

TIM 80C Lecture 14 (5/12/16)

Agenda

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(1) Financial Accounting

(2) HW 4

(3) Teams work on projects

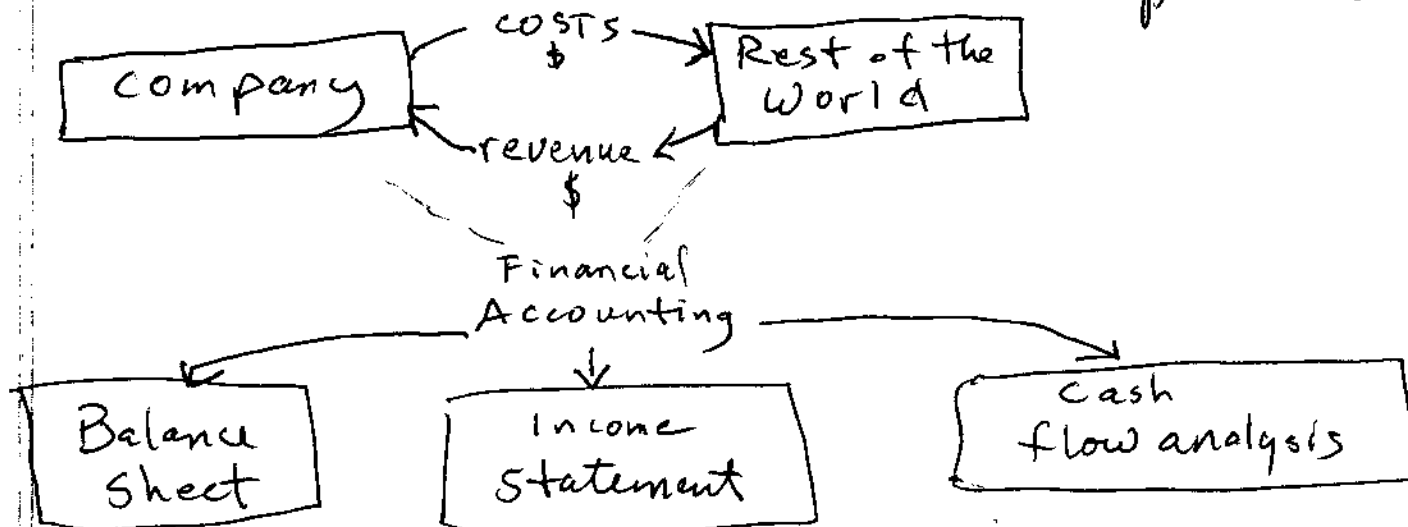
(1) Financial Strategy: Accounting

Financial accounting is the process of recording, summarizing, and reporting the company's financial transactions (cost and revenues)

Financial accounting is important because:

- (1) communicates performance to investors
- (2) Required by the government (basis for taxes)
- (3) Enables the company to plan (budget)

Simplified version of the accounting process



Balance Sheet

The balance sheet is a record of the company's assets & liabilities at a specific point in time.

assets: equipment, facilities, patents, inventory of product, cash

liabilities: money that the company owes to the bank or other sources (e.g., suppliers)

Owners (or shareholder's) equity: difference between assets & liabilities.

$$\underline{\text{Equity}} = \text{Assets} - \text{liabilities}$$

Also called the book value of the company

Example:

(all numbers in 1,000s)

assets	liabilities
cash: 500	short-term debt: 200 (to pay suppliers)
Fixed assets: (facilities, equipment, inventory of product)	long term loan: 500 (used for product development team, equipment)
⋮	
TOTAL ASSETS: 1,000	TOTAL LIABILITIES: 700 700

$$\text{Owner's equity} = 1,000 - 700 = 300$$

↑
Book Value

Income Statement

Income Statement is a record of the revenues & expenses over a period of time (e.g., Q4Y2015) that illustrates the profitability of the company.

Example (amounts in 1,000s)

Revenues & Expenses	Amounts
Sales revenues	1,000
operating expenses (salaries, production, facilities)	- 500
Earnings before tax and interest (EBIT)	500
Interest (loans)	- 50
Earnings before taxes	450
Taxes (~50%)	- 225
Net Profit	225
profit margin	$\frac{225}{1000} = 22.5\%$

cash flow statement

cash flow statement provides a summary of the company's cash flows over a period of time (e.g., Q4Y2015) that shows where the company is spending money.

Ex: Lecture 12

② Homework 4

Question: How do you find financial information for a publicly-traded company?

Answer: SEC (Securities & Exchange Commission) publishes this information every quarter.

- SEC
- Company Website
- Finance websites (Yahoo, Google, MSN)

Apple: 5-10-16 share price \$92.90

Total number of shares 2015 2016
5.76 B 5.48 B

Market capitalization:

510.89 B

Price to earnings ratio: $\frac{\text{Price/share}}{\text{earnings/share}}$
(PE or P/E)

10.37

Intel	11.85
CISCO	12.91
Google	31.21
Facebook	80.19
Twitter	-22.54
TESLA	-54.41
Amazon	-539.16