

A Case Study: Financial Statements of Apple Inc.

LEARNING OBJECTIVE 4: Evaluate a company's financial statements.

Let's now consider the financial statements of Apple Inc. shown in Exhibits 2.7 to 2.10. Apple's financial statements are more complex than Fashion Company's financial statements. For example, Apple's income statement includes more accounts than Fashion Company's. Yet, both companies' income statements show revenues and expenses, and the resulting net income. Apple's income statement, entitled "Consolidated Statements of Operations," is shown in Exhibit 2.7.

Exhibit 2.7 APPLE INC. CONSOLIDATED STATEMENTS OF OPERATIONS (ADAPTED)

	Years ended September 25,		
	20Y3 (\$ Millions)	20Y2 (\$ Millions)	20Y1 (\$ Millions)
Net sales	\$65,225	\$42,905	\$37,491
Cost of goods sold	39,541	25,683	24,294
Gross margin	25,684	17,222	13,197
Operating expenses:			
Research and development	1,782	1,333	1,109
Selling, general and administrative	5,517	4,149	3,761
Total operating expenses	7,299	5,482	4,870
Operating income	18,385	11,740	8,327
Other income and expenses	155	326	620
Income before income tax expense	18,540	12,066	8,947
Income tax expense	4,527	3,831	2,828
Net income	\$14,013	\$8,235	\$6,119

Apple is a parent firm, which means it owns other firms called “subsidiaries.” To provide a full accounting of all of the resources that Apple controls, the amounts shown on the financial statements include figures for both Apple and its subsidiaries. The financial statements for most companies show the consolidation of the parent firm and its subsidiary firms and use the word “consolidated” in financial statement titles.

You will note that Apple’s income statement shows three years’ data for comparative purposes. What is the trend? Apple has experienced dramatic increases in net income each year. The other financial statements should be reviewed to further understand how this income was generated and used.

Apple’s Statement of Shareholders’ Equity is shown in Exhibit 2.8. Having an increase in retained earnings for three years in a row is also a good sign for Apple. Retained earnings went from \$9.1 billion in the beginning of 20Y1 to over \$37 million in 20Y3.

Exhibit 2.8 APPLE INC. CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (ADAPTED)

	Years ended September 25,		
	20Y3 (\$ Millions)	20Y2 (\$ Millions)	20Y1 (\$ Millions)
Beginning retained earnings	\$23,353	\$15,129	\$9,111
Net income	14,013	8,235	6,119
Dividends	(197)	(11)	(101)
Ending retained earnings	\$37,169	\$23,353	\$15,129

Current assets are those that will be used up, sold, or converted to cash within the year.

Current liabilities are those debts that are payable within the year.

Apple’s balance sheet includes data for two years, as shown in Exhibit 2.9. Apple’s assets are categorized into current assets and long-term assets. **Current assets** are those that will be used up, sold, or converted to cash within the year, or the normal operating cycle if longer than one year. All other assets are referred to as “long-term assets.”

Apple’s liabilities are also categorized into current and long-term. **Current liabilities** are those debts that are payable within one year, or within the firm’s normal operating cycle if more than one year. All other debts are referred to as “long-term liabilities.” Categorizing assets and liabilities into current and long-term is necessary for all companies.

Did the company’s financial position improve or decline? From 20Y2 to 20Y3, Apple’s total assets increased by approximately \$27.7 million. Total liabilities increased by \$11.5 million. Stockholders’ equity decreased by over \$16 million. This information, along with the large increases in income has made Apple an appealing investment for many.

Exhibit 2.9 APPLE INC. CONSOLIDATED BALANCE SHEETS (ADAPTED)

	Years ended September 25,	
	20Y3 (\$ Millions)	20Y2 (\$ Millions)
ASSETS		
Current assets:		
Cash and cash equivalents	\$11,261	\$5,263
Short-term marketable securities	14,359	18,201
Accounts receivable, net	5,510	3,361
Inventories	1,051	455
Other current assets	9,497	4,275
Total current assets	41,678	31,555
Long-term marketable securities	25,391	10,528
Property, plant and equipment, net	4,768	2,954
Goodwill	741	206
Acquired intangible assets, net	342	247
Other assets	2,263	2,011
Total assets	<u>\$75,183</u>	<u>\$47,501</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$12,015	\$5,601
Accrued expenses	5,723	3,852
Deferred revenue	2,984	2,053
Total current liabilities	20,722	11,506
Deferred revenue — non-current	1,139	853
Other non-current liabilities	5,531	3,502
Total liabilities	<u>27,392</u>	<u>15,861</u>
Stockholders' Equity:		
Common Stock	10,668	8,210
Retained earnings	37,169	23,353
Accumulated other comprehensive income	(46)	77
Total stockholder's equity	<u>47,791</u>	<u>31,640</u>
Total liabilities and stockholder's equity	<u>\$75,183</u>	<u>\$47,501</u>

Apple's statement of cash flows provides data for multiple years, as shown in Exhibit 2.10. Apple has experienced an increase in cash flow from operations each year. The company's overall cash balance has fluctuated over the three years due primarily to investing decisions. The statement illustrates the company's ability to use its cash to continue ongoing operations and to consider new ventures. By reviewing the statement of cash flows, along with the other financial statements, the top management of Apple can assess the company's financial situation. They can make plans to achieve company goals, such as increasing sales and reducing expenses. For external users, such as investors and lenders, financial statements help them assess the likelihood of a good return on their investment or repayment of their loans.

Exhibit 2.10 APPLE INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (ADAPTED)

	Years ended September 25,		
	20Y3 (\$ Millions)	20Y2 (\$ Millions)	20Y1 (\$ Millions)
Net cash provided by operating activities	\$ 18,595	10,159	9,596
Net cash used in investing activities	(13,854)	(17,434)	(8,189)
Net cash provided by financing activities	1,257	663	1,116
Net increase (decrease) in cash	5,998	(6,612)	2,523
Cash and cash equivalent at beginning of year	5,263	11,875	9,352
Cash and cash equivalent at end of year	11,261	5,263	11,875



Would you recommend Apple as an investment?

Preparing financial statements requires entering data, making calculations, and presenting information in a readable format. To help with this formidable task, spreadsheet software, such as Microsoft Excel, is extremely useful. The boxed insert, “Focus on Technology,” shows how to prepare an income statement using Microsoft Excel.