When Accounting Makes the News: Real-World Cases

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This slide deck is in progress.

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Headline

BUSINESS | EARNINGS

Lyft Shares Surge as Strong Earnings Report Offsets Typo Confusion

Company's earnings release accidentally added an extra zero to a key number; shares hit 52-week high

By Preetika Rana Follow

Updated Feb. 14, 2024 6:14 pm ET

Background Knowledge

Profit Margin

- The profit margin is the percentage of revenue that is profit, calculated as: Profit Margin $= \frac{\text{Profit}}{\text{Revenue}}$, or

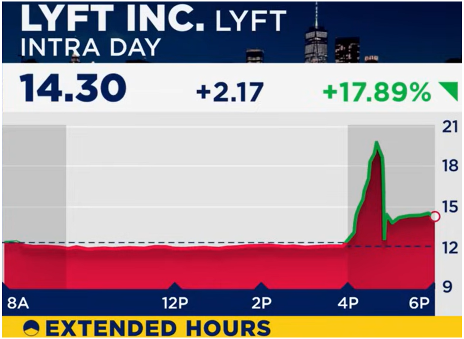
  Profit Margin (%) $= \frac{\text{Profit}}{\text{Revenue}} \times 100$

- Companies use various profit margins to measure their profitability, including:
  - Operating Profit Margin
  - Net Profit Margin
  - Adjusted Profit Margin

What Happened?

Regarding **Lyft's Adjusted Profit Margin** on Feb 13, 2024:

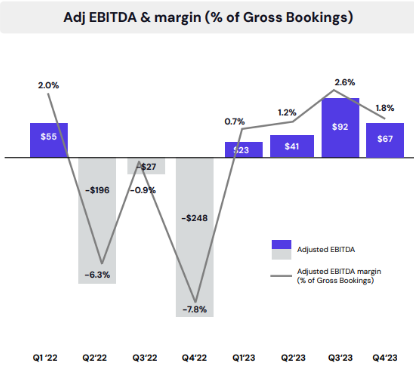
1. Lyft disclosed the margin in 2023: 1.6%.
2. Lyft disclosed the margin in 2024 to be expanded by **500** basis points (i.e., **5%**).
3. Its stock soared after the news - **60%+ increase** in stock price!
4. But, the correction indicated the expansion to be only: **50** basis points (i.e., **0.5%**)
5. Its CFO said it was a **"typo"** during the earnings release.[1]



[1] CNBC-LYFT-20240213 includes the conversation between an analyst and Lyft's CFO.

What Happened?

How impressive a **"5% point expansion"** would have been if it had actually happened!



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Headline

Trump's Tax Cuts Are Exposing Companies to Biden's Tax Hike

Democrats' older alternative minimum tax claws back billions of dollars in savings from newer GOP law

By Richard Rubin Follow

Nov. 8, 2025 9:00 pm ET

Background Knowledge

- The Inflation Reduction Act of 2022 created the corporate alternative minimum tax (CAMT).
- CAMT imposes a **15%** minimum tax on the adjusted financial statement income (AFSI) of large corporations for taxable years beginning after Dec. 31, 2022.
- CAMT requires companies with average income exceeding $1 billion to measure tax liability twice and pay whichever is greater.
- Due to CAMT, large companies are not allowed to fully enjoy the tax cuts that the Republican Congress passed earlier 2025.[2]

[2] The WSJ-CAMT-20251108 article provides a detailed explanation of CAMT.

What Happened?

