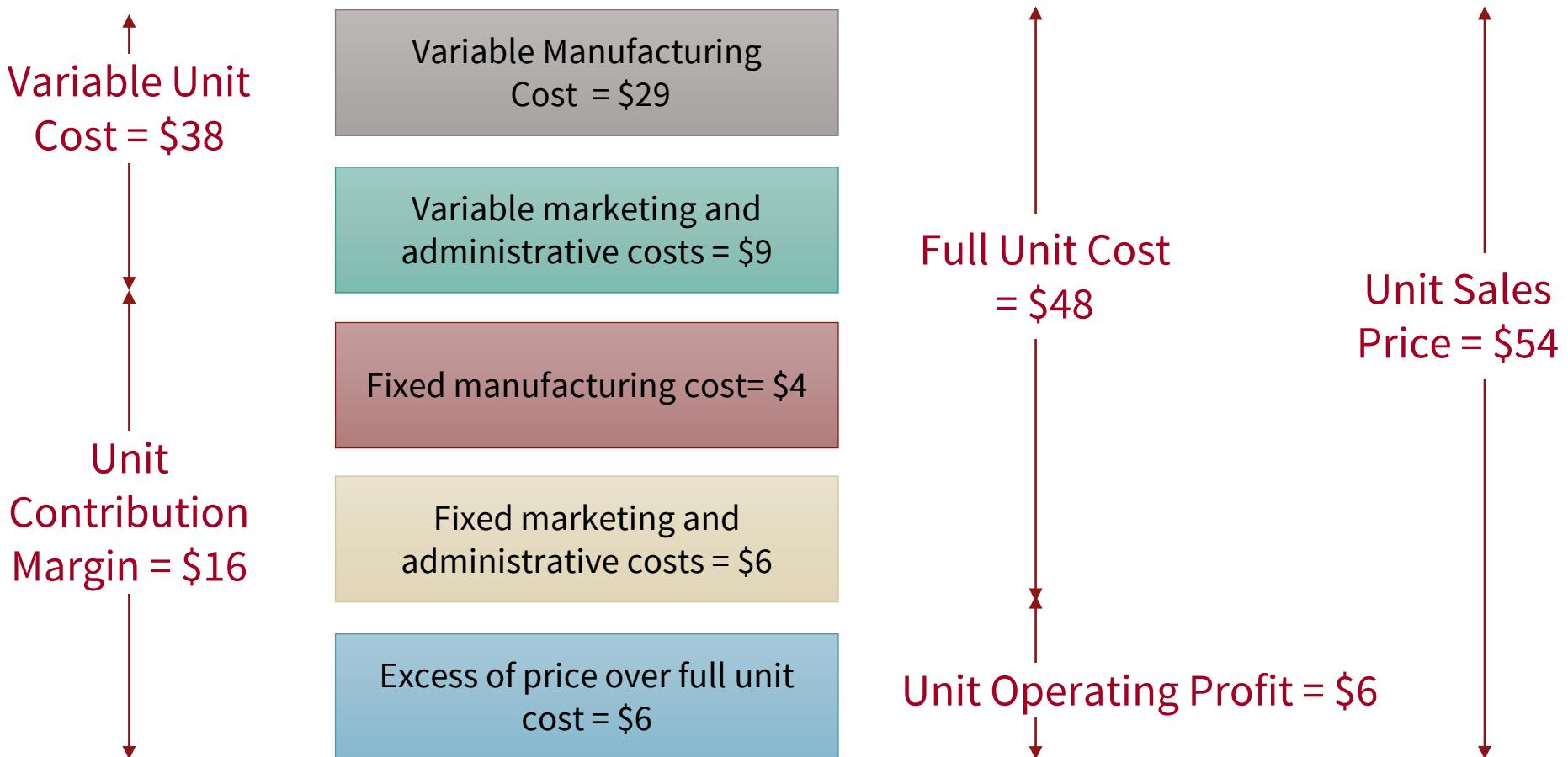
Fixed manufacturing cost= \$4

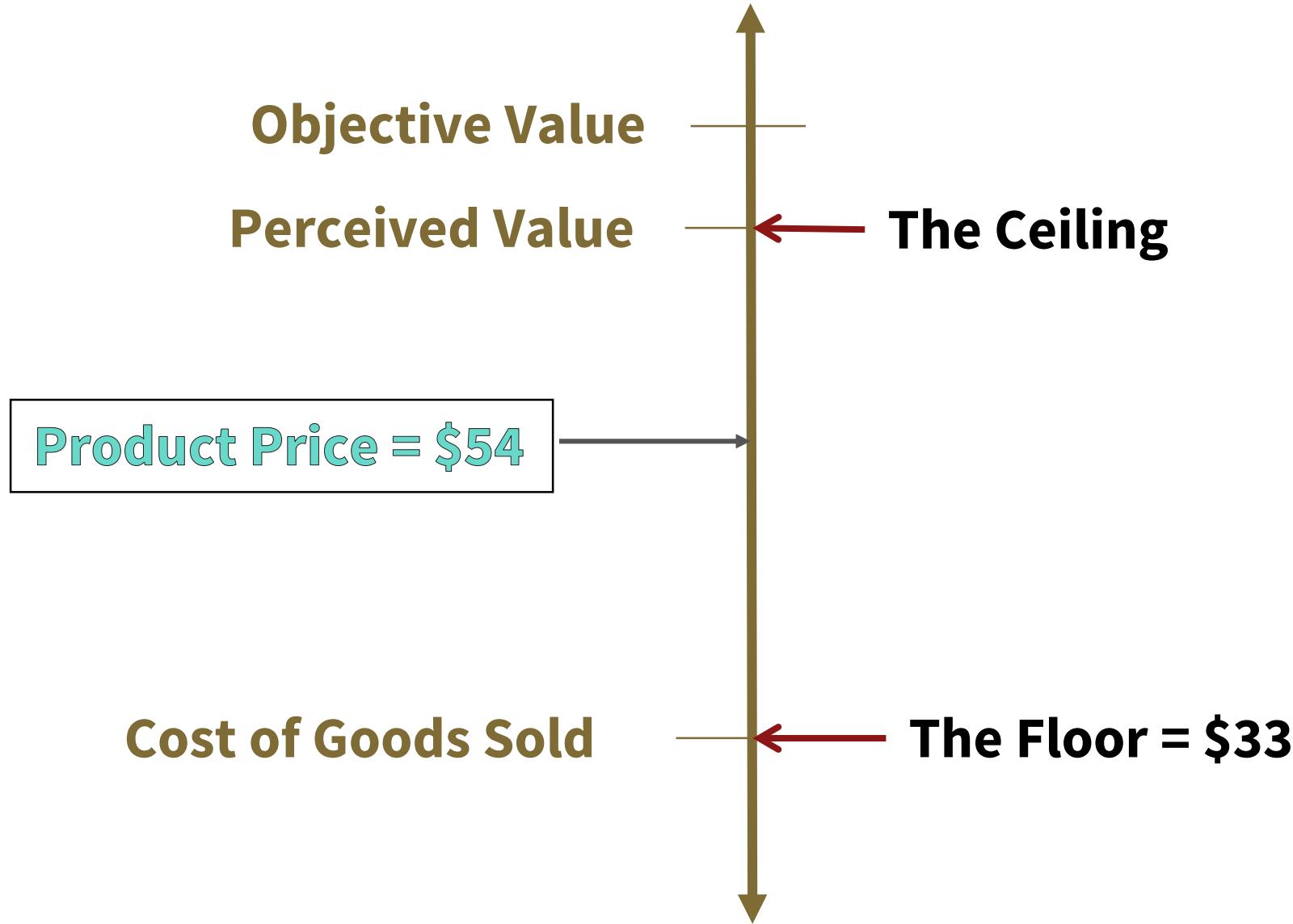
Variable marketing and
administrative costs = \$9

Fixed marketing and
administrative costs = \$6

Excess of price over full unit
cost = \$6

Contribution Margin





Cost Analysis for Decision-making and Pricing

Cost-Volume-Profit Analysis

CVP Analysis

Operating Profit (π) = Total Revenues (TR) – Total Costs (TC)

TR = Price (P) x Units of Output Produced and Sold (N) = P x N

TC = Variable Cost Per Unit (V) x N + Fixed Costs (F) = V x N + F

π = (P – V) x N - F

Applications of CVP Analysis

- What product volume is necessary to make a specified profit?
- What product volume is required to break even?

Target Volume for a Target Profit

$$\pi_T = (P - V) \times N_T - F$$

Target Volume in Units (N_T)

$$N_T = (\text{Fixed Costs} + \text{Target Profit}) \div (\text{Unit Contribution Margin}) = (F + \pi_T) \div (P - V)$$

Target Volume in Sales Revenue ($N_T \times P$)

