

Financial report

Balance sheet

Assets	1,734,826
Current assets	88,905
Non-current assets	1,645,921
Liabilities	166,630
Current liabilities	110,327
Non-current liabilities	56,303
Equity	74,393
Paid-in capital	72,921
Retained earnings	1,472

Income statement

Revenues	12,978,516
Net sales	12,873,892
Investment	104,624
Expenses	6,372,535
Research and Development	1,385,395
Operating expenses	4,439,118
Marketing	548,022
Net income	6,505,981

Equity statement

Current year	1,774,576
Comprehensive income	15,897
Issue of share capital	88,905
Dividends	23,853
Previous year	166,630
Comprehensive income	110,327
Issue of share capital	56,303
Dividends	67,676

Cash flow statement

Operations	12,978,516
Earnings	12,873,892
Depreciation	104,624
Investing	6,372,535
Real estate	1,385,395
Equipment	4,439,118
Financing	6,505,981
Net income	6,505,981



Session 1:

Financial Statements

Professor Ron Kasznik | June 22 | Ignite Full-Time 2022

Ron Kasznik

Paul L. and Phyllis Wattis Professor of Management and Professor of Accounting

Director, *Mergers and Acquisitions* (Executive Program)

Co-director, *Responsible Investing Initiative*

At Stanford since 1995.

Research on the strategic use of financial information by market participants, with emphasis on disclosure strategies, earnings management, mergers and acquisitions, and executive compensation.

Teaching MBA courses on Financial Accounting and Mergers and Acquisitions, as well as in Executive Education and Global Programs.





Why do entrepreneurs need to understand Accounting?



Process of mapping economic events into financial statements



Provides information to capital providers (investors and creditors) about the company's financial position and operating performance



Helps managers make more informative capital allocation decisions



Desirable features of a “good” accounting system?



Facebook and WhatsApp...

October 2014:
Facebook acquires WhatsApp



Balance Sheets

(In Thousands, Except for Number of Shares and Par Value)

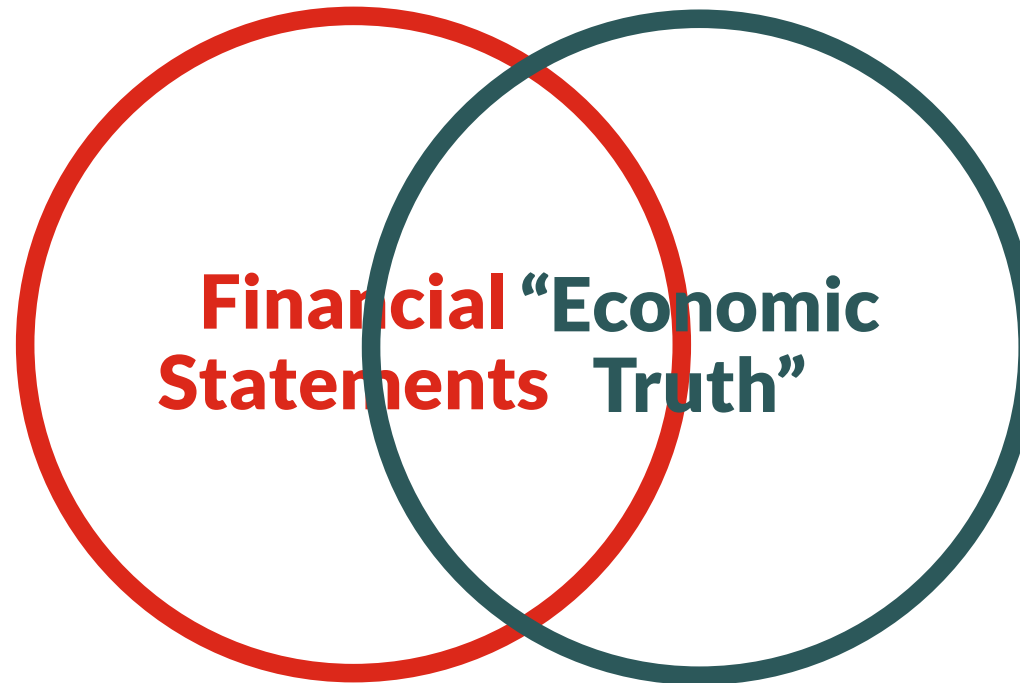
	December 31,	
	2013	2012
Assets		
Current assets:		
Cash	\$ 45,542	\$ 6,558
Accounts receivable	2	2,161
Prepaid expenses and other current assets	2,866	933
Total current assets	48,410	9,652
Restricted cash	1,800	—
Property and equipment, net	281	186
Other assets	295	1,112
Total assets	\$ 50,786	\$ 10,950
Current liabilities:		
Accounts payable	\$ 3,983	\$ 1,125
Accrued liabilities and other current liabilities	5,810	445
Early exercise liabilities, current portion	548	33
Deferred revenue, current portion	16,247	5,119
Total current liabilities	26,588	6,722
Early exercise liabilities, non-current portion	332	43
Deferred revenue, non-current portion	33,129	24,243
Total liabilities	60,049	31,008