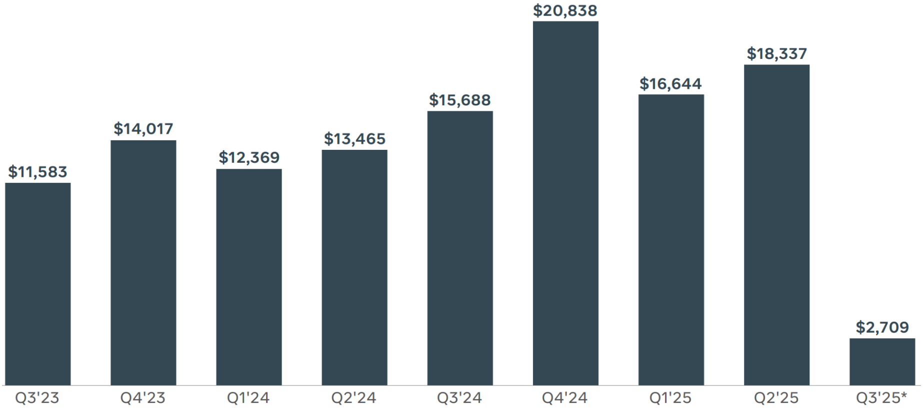
- Large companies try to claim some of the tax cuts that the Republican Congress passed earlier 2025.
- But, they can't escape the corporate tax increase that Democrats passed in 2022.
- Meta took a **$15.9 billion** one-time hit in 2025Q3.
- This one-time, non-cash charge heavily affected Meta's net income and effective tax rate.

Effective Tax Rate: 87% in 2025Q3

	Q3'23	Q4'23	Q1'24	Q2'24	Q3'24	Q4'24	Q1'25	Q2'25	Q3'25*
Income before provision for income taxes	$ 14,020	$ 16,808	$ 14,183	$ 15,106	$ 17,822	$ 23,553	$ 18,382	$ 20,534	$ 21,663
Provision for income taxes	$ 2,437	$ 2,791	$ 1,814	$ 1,641	$ 2,134	$ 2,715	$ 1,738	$ 2,197	$ 18,954
Effective Tax Rate	**17 %**	**17 %**	**13 %**	**11 %**	**12 %**	**12 %**	**9 %**	**11 %**	**87 %**

$18,954 billion provision for income taxes in 2025Q3 includes one-time, non-cash charge of **$15.9 billion**.

Net Income: $2.7 billion in 2025Q3



Net income in 2025Q3 is extremely low due to the one-time, non-cash charge.

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Click an item to open the link.

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2. WSJ-CAMT-20251108
3. WSJ-META-20251029
4. IRS-Corporate-Alternative-Minimum-Tax

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Headline

EXCLUSIVE BUSINESS

Oracle, OpenAI Sign $300 Billion Cloud Deal

The majority of new revenue revealed by Oracle will come from OpenAI deal, sources say

By Berber Jin Follow

Updated Sept. 10, 2025 4:08 pm ET

Headline

Oracle stock gains 36% to post best day since 1992, adding $244 billion in value

PUBLISHED WED, SEP 10 2025•9:34 AM EDT | UPDATED WED, SEP 10 2025•4:28 PM EDT

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Background Knowledge

Remaining Performance Obligations (RPOs) is the total dollar amount of contracted revenue for products and services that are expected to be delivered in the future.

1. **Deferred Revenue**: Cash received in advance for products and services that are expected to be delivered in the future.
   $\rightarrow$ on balance sheet as a liability.
2. **Backlog**: Contracted revenues that haven't been invoiced or recognized. $\rightarrow$ not on balance sheet but included in the **note to financial statements**.

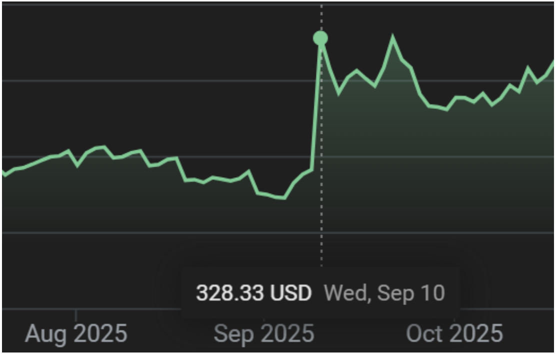
The case of **Oracle** belongs to the **backlog category**.

What Happened?