$$\begin{aligned} N_T \times P &= P \times (\text{Fixed Costs} + \text{Target Profit}) \div (\text{Unit Contribution Margin}) \\ &= P \times (F + \pi_T) \div (P - V) \end{aligned}$$

CVP Example

Price	\$90.00
Variable Product Cost (Materials and Labor)	\$45.00
Other Variable Costs (Sales and Support)	\$15.00
Variable Product Cost	<hr/> \$60.00
Fixed Cost Per Month	\$2,500.00
Average Units Produced Per Month	15,000

$$\pi = (P - V) \times N - F$$

$$\pi = (\$90 - \$60) \times 15,000 - \$2,500 = \$447,500$$

CVP Example Target Volume for a Target Profit

$$\pi_T = (P - V) \times N_T - F$$

Target Volume in Units (N_T)

$$N_T = (F + \pi_T) \div (P - V) = (\$2,500 + \$750,000) \div (90 - 60) = \mathbf{25,084 \text{ units}}$$

Target Volume in Sales Revenue ($N_T \times P$)

$$\begin{aligned} N_T \times P &= P \times (\text{Fixed Costs} + \text{Target Profit}) \div (\text{Unit Contribution Margin}) \\ &= P \times (F + \pi_T) \div (P - V) = \$90 \times (\$2,500 + \$750,000) \div (90 - 60) = \mathbf{\$2,257,500} \end{aligned}$$

