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Supply Chain Finance



Components of the Financial Statements: The Income Statement & Balance Sheet

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Many Important Financial Statements

- Statement of Changes in Financial Position
- Income Statement
- Balance Sheet
- 10K
- Annual Report
- Etc.
- In this segment we will focus on the Income Statement and the Balance Sheet

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Income Statement

- Income Statement:
 - Describes how the assets and liabilities were used during the period or ...the sum of incomegenerating transactions over a stated period of time
 - Revenues (gross sales, turnover, proceeds)
 - Expenses (cost of goods sold, cost of sales, operating expense, depreciation)
 - Profit (income, gross margin, gross profit, net profit, EBIT)

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	INTEL CORPORATION CONSOLIDATED STATEMENTS OF INCOME			
	Three Years Ended December 27, 2014 (In Millions, Except Per Share Amounts)	2014	2013	2012
	Net revenue Cost of sales	\$ 55,870 20,261	\$ 52,708 21,187	\$ 53,341 20,190
$\stackrel{\longrightarrow}{\longrightarrow}$	Gross margin Research and development Marketing, general and administrative Restructuring and asset impairment charges Amortization of acquisition-related intangibles	35,609 11,537 8,136 295 294	31,521 10,611 8,088 240 291	33,151 10,148 8,057 — 308
	Operating expenses . Operating income Gains (losses) on equity investments, net	20,262 15,347 411 43	19,230 12,291 471 (151)	18,513 14,638 141 94
	Income before taxes Provision for taxes	15,801 4,097	12,611 2,991	14,873 3,868
	Net income	\$ 11,704	\$ 9,620	\$ 11,005

Operating Expense Element: COGS

- Cost of Goods Sold:
 - "The direct costs attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labor costs used to produce the good."
 - "It excludes indirect expenses such as distribution costs and sales force costs."

Also referred to as "cost of sales."

Ref: Investopedia COGS and Cost of Revenue

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Operating Expense Element: COGS

- Cost of Revenue:
 - "The total cost of manufacturing and delivering a product or service."
 - "Different from COGS because it includes costs outside of production, such as distribution and marketing."

Ref: Investopedia COGS and Cost of Revenue

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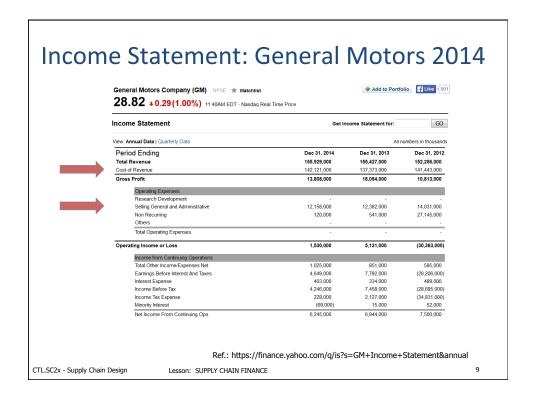
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Op Expense Elements: SG&A

- Sales, General and Administration (SG&A)
 - Sales expenses are direct and indirect expenses directly linked to the sale of product, including cost of sales personnel, advertising, promotion, phone, sales expenses.
 - General and Administration expenses are those expenses not directly associated with production or sales of the product, including wages for nonsales personnel, cost for utilities, rent, insurance.

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Operating Expense Elements: Other

- Other: can be found in SG&A or in different locations on the income statement usually as an operating expense
 - Depreciation accounting for the reduction in value of an asset, e.g. production equipment
 - Amortization accounting for the reduction in value of an intangible asset, e.g. goodwill
 - (E.g. Facebook paid \$1B for Instagram with only 11 employees and almost no assets, \$19B for Whatsapp)
 - Research & Development (R&D)

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Balance Sheet

- The financial condition at ONE point in time
 - Assets (something owned of measured value...but not always material)
 - Liabilities (a claim against the assets)
 - Assets ALWAYS equal Liabilities
 - When recording asset value, book value recorded, not market value
 - Different methods of valuing (LIFO, FIFO)

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Description of the Composition of the Compositi

Supply Chain transactions affect both Income Statement and Balance Sheet

- A company sells a product for \$10,000 cash; the product cost \$2,000 to produce and deliver
- How would this impact the income statement and balance sheet upon delivery?
- Revenue would increase by \$10,000
- Cost would increase by \$2,000
- Net income would increase by \$8,000
- Cash (Current Asset) would increase by \$10,000
- Inventory (Current Asset) would decrease by \$2,000
- Retained Earnings would increase by \$8,000

Note: This is a gross simplification of the accounting transactions which are not complete; this is for general illustration purposes only.

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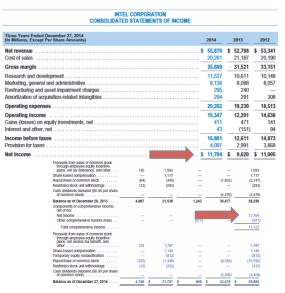
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Connecting Income Statement and Balance Sheet COMSOLIDATED STATEMENTS OF INCOME

The net income from the Income Statement....is equal to the increase in Retained Earnings on the Balance Sheet. This shows a direct connection between the two reports.



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Ref.: Intel 2014 Annual Report

Assets

- Current Assets short-term in nature, liquid assets, can be converted into cash in the next accounting period
 - Accounts Receivable
 - Inventory
 - Marketable securities
 - Prepaid expenses
- Long-term Assets
 - Plant, property, equipment
 - Other fixed assets
 - 'Goodwill'

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Liabilities

- Current Liabilities: obligations to be paid in the next accounting period
 - Accounts Payable
 - Accrued Expenses an expense before it is paid (wages, interest in loans, taxes)
 - Notes Payable, Short-term Bank Debt (line of credit)
- · Long-term Liabilities
 - Debt (bonds, mortgage)
- Equity (Owner's Equity): capital, funding for the firm from sources other than liabilities
 - Paid-in-capital
 - Retained Earnings

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Key Points

- The Income Statement provides a summary of the flows in (revenue) and out (expenses) of the firm over a period of time; the net difference between the revenue and expense being the profit or loss of the firm.
- The Balance Sheet gives a snapshot of the assets and obligations of the firm at a single moment in time.
- Together, the Income Statement and Balance Sheet provide a basic – but not complete – understanding of the performance of the firm.

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Questions, Comments, Suggestions? Use the Discussion....





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Sources, Image & Reference Information

- References
- Intel 2014 Annual Report
- General Motors 2014 Annual Report as found at https://finance.yahoo.com/g/is?s=GM+Income+Statement&annual
- Investopedia COGS and Cost of Revenue reference found at http://www.investopedia.com/terms/c/cogs.asp
- For more information on these topics, see:
- Hawkins, David, <u>Corporate Financial Reporting and Analysis: Text and Cases</u> 3rd ed., Irwin, 1986
- Higgins, R. <u>Analysis for Financial Management</u>. 10th ed. McGraw-Hill Irwin, 2011 (or 11th ed., 2015), see Chapter 1
- Anthony, R.N. and Breitner, L.K. <u>Essentials of Accounting</u>. 10th ed. Prentice Hill, 2009, see pages 1-66 [this is a workbook that you should work through, it is not enough just to read it!]
- Anthony, R.N. and Breitner, L.K. <u>Core Concepts of Accounting</u>, 10th ed. Prentice Hill, 2010, see pages 1-43
 [this book provides a summary of the Essentials book, but the reader should go through the Essentials book first for complete coverage of the material]

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