According to the Oracle's earnings relase on Sep 9, 2025 and the related news:

- OpenAI signed a contract with Oracle to purchase $300 billion in computing power over roughly five years.
- The database-software company has **$455 billion** in outstanding contract revenue that it expects to collect for the latest quarter that ended in Aug. 31.
- The amount is massive given the company's total revenue in 2025 was **$57.4 billion**.

What Happened?



Oracle shares surged by as much as **43%** after the announcement!

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Click an item to open the link.

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2. CNBC-ORCL-20250910
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Headline

CFO JOURNAL

MicroStrategy to Continue Buying Bitcoin Despite Market Tumble, CFO Says

The SEC recently told the software company to revise its disclosure on the crypto asset

By Mark Maurer Follow

Jan. 25, 2022 5:30 am ET

Background Knowledge

- MicroStrategy is a software company that develops business intelligence and analytics software.
- MicroStrategy has been heavily investing in cryptocurrencies since 2020.
- Before the adoption of FASB ASU 2023-08, cryptocurrency assets were considered **indifinite-lived intangible assets** under ASC 350. Impairment tests were required; but **unrealized gains were not recognized**.
- After the adoption of FASB ASU 2023-08, cryptocurrency assets are now measured at **fair value** at the end of each reporting period. **Both unrealized gains and losses** are recognized in the income statement.
- The case of MicroStrategy included in this section was under the **pre-FASB ASU 2023-08 regime**.
- The case illustrates how MicroStrategy adjusted impairment losses to make the firm look rosier; then how SEC intervened the firm's reporting.

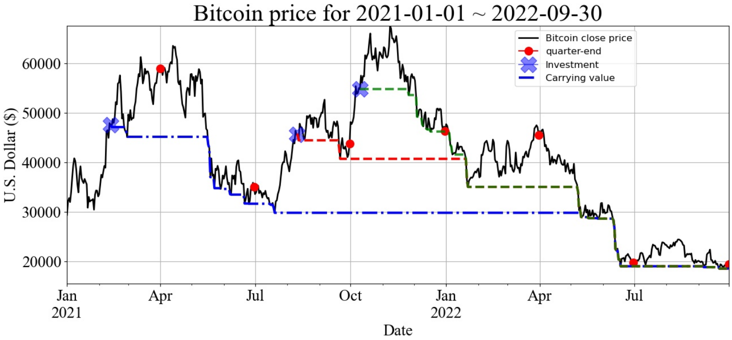
MicroStrategy's Cryptocurrency Assets

"MicroStrategy is one of the firms that have heavily invested in digital assets."

(a) Quarter	(b) Carrying value, beg	(c) Purchased	(d) Impairment	(e)= (b) + (c) - (d) Carrying value, end
2020Q3	-	425	44	381
2020Q4	381	700	26	1,054
2021Q1	1,054	1,086	194	1,947
2021Q2	1,947	529	425	2,051
2021Q3	2,051	420	65	2,406
2021Q4	2,406	591	147	2,850
2022Q1	2,850	216	170	2,896
2022Q2	2,896	10	918	1,988

Table: Beginning balance to ending balance

MicroStrategy's Cryptocurrency Assets



Before the adoption of FASB ASU 2023-08, the carrying value of cryptocurrency assets was the **lower of cost or market**. Unrealized losses are recognized while unrealized gains are not.

Adjustments to Pretax Income

Over the quarters between 2020Q3 and 2022Q2, MSTR made adjustments to its pretax income by adding back the impairment losses. The adjustment turned the pretax income from **negative** to **positive** in some quarters.

(a) Quarter	(b) Impairment loss	(c) Pretax Income	(d) = (b) + (c) Adj. Pretax Income
2020Q3	44	-23	21
2020Q4	26	-4	22
2021Q1	194	-184	10
2021Q2	425	-420	5
2021Q3	65	-59	6
2021Q4	147	-127	19
2022Q1	170	-179	-9
2022Q2	918	-926	-8

Table: Impairment losses and income

Non-GAAP earnings and SEC

Non-GAAP financial metrics (e.g., adj. income) can be described as the "numbers management talks about once the auditor leaves the room."