CVP for Cost Analysis

CVP for Cost Analysis

	Low Operating Leverage Company		High Operating Leverage Company	
	Amount	Percentage	Amount	Percentage
Sales	\$2,500,000	100	\$2,500,000	100
Variable Costs	<u>\$1,750,000</u>	70	<u>\$550,000</u>	22
Contribution Margin	\$750,000	30	\$1,950,000	78
Fixed Costs	<u>\$200,000</u>	10	<u>\$1,250,000</u>	50
Operating Profit	<u>\$550,000</u>	22	<u>\$700,000</u>	28
Break-even Point (units)	666,667		1,602,564	
Contribution Margin Per Unit	\$0.30		\$0.78	

Margin of Safety

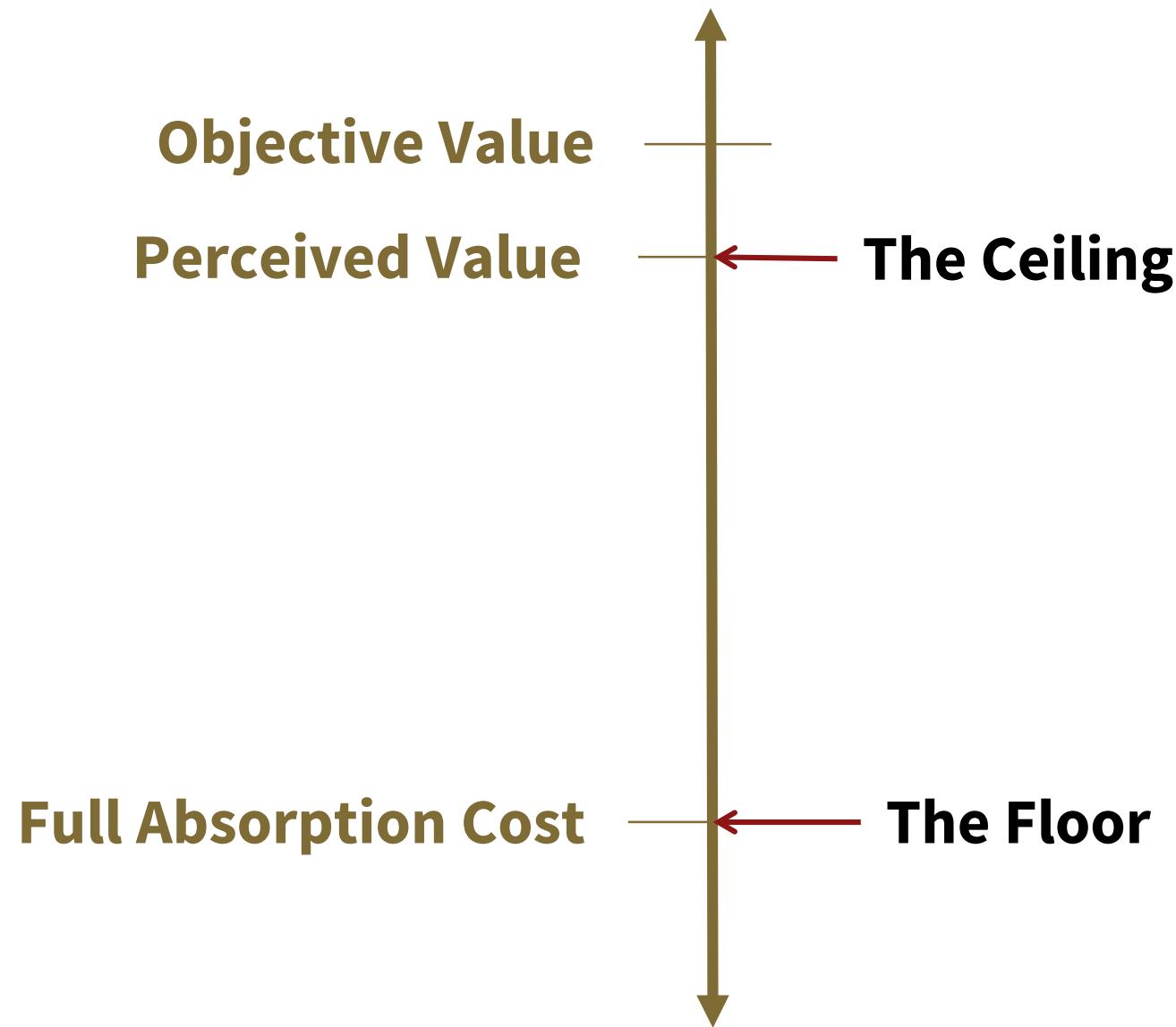
Margin of Safety = Sales Volume – Break Even Sales Value

Price	\$90.00
Variable Product Cost (Materials and Labor)	\$45.00
Other Variable Costs (Sales and Support)	\$15.00
<hr/>	
Variable Product Cost	\$60.00
<hr/>	
Fixed Cost Per Month	\$2,500.00
Average Units Produced Per Month	15,000

$$N_T \times P = P \times (F + \pi_T) \div (P - V) = \$90 \times (\$2,500 + \$0) \div (90 - 60) = \$7,500$$

$$\text{Margin of Safety} = \$1,350,000 - \$7,500 = \$1,342,500 = 14,916 \text{ units}$$