WhatsApp Inc.
Statements of Operations
(In Thousands)

	Year Ended December 31,	
	2013	2012
Revenue	\$ 10,210	3,821
Costs and expenses:		
Cost of revenue	52,867	18,858
Research and development	76,911	34,487
General and administrative	18,870	6,035
Sales and marketing	30	17
Total costs and expenses	148,678	59,397
Loss from operations	(138,468)	(55,576)
Other income (expense), net	(264)	8
Loss before benefit from income taxes	(138,732)	(55,568)
Benefit from income taxes	586	899
Net loss	\$ (138,146)	(54,669)

Financial Reporting

Quality of the reported numbers



Why do accounting numbers deviate from the (unobservable) “economic truth”?

- ✓ Accounting rules
- ✓ Measurement error
- ✓ Managerial bias



Session's Objectives ...

-  Help you become a more informed user / consumer of financial reporting data.
-  Not trying to turn you into an accountant.
-  Develop the ability to read, understand and critically evaluate financial statements.
-  Tools / techniques to analyze financial statements and evaluate the business' health and performance.
-  Start thinking about the financial reporting data as information integrated into your business decisions.



Financial Statements

Four primary financial statements:



What is the financial condition on a given day?

Statement of Financial Position (Balance Sheet)



How well did the company do during the period?

Income Statement (Statement of Earnings)

Statement of Cash Flows

Statement of Changes in Shareholders' Equity



Key Relations in Financial Statements

The Balance Sheet Equation

Assets $\equiv$ Liabilities + Total Stockholders' Equity

“Borrowed Capital”
(from creditors)

“Contributed Capital”
(from investors)

“Earned Capital”
(retained earnings)



Apple Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 25, 2021	September 26, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 34,940	\$ 38,016
Marketable securities	27,699	52,927
Accounts receivable, net	26,278	16,120
Inventories	6,580	4,061
Vendor non-trade receivables	25,228	21,325
Other current assets	14,111	11,264
Total current assets	134,836	143,713
Non-current assets:		
Marketable securities	127,877	100,887
Property, plant and equipment, net	39,440	36,766
Other non-current assets	48,849	42,522
Total non-current assets	216,166	180,175
Total assets	<u>\$ 351,002</u>	<u>\$ 323,888</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 54,763	\$ 42,296
Other current liabilities	47,493	42,684
Deferred revenue	7,612	6,643
Commercial paper	6,000	4,996
Term debt	9,613	8,773
Total current liabilities	125,481	105,392
Non-current liabilities:		
Term debt	109,106	98,667
Other non-current liabilities	53,325	54,490
Total non-current liabilities	162,431	153,157
Total liabilities	287,912	258,549
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,426,786 and 16,976,763 shares issued and outstanding, respectively	57,365	50,779
Retained earnings	5,562	14,966
Accumulated other comprehensive income/(loss)	163	(406)
Total shareholders' equity	63,090	65,339
Total liabilities and shareholders' equity	<u>\$ 351,002</u>	<u>\$ 323,888</u>

**Assets =
\$351,002**

**Borrowed Capital =
\$287,912**

**Contributed Capital =
\$57,365**

**Earned Capital =
\$5,725**



Key Relations in Financial Statements

Separate statements are required to reconcile two consecutive Balance Sheets:

Statement of changes in Shareholders' Equity:

Explains changes in Total Shareholders' Equity during the reporting period.

Income Statement:

Shows net income (a.k.a. net earnings) during the reporting period.

