**FINANCIAL STATEMENTS CASE, PART 1**

The purpose of this project is to give you a better understanding of the types of financial statement information that is included in a company’s annual report. The project requires you to perform some analysis of the financial statements and selected notes of Apple Inc. as contained in its 2016 Form 10-K. The annual report is available for your download at the website for the SEC. I have also posted it in .pdf form at the Canvas website. Much of the material that you will use is contained in the Item 8, “Financial Statements and Supplementary Data”, starting at page 38 of the report. However, the first few questions have to do with a general overview of the Form 10-K.

Please show all calculations. Where I ask you to make comments, you may limit your responses to a simple sentence or two. Also, you do not have to type your answers.

**GENERAL OVERVIEW OF THE FORM 10-K**

**FORMAT OF THE FORM 10-K**

1. According to the table of contents, the report is divided into four main parts. Based strictly upon the information that is shown on that page, what type of information is Apple being asked to provide in Part II of the Form 10-K?

#### They are being asked to provide Market, which Gives highs and lows of stock, in a simple statement. Market for Registrant's Common Equity, related stockholder matters and issuer purchases of equity securities, Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Quantitative and Qualitative Disclosures about Market Risks, Financial Statements, Changes in and Disagreements With Accountants on Accounting and Financial Disclosure, and Controls and Procedures. Essentially, this is just apples required financial accounting information.

1. Also according to the table of contents, which two items in Part II of the report cover the most pages?

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

Item 8: Financial Statements and Supplementary Data

**MANAGEMENT DISCUSSION AND ANALYSIS**

1. Item 7, the Management’s Discussion and Analysis (MD&A) portion of the Form 10-K is of special interest to investors, as it gives management’s perspective on the financial results that the company achieved over the last few years and also management’s expectations as to the near-term future. The MD&A also allows management to explain the factors that went into its decisions regarding accounting estimates.

The MD&A on page 22 begins with an executive summary of certain highlights of the most recent year. It then provides a detailed look at some of the information contained in Apple’s income statements, statements of cash flows, and balance sheets.

Under “Fiscal 2016 Highlights” on page 22, management explains the decrease in net sales over the prior year. What reasons does management give for the decline in net sales?

Apple believes that the decrease in net sales is due to a weakness in most foreign currencies relative to the U.S. dollar.

1. On page 23, Apple provides information about its sales in terms of net sales by geographic operating segment, net sales by product, and unit sales by product. Why would the information about geographic operating segments be of interest to investors?

This answer is multipart: an investor may care about geographic operating segments because they can compare sales with strength of currency in a particular region, they can see who their largest market is, which regions are experiencing the fastest growth, and what markets they have higher selling capability that they need to capitalize.

1. Similarly, why might the information about net sales by product be of interest to investors?

Net sales may be interested in net sales by product because they would like to see which products are experiencing the fastest growth.

1. On page 31 under “Capital Return Program”, Apple explains its program to repurchase stock. How much had Apple spent to repurchase stock by September 24, 2016?

Apple spent one hundred and thirty three billion to repurchase stock by September 24, 2016

**FINANCIAL STATEMENTS AND NOTES OVERVIEW**

**FINANCIAL STATEMENTS AND NOTES**

1. What financial statements are included in Item 8 (starting on page 38)?

The financial statements that are included in item 8 are Independent Auditor’s report, consolidated statements of operation, consolidated balance sheets, and other accounting reports and notes.

1. The notes to the financial statements begin on page 44. How many notes are included with the financial statements?

There are 12 notes included with the financial statements.

1. What are the three longest notes?

The three longest notes are note 1, note 2, and note 5.

1. How does Apple determine its fiscal years? (See Note 1 to the financial statements on page 44 of the report.)

The Company’s fiscal year is the 52 or 53-week period that ends on the last Saturday of September, primarily because the company wants to its year to end on a Saturday because of higher sales on the weekend.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

1. What accounting firm audited Apple’s financial statements? (See page 70.)

Ernst & Young LLP audited Apple’s financial statements.

1. When did the accounting firm complete its audit?

The accounting firm completed its audit on October 26, 2016.

1. What organization promulgated the standards that the accounting firm followed in conducting its audit?

The organization promulgated the standards that the accounting firm followed in conducting its audit is the Public Company Accounting Oversight Board (United States), Apple Inc.’s internal control over financial reporting.

1. Does the accounting firm state anywhere in its report that the financial statements are *correct*? What opinion does the firm state in the third paragraph of the report?

The accounting firm does not explicitly state anywhere in its report that the financial statements are correct but they give the opinion that they presented a fair financial statement.

**OVERVIEW OF THE BALANCE SHEETS (Page 41)**

1. Compute Apple’s current ratio for 2016 and for 2015. What information does the current ratio provide to an investor?

2016:

Current assets = $106,869

Current Liabilities = $79,006

Current ratio = assets / liabilities = 1.353

2015:

Current assets = $89,378

Current Liabilities = $80,610

Current ratio = assets / liabilities = 1.109

The current ratio shows a company’s current liquidity meaning their ability to pay obligations.

1. Calculate Apple’s equity ratio for 2016 and for 2015. Based on your calculations, does Apple seem to be at major risk for insolvency?

Equity = total equity / total assets

2016

Total equity = $128,249

Total assets = $321,686

Equity ratio = .399

2015

Total equity = $119,355

Total assets = $290,345

Equity ratio = .411

Apple is not close to insolvency.

1. Information about Apple’s property, plant, and equipment is provided at the beginning of Note 3 to the financial statements. According to that note, what was the total accumulated depreciation and amortization at September 24, 2016?

Total accumulates depreciation for September 24, 2016 is $ 34,235.

1. What is the largest non-current liability that Apple reports? What note to the financial statements provides a description of this liability?

Note 6 discusses longest-term debt, which is the largest non-current liability.