Product Price Discounting

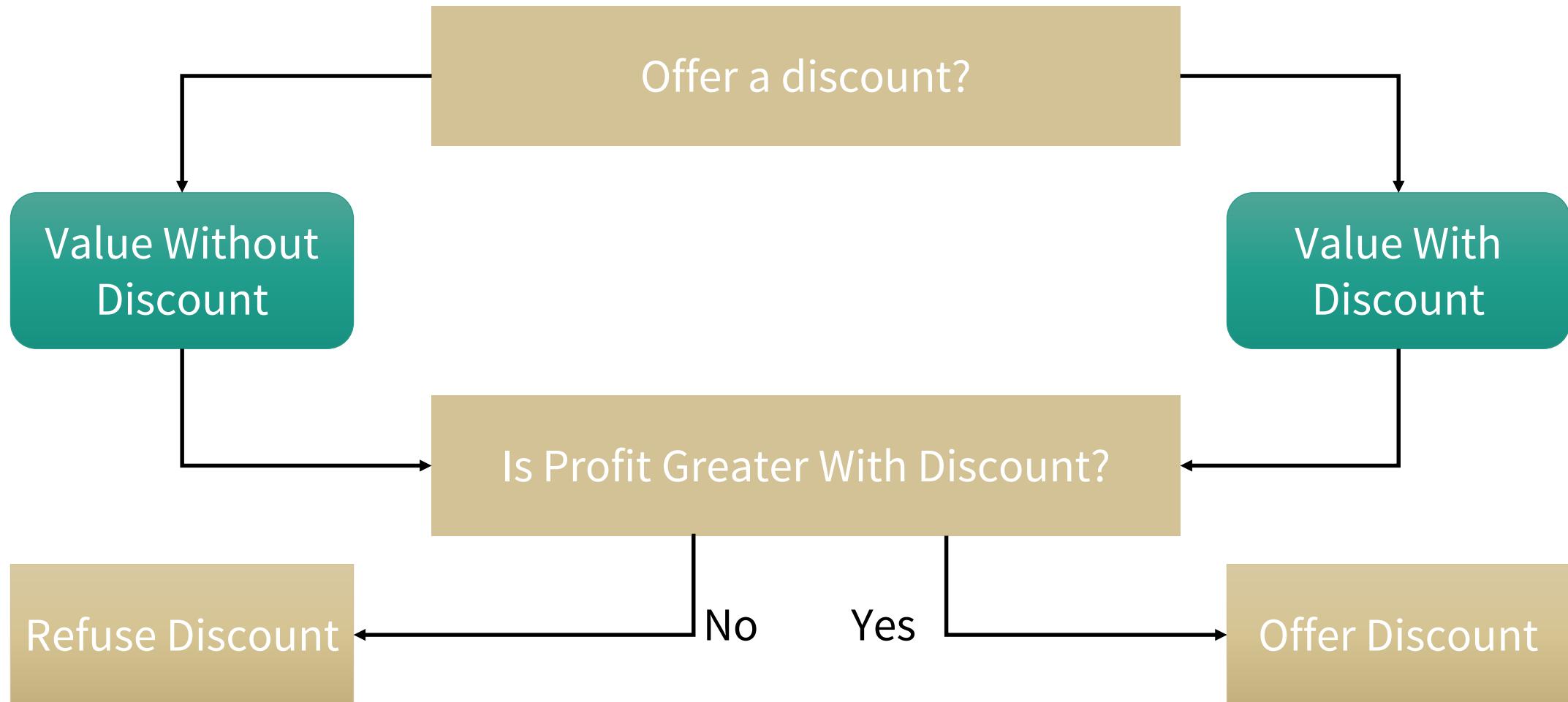


The Full Cost Fallacy: Assuming all costs are variable costs

The Full Cost Fallacy

Price	\$90.00
Variable Product Cost (Materials and Labor)	\$45.00
Other Variable Costs (Sales and Support)	\$15.00
<hr/>	
Variable Product Cost	\$60.00
Fixed Cost Per Month	\$2,500.00
Average Units Produced Per Month	15,000