97% of S&P 500 companies used non-GAAP figures in 2017, up from 59% in 1996 (WSJ, Oct 18, 2019).

Non-GAAP earnings and SEC

- For 2020 Non-GAAP earnings, MicroStrategy excluded impairment losses.

	Years Ended December 31,	
	2020	2019
Reconciliation of non-GAAP income from operations:		
Loss from operations	$ (13,625)	$ (1,002)
Share-based compensation expense	11,153	10,209
Digital asset impairment losses	70,698	0
Non-GAAP income from operations	$ 68,226	$ 9,207

Figure: 2020 Non-GAAP earnings

- SEC didn't allow this for future filings.
- For 2021 Non-GAAP earnings, MicroStrategy did NOT exclude impairment losses.

	Years Ended December 31,	
	2021	2020
Reconciliation of non-GAAP loss from operations:		
Loss from operations	$ (784,527)	$ (13,625)
Share-based compensation expense	44,126	11,153
Non-GAAP loss from operations	$ (740,401)	$ (2,472)

Figure: 2021 Non-GAAP earnings

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Click an item to open the link.

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2. WSJ-MSTR-20220125
3. WSJ-Non-GAAP-Adjustments

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Headline

BUSINESS | LOGISTICS

Companies Grapple With Post-Pandemic Inventories Dilemma

From undrunk beer to unfinished forestry equipment, businesses deliberate just-in-time or just-in-case inventories

By Alistair MacDonald Follow *and Georgi Kantchev* Follow

Nov. 7, 2021 8:00 am ET

Retailers Return to Bringing in Inventory 'Just in Time'

Inventory levels that surged during the pandemic are down and companies are reluctant to build new stockpiles

By Liz Young Follow

Jan. 24, 2024 5:30 am ET

Retailers Bulk Up Inventories to Blunt Tariff Impact

Companies from Costco to Williams-Sonoma say they pulled forward merchandise to get ahead of President Trump's new tariffs

By Liz Young Follow

March 24, 2025 12:04 pm ET

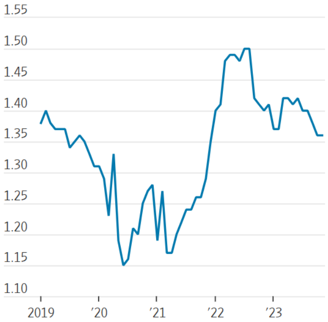
What Happened? (WSJ, 2021)

- Companies need to **manage their inventory carefully** to avoid stockouts and overstocking.
- After the **pandemic**, companies were **wrestling with how big their inventories should be**, since the pandemic highlighted the dangers of having both too much and too little stored away.
- Companies on the S&P 500 **increased their inventories** by an average of 15% in the 2020Q2 versus 2019Q2.

What Happened? (WSJ, 2024)

- **Inventory** levels that surged during the pandemic are **down** and companies are reluctant to build new stockpiles.
- The shift marks a **return to the "just-in-time"** inventory management strategy many companies had employed before pandemic-driven product shortages and volatile shifts in consumer demand prompted a switch to a **"just-in-case"** stockpiling approach.

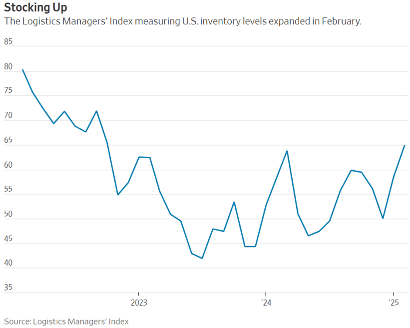
Inventory-to-sales ratio for general merchandise stores



Source: U.S. Census Bureau via Federal Reserve Bank of St. Louis

What Happened? (WSJ, 2025)

- Companies from Costco to Williams-Sonoma are **holding more inventory** after placing unusually big orders to beat Trump's new tariffs.
- The strategy is a **hedge** against the costs of increased tariffs, but logistics experts say it opens up retailers to the **risk of getting stuck** with piles of unsold goods as consumer spending slows.



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