



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

FINANCIAL STATEMENT ANALYSIS EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 60 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills—the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills—the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills—the ability to take a concept from an idea and make it real
- Priorities/time management—the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

1. Discuss the nature of annual reports.
2. Discuss the nature of consolidated financial statements.
3. Explain the role of managerial accounting techniques in business management.
4. Interpret financial statements.
5. Describe the need for financial information.

CASE STUDY SITUATION/YOUR CHALLENGE

APPLE INC., was founded in 1976 by Steve Jobs, Steve Wozniak and Ronald Wayne with the purpose of developing and selling personal computers. As of 2007, then-CEO Steve Jobs announced the company's shift towards consumer electronics. Headquartered in Cupertino, California, APPLE INC. is the world's largest information technology company by revenue.

On October 26, 2016, APPLE INC. filed its 10-K Annual Report for the period ending September 24, 2016. Below is the Consolidated Income Statement from the report.

CONSOLIDATED STATEMENTS OF OPERATIONS			
(In millions, except number of shares which are reflected in thousands and per share amounts)			
	Years Ended		
	September 24, 2016	September 26, 2015	September 27, 2014
Net sales	\$215,639	\$233,715	\$182,795
Cost of sales	131,376	140,089	112,258
Gross margin	84,263	93,626	70,537
Operating expenses:			
Research and development	10,045	8,067	6,041
Selling, general and administrative	14,194	14,329	11,993
Total operating expenses	24,239	22,396	18,034
Operating income	60,024	71,230	52,503
Other income/(expense), net	1,348	1,285	980
Income before provision for income taxes	61,372	72,515	53,483
Provision for income taxes	15,685	19,121	13,973
Net income	\$45,687	\$53,394	\$39,510
Earnings per share:			
Basic	\$8.35	\$9.28	\$6.49
Diluted	\$8.31	\$9.22	\$6.45
Shares used in computing earnings per share:			
Basic	5,470,820	5,753,421	6,085,572
Diluted	5,500,281	5,793,069	6,122,663
Cash dividends declared per share	\$2.18	\$1.98	\$1.82

Provide a thorough analysis of APPLE INC.'s operations between 2014 and 2016. Be sure to discuss to nature of annual reports and consolidated financial statements.

Within the 10-K, APPLE INC. presented a breakout of net sales by product, as seen below.

Net sales by product for 2016, 2015 and 2014 are as follows (in millions):			
	2016	2015	2014
iPhone (1)	\$136,700	\$155,041	\$101,991
iPad (1)	20,628	23,227	30,283
Mac (1)	22,831	25,471	24,079
Services (2)	24,348	19,909	18,063
Other products (1)(3)	11,132	10,067	8,379
Total net sales	\$215,639	\$233,715	\$182,795
(1) Includes deferrals and amortization of related software upgrade rights and non-software services.			
(2) Includes revenue from iTunes Store, App Store, Mac App Store, TV App Store, iBooks Store, Apple Music, AppleCare, Apple Pay, licensing and other services.			
(3) Includes sales of Apple TV, Apple Watch, Beats products, iPod and Apple-branded and third-party accessories.			

Utilizing this drill down of a key financial data point, it is recommended that you also summarize the role of managerial accounting in business management.

You will present your findings to your manager in the manager's office. Be prepared to provide a full analysis of the overall financial strength of APPLE INC.

SOLUTION

Nature of Annual Reports

- Form 10-K provides a comprehensive overview of the company's business and financial condition.
- Annual reports are legally required by the Securities Exchange Commission (SEC) for publically traded companies.
- Annual reports are available to the general public, free of charge, online or on-site in Washington, D.C.
- The filing deadline for APPLE INC., as a Large Accelerated Filer (\$700MM or more in public float), is 60 days after the end of the company's fiscal year.
- Annual reports include, but are not limited to, the following: explanation of operations, markets company operates in geographically, legal proceedings, risks the company is exposed to, financial statements, letters from the CEO, CFO and independent auditor.

Nature of Consolidated Financials

- Consolidated financial statements are the combined financial statements of a parent company and its subsidiaries.
- Financial statements of a group are presented as those of a single economic entity.
- Subsidiaries of APPLE INC. include Apple Sales International (Ireland), Apple Operations International (Ireland), Apple Operations Europe (Ireland) and Braeburn Capital, Inc. (Nevada, US)
- The consolidated income statement only reports income and expense activity from outside of the economic entity (parent company).
- Revenue earned by the parent company that is an expense of a subsidiary is omitted from the financial statements.
- Consolidated financial statements must be accounted for using Generally Accepted Accounting Principles (GAAP).

General Interpretation of APPLE INC.

- Top 3 financial ratios pertaining to APPLE INC.'s statement of income are as follows:

		FY2016		FY2015		FY2014	
Gross Margin =	Gross Profit	84,263	39.08%	93,626	40.06%	70,537	38.59%
	Revenue	215,639		233,715		182,795	
R&D to Sales =	R&D Expense	10,045	4.66%	8,067	3.45%	6,041	3.30%
	Revenue	215,639		233,715		182,795	
Operating Margin =	Operating Income	60,024	27.84%	71,230	30.48%	52,503	28.72%
	Revenue	215,639		233,715		182,795	

- Gross margin is the portion of each dollar of revenue that the company retains as gross profit.
 - Small margin of change year-over-year
 - APPLE INC. retains a steady profit

- R&D to sales is the percentage of sales revenue spent on research & development.
 - There was a major shift in 2016 to direct an additional \$2 billion in R&D even though company experienced a \$17 billion decrease in sales.
- Operating margin is the measurement of what proportion of a company's revenue is left over after paying variable costs of production.
 - There is larger variability in operating margin, as opposed to gross margin.
 - There is more volatility in operating expenses, mainly due to R&D.

Need for Financial Information

- As a publically traded company, there is much reliance on APPLE INC.'s Annual Report especially to investors.
- Financial performance in 2016 yielded a cash dividend of \$0.57 per share to common stockholders.
- The Form 10-K is a comprehensive presentation of company financial performance and outlook that provides a substantial amount of data externally available, just shy of being an internal component of the organization.

Role of Managerial Accounting

- Managerial accounting is the process of preparing management reports that provide accurate and timely financial information to make short-term and long-term decisions.
- Considerations based on APPLE INC. data:
 - APPLE INC.'S net sales is heavily affected by its iPhone line of products; in other words, the iPhone is APPLE INC.'s most profitable product.
 - Since 2014, the iPhone's share of net sales has increased approximately 7% and 10% in 2016 and 2015, respectively. More money was placed in marketing iPhone products.
 - APPLE INC.'s services business grew to the tune of \$24 billion in 2016. Which services contributed the most to this level of growth?
 - The company is known for product releases during certain months of the year, e.g. the release of the iPhone in September and iPad in March. Could sales increase by moving up iPhone launches to July/August?



FINANCIAL STATEMENT ANALYSIS, 2018

Participant: _____

I.D. Number: _____

JUDGE EVALUATION FORM

State/Provincial Event 2

Participant: _____

INSTRUCTIONAL AREA

Financial Analysis

I.D. Number: _____

Did the participant:

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Discuss the nature of annual reports?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Discuss the nature of consolidated financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
3.	Explain the role of managerial accounting techniques?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
4.	Interpret financial statements?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Describe the need for financial information?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and responses to judge's questions?	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						