Discount Pricing Decision



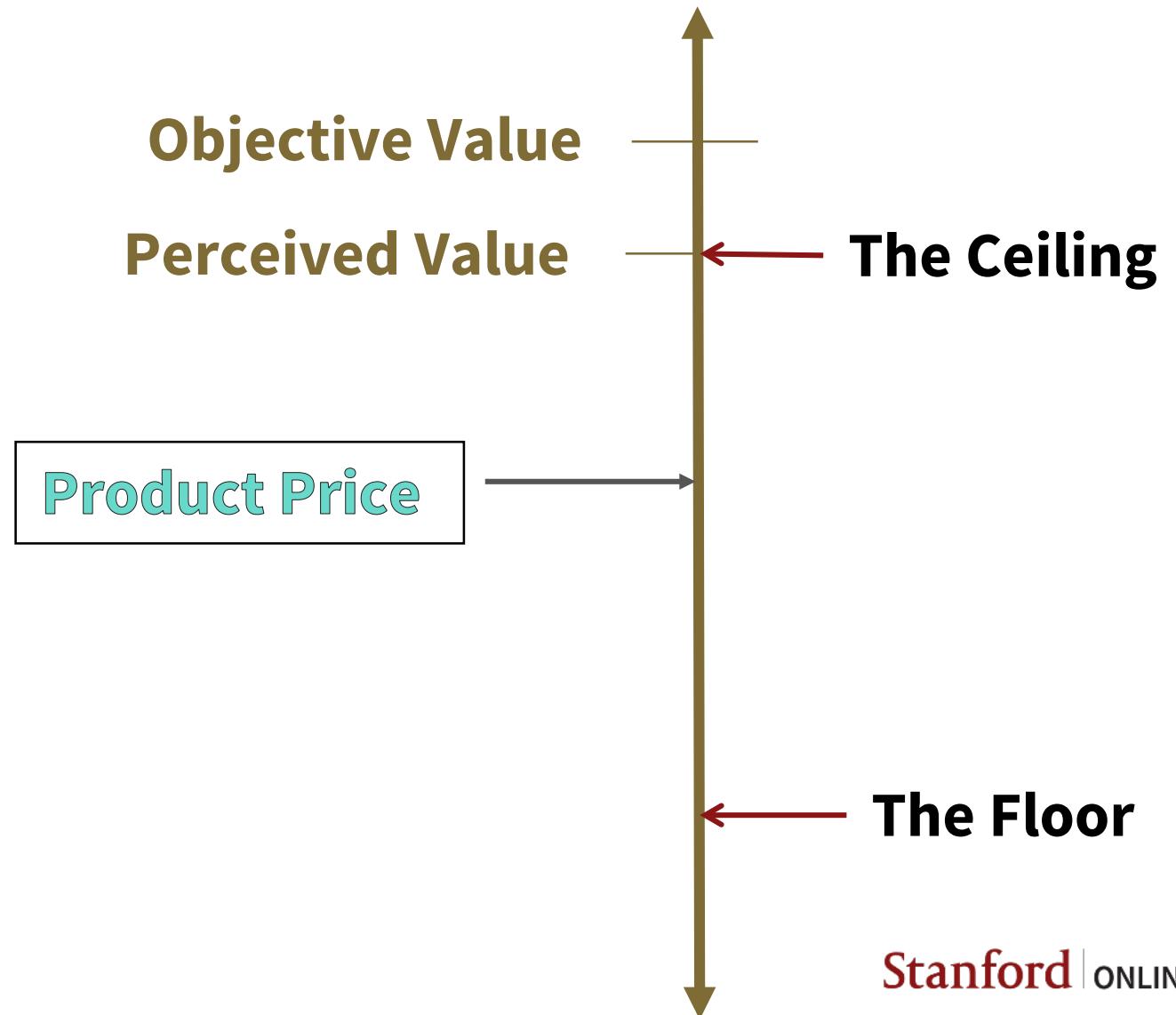
Discount Pricing Example

Sales (10,000 units @ \$50)	\$500,000
Variable Costs	<u>\$200,000</u>
Total Contribution Margin	\$300,000
Fixed Costs	<u>\$240,000</u>
Operating Profit	<u>\$60,000</u>

	Status Quo		Difference
	Reject New Order	Accept New Order	
Comparison of Totals			
Sales Revenue	\$500,000	\$504,000	\$4,000
Variable Costs	<u>(\$200,000)</u>	<u>(\$202,000)</u>	<u>(\$2,000)</u>
Total Contribution	\$300,000	\$302,000	\$2,000
Fixed Costs	<u>(\$240,000)</u>	<u>(\$240,000)</u>	<u>\$0</u>
Operating Profit	<u>\$60,000</u>	<u>\$62,000</u>	<u>\$2,000</u>

Long Term Pricing Based on Cost

- Cost-plus Approach
- Full Cost Approach
- Life Cycle Product Costing and Pricing
- Target Costing from Target Pricing