Helps reconcile changes in Retained Earnings ('earned capital'):

$\Delta \text{ Retained Earnings} = \text{Net Income} - \text{Payouts to Owners (e.g., dividends)}$

Statement of Cash Flows:

Explains change in cash during the reporting period.

$\Delta \text{ Cash} = \text{Cash from Operations} + \text{Cash from Investments} + \text{Cash from Financing}$



CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions, except per share amounts)

	Years ended		
	September 25, 2021	September 26, 2020	September 28, 2019
Total shareholders' equity, beginning balances	\$ 65,339	\$ 90,488	\$ 107,147
Common stock and additional paid-in capital:			
Beginning balances	50,779	45,174	40,201
Common stock issued	1,105	880	781
Common stock withheld related to net share settlement of equity awards	(2,627)	(2,250)	(2,002)
Share-based compensation	8,108	6,975	6,194
Ending balances	57,365	50,779	45,174
Retained earnings:			
Beginning balances	14,966	45,898	70,400
✓ Net income	94,680	57,411	55,256
Dividends and dividend equivalents declared	(14,431)	(14,087)	(14,129)
Common stock withheld related to net share settlement of equity awards	(4,151)	(1,604)	(1,029)
Common stock repurchased	(85,502)	(72,516)	(67,101)
Cumulative effects of changes in accounting principles	—	(136)	2,501
Ending balances	5,562	14,966	45,898
Accumulated other comprehensive income/(loss):			
Beginning balances	(406)	(584)	(3,454)
Other comprehensive income/(loss)	569	42	2,781
Cumulative effects of changes in accounting principles	—	136	89
Ending balances	163	(406)	(584)
Total shareholders' equity, ending balances	\$ 63,090	\$ 65,339	\$ 90,488

**Changes in
Contributed Capital****Changes in
Earned Capital**

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 25, 2021	September 26, 2020	September 28, 2019
Net sales:			
Products	\$ 297,392	\$ 220,747	\$ 213,883
Services	68,425	53,768	46,291
Total net sales	365,817	274,515	260,174
Cost of sales:			
Products	192,266	151,286	144,996
Services	20,715	18,273	16,786
Total cost of sales	212,981	169,559	161,782
Gross margin	152,836	104,956	98,392
Operating expenses:			
Research and development	21,914	18,752	16,217
Selling, general and administrative	21,973	19,916	18,245
Total operating expenses	43,887	38,668	34,462
Operating income	108,949	66,288	63,930
Other income/(expense), net	258	803	1,807
Income before provision for income taxes	109,207	67,091	65,737
Provision for income taxes	14,527	9,680	10,481
Net income	\$ 94,680	\$ 57,411	\$ 55,256
Earnings per share:			
Basic	\$ 5.67	\$ 3.31	\$ 2.99
Diluted	\$ 5.61	\$ 3.28	\$ 2.97

More detailed
information ...

Apple Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 25, 2021	September 26, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 34,940	\$ 38,016
Marketable securities	27,699	52,927
Accounts receivable, net	26,278	16,120
Inventories	6,580	4,061
Vendor non-trade receivables	25,228	21,325
Other current assets	14,111	11,264
Total current assets	134,836	143,713
Non-current assets:		
Marketable securities	127,877	100,887
Property, plant and equipment, net	39,440	36,766
Other non-current assets	48,849	42,522
Total non-current assets	216,166	180,175
Total assets	\$ 351,002	\$ 323,888

A significant decrease in cash in 2021 ...

Good/bad news for Apple's shareholders?

Major sources and uses of cash in 2021:

Cash from operations: 104,038 million

Cash from investing: (14,545) million

Cash used in financing: (93,353) million

Net cash flows: (3,860) million

(including restricted cash)

In 2020:

Cash from operations: 80,674 million

Cash from investing: (4,289) million

Cash used in financing: (86,820) million

Net cash flows: (10,435) million

(including restricted cash)

Apple Inc. CONSOLIDATED STATEMENTS OF CASH FLOWS (In millions)

