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ACCT 2200 EO2

09, February 2021

Financial Analysis Project Part 2

1. Review the financial statement footnotes of the company you are analyzing to obtain information regarding the methods used for two significant accounting policies that we have learned about in class. (Examples include inventory, receivables, payables, fixed assets, expenses, etc.) These are generally listed in Note 1 after the financial statements (should be labeled Summary of Significant Accounting Policies). Describe how each method affects the financial statements and the decisions made by management within the company you are analyzing. Do not just copy and paste the wording from the report. You must include a discussion of the policies and how it impacts the financial statements and management decisions. This discussion must be in your own words. (6 points)

Apple started using FASB or Financial Accounting Standards Board’s accounting standards update which specifically talks about how a lease must be recorded as an asset and a liability for disclosing information about leasing agreements. This new accounting update will provide a better representation of all the transactions that happened during the fiscal period. The expense will be moved to a lease liability and the asset will be recorded on the balance sheet. Apple had 7.8 billion in assets from the new update and had an 8.5 billion lease liability. It’s interesting to note that Apple did not release any information on what the lease was or any initial direct costs. I could see that this new lease accounting update would impact the new store managers that recently got hired, as it means that they might have to do more paperwork or create a new form in order to provide the lease for their store.

The second method was common stock being split 4 ways on August 24, 2020. These splits mean that shareholders will be given 4 shares instead of one. The split shares make it more affordable for smaller investors to buy-in. No changes are made to the financial statements after Apple split their stocks, only the note is added to the summary of significant accounting policies. The company’s management would not have to take full notice of this change as it doesn’t change much besides the amount of stock being given to shareholders and the price of which the stock is available to buy.

2. Examine the cash flow statement and describe one line item from each section (operating, investing, and financing). You will include a discussion for each of the three items. What is the item and amount? How does the change affect cash? Only list one from each section and explain what it means for company operations. Discussion required here in your own words. (4 points)

Operating Activities- In the accounts receivable there is a negative in 2018 and then an increase into the positives in the next two years. This will affect the amount Apple received from the customer paying credit, thus it negatively impacts the net sales. In the year 2018, the number was a negative 5322 than in the year of 2019, the number was 245. I think that in 2018 there were more customers leasing apple products than there were people who were just buying the phone. This could be caused by the iPhone x coming out which was the largest price point so many people probably opted to buy it on credit through Apple or a phone company.

Investing Activities- There were payments for the acquisition of property, plant, and equipment of the statement of cash flow that were all negative in the years 2018, 2019, and 2020. Going from -13,313 in 2018 to -10,495 in 2019 and then finally at -7309 in 2020. This could mean that Apple is losing money as they spend on acquiring equipment or plants for their stores. I noticed that in 2020 the value was a lot less than the other two years which could mean that they are slowing down on opening Apple stores or that they just have slowed down on acquiring new equipment.

Financing Activities- Apple repurchased common stock in all three years, with the numbers being shown in a negative amount. In 2020, Apple stock was taken a toll based on Covid-19 which would be a good reason for why they bought more in this year than in 2019. The year 2020 and 2018 was a year that could be considered a risk for Apple as they just released an anniversary product in late 2017 and had a major pandemic that shrunk their customers in 2020, which explains their high common stock repurchase.

3. Discuss the importance of the three main financial statements (Income Statement, Balance Sheet, and Statement of Cash Flows) and the notes to the financial statements. What do each of these statements and the notes tell you? What were you able to determine about the company by looking at the financial statements and 10-K? (4 points)

The Balance Sheet is important as it tells the assets and the liabilities of a specific company. There are current assets, current liabilities, noncurrent assets, and noncurrent liabilities. With current assets, you have income or items that will be used up within the year. This is good for telling you the beginning and ending inventory, the money owed from customers, and how much cash you have at the end of the fiscal period. Current liabilities offer the same look with money owed, these are money owed to suppliers, money not yet collected, or any other debt that will be paid with a shorter period of time. Noncurrent assets are assets that tend to be long-term and don’t expire after a full year, while noncurrent liabilities are long-term debt like a lease or deferred tax liabilities. These items tell you what the company looks like during that period of time, which can be beneficial to someone investing in their company or buying a product.

The Income Statement is important as it shows how much money the company made and how much it spent. With the income statement, you get a more detailed view of where the money is going. There is the sale or revenue for the fiscal period and the cost of sales at the top which will show shareholders and stock buyers whether the company is making a profit. There are expenses like rent, wages, and utilities that show exactly what the company is spending its money on, which could show the executives at Apple what they need to spend their money on.

The Statement of Cash Flow is important as it tells the amount of money moving in and moving out. The statement is broken down into three key parts, with the first one being operating activities, then investing activities, and finally financing activities. Operating activities include net income which tells you the money after all the expenses.