Planning and Budgeting

Introduction to Budgeting

SMART Goals

Specific

Measureable

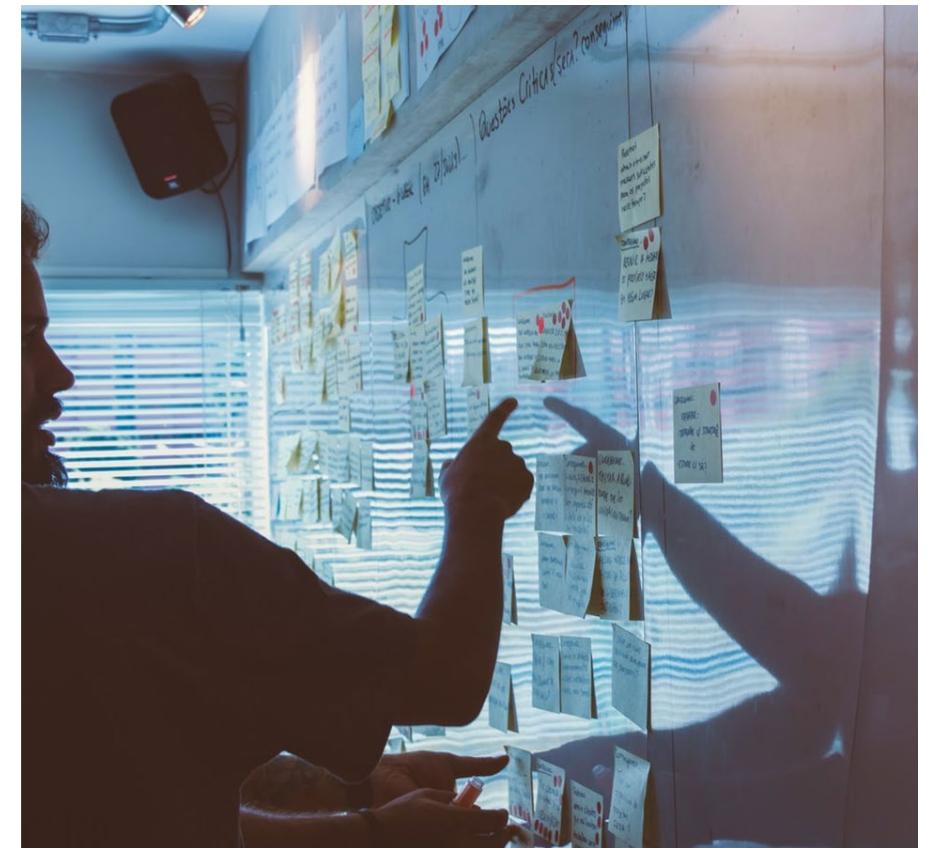
Achievable

Relevant

Time-bound

Strategic Planning and Budgeting

- Critical success factors or Key results
- Organization Plan
 - Organizational goals
 - Strategic long-range profit plan
 - Tactical short-range profit plan
- Look-ahead financial statements



Starting the Budgeting Process



Estimating Sales

- Salespeople's estimates
- Market researcher or market research firms
- Delphi Technique
- Trend analysis
- Econometrics



Budgeted Cost of Goods Sold

Production Budget

Beginning Inventory (BI) + Transfers In (TI) – Transfers Out (TO) = Ending Inventory (EI)

Required Production = Forecast Sales + Ending Inventory – Beginning Inventory

Production Budget
For the Budget Year Ending December 31
(in units)

Expected sales	376,000
Desired ending inventory of finished goods	35,250
Total needs	411,250
Beginning inventory of finished goods	11,750
Units to be produced	399,500

Production Cost Forecast – Direct Materials

Direct Materials Budget
For the Budget Year Ending December 31

Units to be produced	399,500	
Direct materials needed per unit (components)	Component 1	Component 2
Total component needs (components per unit x 399,500)	4 components 1,598,000	5 components 1,997,500
Add desired ending inventory (components)	<u>20,000</u>	<u>25,000</u>
Total direct material needs (components)	<u>1,618,000</u>	<u>2,022,500</u>
Less beginning inventory of materials (components)	<u>16,000</u>	<u>20,000</u>
Direct materials to be purchased (components)	1,602,000	2,002,500
Cost of materials, per component	<u>\$16</u>	<u>\$25</u>
Total cost of direct materials to be purchased	<u>\$25,632,000</u>	<u>\$50,062,500</u>
Sum of materials to be purchased	<u>\$75,694,500</u>	

Production Cost Forecast – Direct Labor

Direct Labor Budget
For the Budget Year Ending December 31

Units to be produced	399,500
Direct labor time per unit (in hours)	<u>1.4</u>
Total direct labor time needed	559,300
Direct labor cost per hour	<u>\$45</u>
Total direct labor cost	<u>\$25,168,500</u>

Production Cost Forecast – Manufacturing Overhead

Schedule of Budgeted Manufacturing Overhead

For the Budget Year Ending December 31

Variable overhead needed to produce 399,500 units	
Indirect materials and supplies	\$84,600
Materials handling	\$164,500
Other indirect labor	<u>\$70,500</u>
Total variable overhead	\$319,600
Fixed manufacturing overhead	
Supervisory labor	\$239,700
Maintenance and repairs	\$117,500
Plant administration	\$199,750
Utilities	\$129,250
Depreciation	\$329,000
Insurance	\$70,500
Property taxes	\$141,000
Other	<u>\$51,700</u>
Total fixed overhead	\$1,278,400
Total manufacturing overhead	<u>\$1,598,000</u>

Budgeted Statement of Cost of Goods Sold

**Budgeted Statement of Cost of Goods Sold
For the Budget Year Ending December 31**

Beginning work-in-process inventory	\$0
Manufacturing costs	
Direct materials	
Beginning inventory	\$756,000
Purchases	<u>\$75,694,500</u>
Materials available for manufacturing	\$76,450,500
Less ending inventory	<u>\$945,000</u>
Total direct materials costs	\$75,505,500
Direct labor	\$25,168,500
Manufacturing overhead	<u>\$1,598,000</u>
Total manufacturing costs	\$102,272,000
Less ending work-in-process inventory	\$0
Cost of goods manufactured	\$102,272,000
Add beginning finished goods inventory (11,750 units)	\$2,820,000
Less desired ending finished goods inventory (35,250 units)	<u>(\$8,460,000)</u>
Cost of goods sold	<u>\$96,632,000</u>

Look Ahead P&L

Budgeted Statement of Cost of Goods Sold

**Budgeted Statement of Cost of Goods Sold
For the Budget Year Ending December 31**

Beginning work-in-process inventory	\$0
Manufacturing costs	
Direct materials	
Beginning inventory	\$756,000
Purchases	<u>\$75,694,500</u>
Materials available for manufacturing	\$76,450,500
Less ending inventory	<u>\$945,000</u>
Total direct materials costs	\$75,505,500
Direct labor	\$25,168,500
Manufacturing overhead	<u>\$1,598,000</u>
Total manufacturing costs	\$102,272,000
Less ending work-in-process inventory	\$0
Cost of goods manufactured	\$102,272,000
Add beginning finished goods inventory (11,750 units)	\$2,820,000
Less desired ending finished goods inventory (35,250 units)	<u>(\$8,460,000)</u>
Cost of goods sold	<u>\$96,632,000</u>