	Years ended		
	September 25, 2021	September 26, 2020	September 28, 2019
Cash, cash equivalents and restricted cash, beginning balances	\$ 39,789	\$ 50,224	\$ 25,913
Operating activities:			
Net income	94,680	57,411	55,256
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	11,284	11,056	12,547
Share-based compensation expense	7,906	6,829	6,068
Deferred income tax benefit	(4,774)	(215)	(340)
Other	(147)	(97)	(652)
Changes in operating assets and liabilities:			
Accounts receivable, net	(10,125)	6,917	245
Inventories	(2,642)	(127)	(289)
Vendor non-trade receivables	(3,903)	1,553	2,931
Other current and non-current assets	(8,042)	(9,588)	873
Accounts payable	12,326	(4,062)	(1,923)
Deferred revenue	1,676	2,081	(625)
Other current and non-current liabilities	5,799	8,916	(4,700)
Cash generated by operating activities	104,038	80,674	69,391
Investing activities:			
Purchases of marketable securities	(109,558)	(114,938)	(39,630)
Proceeds from maturities of marketable securities	59,023	69,918	40,102
Proceeds from sales of marketable securities	47,460	50,473	56,988
Payments for acquisition of property, plant and equipment	(11,085)	(7,309)	(10,495)
Payments made in connection with business acquisitions, net	(33)	(1,524)	(624)
Purchases of non-marketable securities	(131)	(210)	(1,001)
Proceeds from non-marketable securities	387	92	1,634
Other	(608)	(791)	(1,078)
Cash generated by/(used in) investing activities	(14,545)	(4,289)	45,896
Financing activities:			
Proceeds from issuance of common stock	1,105	880	781
Payments for taxes related to net share settlement of equity awards	(6,556)	(3,634)	(2,817)
Payments for dividends and dividend equivalents	(14,467)	(14,081)	(14,119)
Repurchases of common stock	(85,971)	(72,358)	(66,897)
Proceeds from issuance of term debt, net	20,393	16,091	6,963
Repayments of term debt	(8,750)	(12,629)	(8,805)
Proceeds from/(Repayments of) commercial paper, net	1,022	(963)	(5,977)
Other	(129)	(126)	(105)
Cash used in financing activities	(93,353)	(86,820)	(90,976)
Increase/(Decrease) in cash, cash equivalents and restricted cash	(3,860)	(10,435)	24,311
Cash, cash equivalents and restricted cash, ending balances	\$ 35,929	\$ 39,789	\$ 50,224

Apple's Financial Statements



Apple's Net Income and Operating Cash Flows:



Net Income 2021 = \$94,680 million

Operating Cash Flows 2021 = \$104,038 million



Why is Net Income $\neq$ Operating Cash Flows?



Operating cash inflows (e.g., customer collections) $\neq$ Revenues

Operating cash outflows (e.g., payments to suppliers) $\neq$ Expenses

Non-cash activities and accrual adjustments (e.g., depreciation)



Apple's Financial Statements

Apple Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 25, 2021	September 26, 2020
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 34,940	\$ 38,016
Marketable securities	27,699	52,927
Accounts receivable, net	26,278	16,120
Inventories	6,580	4,061
Vendor non-trade receivables	25,228	21,325
Other current assets	14,111	11,264
Total current assets	134,836	143,713
Non-current assets:		
Marketable securities	127,877	100,887
Property, plant and equipment, net	39,440	36,766
Other non-current assets	48,849	42,522
Total non-current assets	216,166	180,175
Total assets	\$ 351,002	\$ 323,888
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 54,763	\$ 42,296
Other current liabilities	47,493	42,684
Deferred revenue	7,612	6,643
Commercial paper	6,000	4,996
Term debt	9,613	8,773
Total current liabilities	125,481	105,392
Non-current liabilities:		
Term debt	109,106	98,667
Other non-current liabilities	53,325	54,490
Total non-current liabilities	162,431	153,157
Total liabilities	287,912	258,549
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, \$0.00001 par value: 50,400,000 shares authorized; 16,426,786 and 16,976,763 shares issued and outstanding, respectively	57,365	50,779
Retained earnings	5,562	14,966
Accumulated other comprehensive income/(loss)	163	(406)
Total shareholders' equity	63,090	65,339
Total liabilities and shareholders' equity	\$ 351,002	\$ 323,888

Does Apple's Book Value of Equity (BVE) at the end of fiscal year 2021 equal its Market Value of Equity (MVE)?

$$BVE_{9/25/2021} = \$63,090 \text{ million}$$

$$MVE_{9/25/2021} = \$2,324,390 \text{ million}$$

(# of shares outstanding × share price)

Why is $BVE_{9/25/2021} \neq MVE_{9/25/2021}$?



Market-to-Book Ratio

Median Values by Industries

