

Supply Chain Finance



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

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







Income Statement

- Income Statement:
 - Describes how the assets and liabilities were used during the period or ...the sum of income-generating 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)

Income Statement: Intel 2014

INTEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Three Years Ended December 27, 2014
(In Millions, Except Per Share Amounts)

	2014	2013	2012
 Net revenue	\$ 55,870	\$ 52,708	\$ 53,341
 Cost of sales	20,261	21,187	20,190
 Gross margin	35,609	31,521	33,151
Research and development	11,537	10,611	10,148
 Marketing, general and administrative	8,136	8,088	8,057
Restructuring and asset impairment charges	295	240	—
Amortization of acquisition-related intangibles	294	291	308
Operating expenses	20,262	19,230	18,513
Operating income	15,347	12,291	14,638
Gains (losses) on equity investments, net	411	471	141
Interest and other, net	43	(151)	94
 Income before taxes	15,801	12,611	14,873
 Provision for taxes	4,097	2,991	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

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

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 non-sales personnel, cost for utilities, rent, insurance.

Income Statement: General Motors 2014

General Motors Company (GM) - NYSE ★ Watchlist Add to Portfolio Like 501

28.82 +0.29 (1.00%) 11:40AM EDT - Nasdaq Real Time Price

Income Statement Get Income Statement for: GO

View: [Annual Data](#) | [Quarterly Data](#) All numbers in thousands

Period Ending	Dec 31, 2014	Dec 31, 2013	Dec 31, 2012
Total Revenue	155,928,000	155,427,000	152,256,000
Cost of Revenue	142,121,000	137,373,000	141,443,000
Gross Profit	13,808,000	18,054,000	10,813,000
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	12,158,000	12,382,000	14,031,000
Non Recurring	120,000	541,000	27,145,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	1,530,000	5,131,000	(30,363,000)
Income from Continuing Operations			
Total Other Income/Expenses Net	1,025,000	851,000	595,000
Earnings Before Interest And Taxes	4,649,000	7,792,000	(28,206,000)
Interest Expense	403,000	334,000	489,000
Income Before Tax	4,246,000	7,458,000	(28,695,000)
Income Tax Expense	228,000	2,127,000	(34,831,000)
Minority Interest	(69,000)	15,000	52,000
Net Income From Continuing Ops	6,245,000	6,944,000	7,500,000

Ref.: <https://finance.yahoo.com/q/is?s=GM+Income+Statement&annual>

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)

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)

Balance Sheet: Intel 2014

INTEL CORPORATION CONSOLIDATED BALANCE SHEETS		
December 27, 2014, and December 28, 2013 (In Millions, Except Per Value)	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,561	\$ 5,674
Short-term investments	2,430	5,972
Trading assets	9,063	8,441
Accounts receivable, net of allowance for doubtful accounts of \$38 (\$39 in 2013)	4,427	3,592
Inventories	4,273	4,172
Deferred tax assets	1,958	2,594
Other current assets	3,018	1,649
Total current assets	27,730	32,084
Property, plant and equipment, net	33,238	31,428
Marketable equity securities	7,897	6,221
Other long-term investments	2,823	1,473
Goodwill	10,861	10,513
Identified intangible assets, net	4,446	5,150
Other long-term assets	6,561	5,489
Total assets	\$ 91,956	\$ 92,358
Liabilities, temporary equity, and stockholders' equity		
Current liabilities:		
Short-term debt	\$ 1,604	\$ 281
Accounts payable	2,748	2,969
Accrued compensation and benefits	3,476	3,123
Accrued advertising	1,902	1,921
Deferred income	2,205	2,096
Other accrued liabilities	4,895	4,078
Total current liabilities	16,819	13,568
Long-term debt	12,187	13,165
Long-term deferred tax liabilities	3,776	4,287
Other long-term liabilities	3,278	2,972
Commitments and contingencies (Notes 17 and 25)	—	—
Temporary equity	912	—
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50 shares authorized; none issued	—	—
Common stock, \$0.001 par value, 10,000 shares authorized; 4,752 shares issued and 4,748 shares outstanding (4,967 issued and outstanding in 2013) and capital in excess of par value	21,781	21,536
Accumulated other comprehensive income (loss)	695	1,243
Retained earnings	33,418	35,477
Total stockholders' equity	55,865	58,256
Total liabilities, temporary equity, and stockholders' equity	\$ 91,956	\$ 92,358

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.

Connecting Income Statement and Balance Sheet

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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Three Years Ended December 27, 2014 (In Millions, Except Per Share Amounts)	2014	2013	2012	
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Operating income	15,347	12,291	14,638	
Gains (losses) on equity investments, net	411	471	141	
Interest and other, net	43	(151)	94	
Income before taxes	15,801	12,611	14,873	
Provision for taxes	4,097	2,991	3,868	
Net income	\$ 11,704	\$ 9,620	\$ 11,005	
Proceeds from sales of common stock through employee equity incentive plans, net tax deficiency, and other	130	1,593	—	1,593
Share-based compensation	—	1,117	—	1,117
Repurchase of common stock	(86)	(245)	—	(2,147)
Restricted stock unit withholdings	(13)	(293)	—	(293)
Cash dividends declared (\$0.90 per share of common stock)	—	—	(4,479)	(4,479)
Balance as of December 28, 2013	4,967	21,538	1,243	35,477
Components of comprehensive income, net of tax				
Net income	—	—	(577)	11,704
Other comprehensive income (loss)	—	—	—	(577)
Total comprehensive income	—	—	—	11,127
Proceeds from sales of common stock through employee equity incentive plans, net tax benefit, and other	125	1,787	—	1,787
Share-based compensation	—	1,140	—	1,140
Temporary equity reclassification	—	(912)	—	(912)
Repurchase of common stock	(333)	(1,438)	—	(9,354)
Restricted stock unit withholdings	(12)	(332)	—	(532)
Cash dividends declared (\$0.90 per share of common stock)	—	—	(4,400)	(4,400)
Balance as of December 27, 2014	4,748	21,781	666	33,418

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'

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

Key Points

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.

CTL.SC2x -Supply Chain Design
Questions, Comments, Suggestions?
Use the Discussion.....



Sources, Image & Reference Information

- **References**
- Intel 2014 Annual Report
- General Motors 2014 Annual Report as found at <https://finance.yahoo.com/q/ls?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, Corporate Financial Reporting and Analysis: Text and Cases 3rd ed., Irwin, 1986
- Higgins, R. Analysis for Financial Management. 10th ed. McGraw-Hill Irwin, 2011 (or 11th ed., 2015), see Chapter 1
- Anthony, R.N. and Breitner, L.K. Essentials of Accounting. 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. Core Concepts of Accounting. 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]