Budgeted Schedule of Marketing and Admin Costs

Schedule of Budgeted Marketing and Administrative Costs

For the Budget Year Ending December 31

Variable marketing costs	
Sales commissions	\$2,289,600
Other marketing	<u>\$1,144,800</u>
Total variable marketing costs	\$3,434,400
Fixed marketing costs	
Sales salaries	\$1,240,200
Advertising	\$1,459,620
Other	<u>\$639,180</u>
Total fixed marketing costs	\$3,339,000
Total marketing costs	\$6,773,400
Administrative costs (all fixed)	
Administrative salaries	\$2,299,140
Legal and accounting staff	\$1,297,440
Data processing services	\$1,211,580
Outside professional services	\$305,280
Depreciation (buildings, equipment)	\$801,360
Other, including interest	\$343,440
Taxes - other than income	<u>\$1,335,600</u>
Total administrative costs	<u>\$7,593,840</u>
Total budgeted marketing and administrative costs	<u>\$14,367,240</u>

Look Ahead (Budgeted) Income Statement or P&L

Budgeted Income Statement For the Budget Year Ending December 31

Budgeted revenues	
Sales (376,000 units at \$976)	\$366,976,000
Budgeted Costs	
Cost of Goods Sold	\$96,632,000
Marketing and Administrative Costs	<u>\$14,367,240</u>
Total Budgeted Costs	<u>\$110,999,240</u>
Operating Profit	\$255,976,760

Budgeting in Retail or Service Organizations

		Merchandise Purchases Budget For the Year Ended December 31	
Estimated sales	1,200 units	Estimated sales (units)	1,200
Estimated ending inventory	20	Add estimated ending inventory	20
Estimated beginning inventory	35	Total merchandise needs	1,220
Estimate cost per unit	\$225	Less beginning inventory	35
		Merchandise to be purchased	1,185
		Estimated cost per unit	<u>\$225</u>
		Total estimated cost of merchandise	<u>\$266,625</u>

Considering Uncertainty in Budgeting



Small



Medium



Large



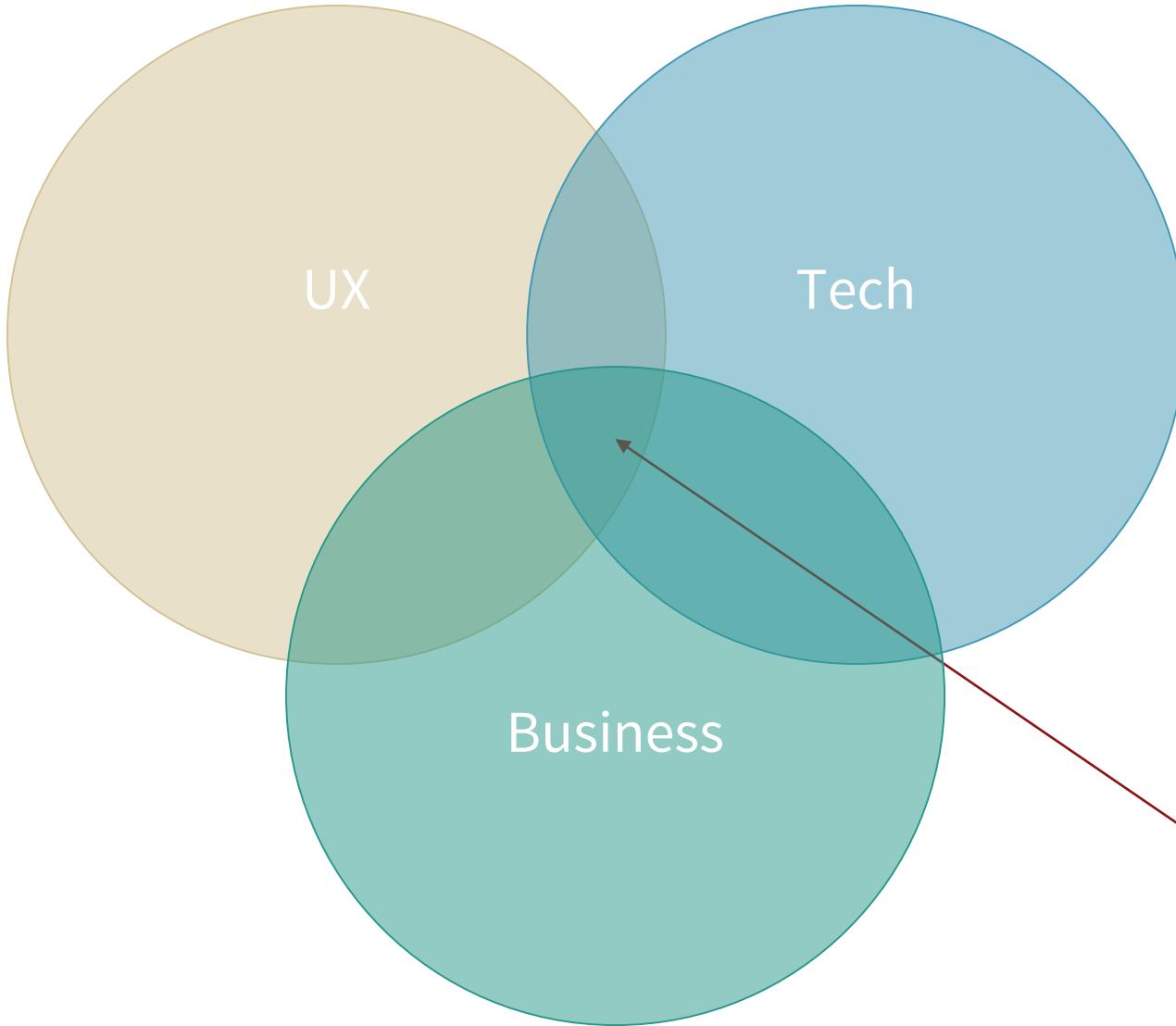
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Course Conclusion