I was able to determine that the company makes more revenue than expenses according to their 10k and financial statements. The balance sheet shows you the assets and liabilities, the income statement shows you the profit and the statement of cash flows tells you the amount of money going in and out of the company. All of these financial statements improve the information that stockholders and shareholders will receive. This information could be valuable in deciding whether your company is good enough to invest in or if they need to stop which could ruin your company. Apple has a good set of revenue and expenses that prove that the company will always stay stable.

4. Ratio Discussion – Include your ratio discussion and a table of the results within the body of the Word document. All ratios must be calculated within Excel. (See below.) After calculating the ratios, briefly explain whether the company is performing better, similar to, or worse in comparison to the prior year (FOR EACH RATIO). Do not just state that they are doing better, because it is higher, you must explain why. The goal is to demonstrate that you know what the ratio means not just state what happened to the numbers, which changed the ratio. If a ratio is not applicable, explain why. All ratios must be computed for the most recent 2 years within the 10-K. (7 points)

Ratio Table:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | 2020 | 2019 |
| Current Ratio | Current Assets/Current Liabilities | 1 | 1.54012562 |
| Net Profit Margin | Net Income / Revenues | 0.20913611 | 0.21238095 |
| Gross Profit Margin | (Net Sales Revenue – Cost of Goods Sold) / Net Sales Revenue | 0.38233248 | 0.37817768 |
| \*ROE | Net Income/Average Common Stockholders’ Equity | 0.1842139 | 0.13979305 |
| \*Days to Collect | 365 / Receivables Turnover | 103.832505 | 129.381721 |
| Receivables Turnover | Sales or Revenue / Average Receivables | 3.51527685 | 2.82110947 |
| \*Days to Sell | 365 / Inventory Turnover | 35.1612713 | 36.3777182 |
| Inventory Turnover | Cost of Goods Sold / Average Inventory | 10.3807396 | 10.0336145 |
| Debt to Assets | Total Liabilities / Total Assets | 0.79826668 | 0.7326921 |

The current ratio tells you whether the company has enough cash, the higher the ratio is the more money they have. In 2019 the ratio was higher than in 2020, which could be due to the pandemic. The net profit margin tells you how much money each item sold costs, or the profit made from the sale of a product. Apple has a smaller net profit margin in 2020 but barely a sizeable difference when comparing the two years. This could be a common ratio that Apple sees throughout the years, which would make this company more suitable for investment. The gross profit margin tells you whether the company is healthy, a wider range means weak management. Apple doesn’t seem to have this problem as their two ratios are closer together. The ROE or the return of equity shows how well a company is using its equity to grow its business. The number shown in 2020 is .18 or 18%, an average percentage for a tech company while the 2019 number has gotten smaller. This could be due to Apple converting the stocks into a 4-1 to boost the sale of their stocks. Debts to Assets is a ratio that shows the amount of debt the company has and how it compares to its asset. The greater the ratio here the more debt or financial risk the company has, which could impact whether they can receive a loan. Apple is a company that has a higher ratio, I don’t think the company cares as much about having a high debt since they make a lot of money and are more stable than other companies.

The next two ratios have sub ratios that are used to calculate the main ratio, the days to collect, and the days to sell. The days to collect has a sub ratio called the receivable turnover which shows how well the company is collecting the money owed by customers. A higher ratio means that the company is better at collecting any debt that someone owes. Looking at the ratio of the two years, the ratio is not large enough for the company to be considered good at collecting customer debt. I do however think that Apple really doesn’t offer many credit or debit products as they tend to sell the product outright. After looking at the sub ration, I moved on to the days to collect which showed how long the company took on average to collect any money from its customer. In 2019, the was an increase in the number of days it took by 26. The next sub ratio is inventory turnover which is about the number of times the company sells and restocks its products throughout the fiscal period. The two years share the same inventory turnover, which would signify that Apple is selling their products fast and restocking them at the same speed. This inventory turnover will be used in calculating the days to sell, a ratio that tells you how long the products take to be sold. The value here is 35 days in 2020 and 36 days in 2019. I think the company has decreased due to the lack of mobility to buy the product. I also think that the values are very close so it wouldn’t matter as much if the product is decreasing by a small amount.

5.Invest or Not? Given your additional research, would you invest in this company? Why or why not? Did your answer change with additional research? Justify your decision based on all research. Discussion here approximately 1 page. (6 points)

Looking at the financial statements, the ratios, and other information I can safely say that I would invest in Apple and that my mind hasn’t changed since receiving additional information. The balance statement showed me that Apple has more assets short term and long term than liabilities, the income statement showed me how profitable Apple was during the fiscal period and the statement of cash flow showed me that where Apple spent their money, which did seem more stable to me than other companies. Apple has a larger net sale than it has a cost of sale, which meant that the company made way more money than they spent. It also made me feel safer knowing that they followed new standards and that other small investors were willing to buy their stocks to the point they had to split them. While the ratios showed a little decrease in areas like the net profit margin there were more instances than Apple gained more money than loss which is really what I want in a company I am going to invest in.