TIM 80 C Lecture 14 (5/14/15)

Agenda

1) Project Phase III

2) Financial Strategy: Accounting

3) Homework 4

4) Work on Project
1. Project Phase III

Each project group must meet with the instructor (Tyler) on Tuesday (5/19/15) during office hours (E2553 4-7pm) to review the work from Phase III.

Two options for turning in Phase III

1) In class today (5/14/15)

2) At the project meeting on Tuesday (5/19/15)
Financial Strategy: Accounting

Financial accounting is the process of recording, summarizing, and reporting the company's financial transactions (costs and revenue).

Financial accounting is important because:
1) Communicate performance to investors
2) Required by the government (TAXES)
3) Enables financial planning (Budget)

Simplified version of the accounting process:

- Company
- Financial Accounting
  - Balance Sheet
  - Income Statement
  - Cash Flows
- Rest of the World

Cost($) → Revenue($)
Balance Sheet

The balance sheet is a record of the company's assets and liabilities at a specific in time (e.g., Dec 31, 2014).

1) Assets: equipment, facilities, patents, inventory of product, cash.

2) Liabilities: money that the company owes to the bank and other sources (e.g., money owed to suppliers).

The owner's (shareholders') equity is the difference between the assets and liabilities.

Equity = Assets - Liabilities

Also called the book value of the company.
Example:
(All numbers in $1,000s)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash: 500</td>
<td>Short-term: 200</td>
</tr>
<tr>
<td>Fixed Assets: 50 (facilities, equipment, inventory of product)</td>
<td>Long-term loan: 500 (product development team, equipment)</td>
</tr>
</tbody>
</table>

Total Assets: 1000  
Total Liabilities: 700

Owners equity = 1000 - 700 = 300
Book value
Income Statement

The Income Statement is a record of the revenues and expenses over a period of time (e.g. Q4 2014) that illustrates the profitability of the company.

Example

<table>
<thead>
<tr>
<th>Revenues / Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>1000</td>
</tr>
<tr>
<td>Operating Expense (salary, production, facilities)</td>
<td>-500</td>
</tr>
<tr>
<td>Earning Before Tax and Interest (EBIT)</td>
<td>500</td>
</tr>
<tr>
<td>Interest (loans)</td>
<td>-50</td>
</tr>
<tr>
<td>Earnings before Tax</td>
<td>450</td>
</tr>
<tr>
<td>TAXES (~50%)</td>
<td>-225</td>
</tr>
<tr>
<td>Net Profit</td>
<td>225</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>22.5%</td>
</tr>
<tr>
<td>($225)</td>
<td></td>
</tr>
</tbody>
</table>
Cash Flow Statement

The Cash Flow Statement provides a summary of the company’s cash flows over a period time (e.g. Q4 2019) that shows where the company is spending money.

Example: See Lecture 12
Question: How do you find financial information for a public (publicly traded) company?

Answer: The SEC requires that companies publish this information every quarter:
- SEC
- Company Website
- Finance website (Google, Yahoo, MSN)

Apple (5/13/15)

Price per Share: $126.80 (split 7:1 June 2014)
Total number of Shares: 5.76 B
Market Capitalization: $739.66 B

Price to Earnings: 15.87

(Price per Share $)
(Earning per Share $)

Intel: 13.96
Cisco: 17.41
Google: 27.09
Facebook: 80.98
Twitter: -
Tesla: -
Amazon: -