“

*You may not be responsible for it, but you are responsible
for the success of the outcome.*

”



You are here!

Measurable

Metrics

Profit Margin

Revenue

Cost

Value

Success

Price

LTV

SMART Goals

Specific

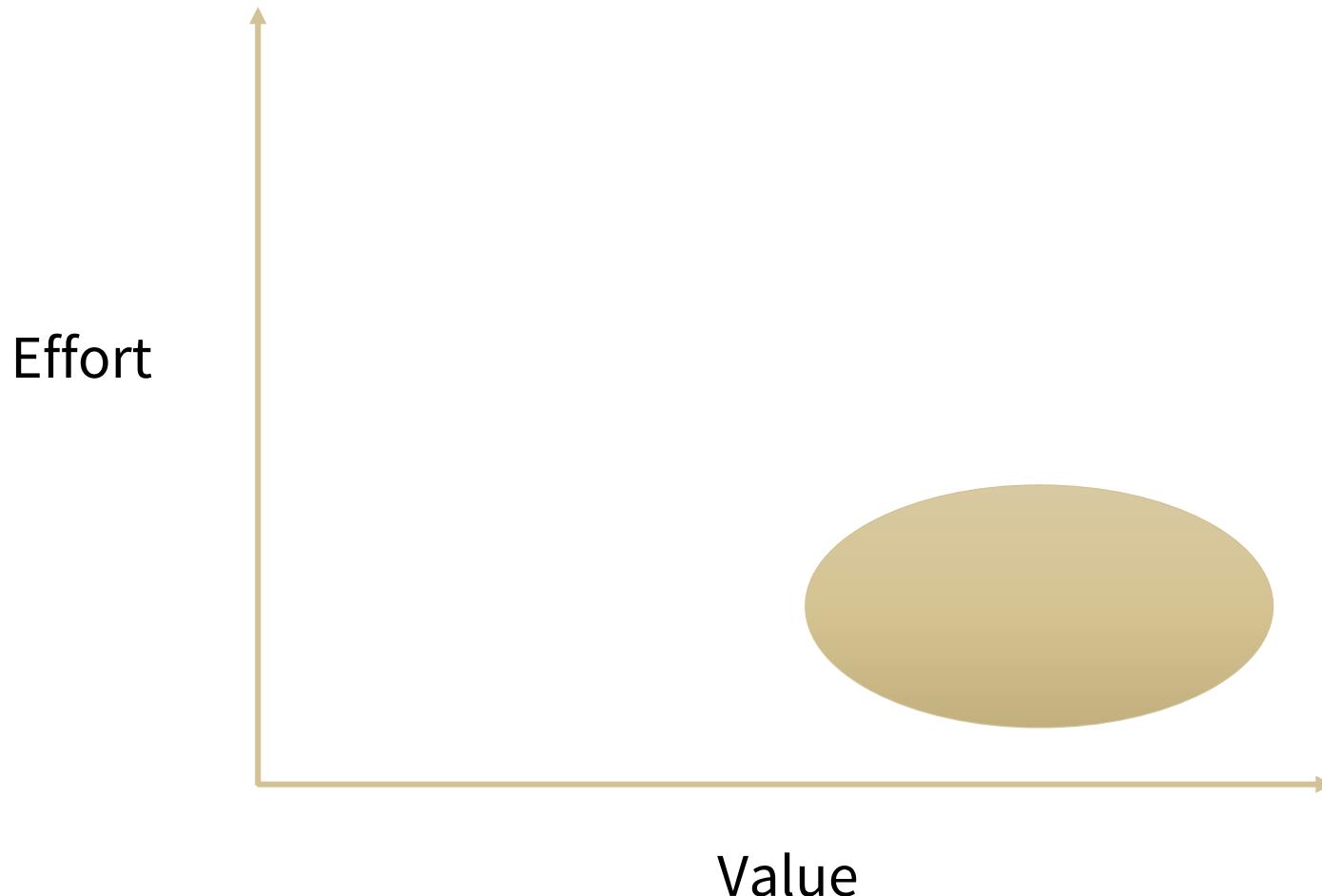
Measureable

Achievable

Relevant

Time-bound

Relevant Goals



Accounting is the language of business