Financial Reporting Project

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Background Information:

On April 1, 1976, Steve Jobs, Ronald Wayne, and Stephen Wozniak founded Apple Computer Company in Jobs' parents' garage. *(Linzmayer, 1999)* Their original purpose was to sell Wozniak's Apple I personal computer kits. These kits were put on the market in July 1976 for $666.66— an equivalent of $2,763 in 2014 dollars *(A Balance of Features, 1976)*.

Apple was incorporated on January 3, 1977 by Steve Jobs and Steve Wozniak. Wayne sold his share of the company back to Jobs and Wozniak for $800 before the incorporation *(Luo, 2014)*. On April 16, 1977, Apple released the Apple II. Apple had several employees, a staff of computer designers, and a production line by the end of the 1970s. Revenues doubled nearly every four months for the first five years, producing an average annual growth rate of approximately 700%.

Apple went public in December of 1980 with 4.6 million shares at $22 each. Apple generated more capital than any IPO had since Ford Motor Company in 1956. Apple also created approximately 300 instant millionaires, more than any other company in history, by going public *(Malone, 1999)*.

In 1984, Apple released the Macintosh: the first personal desktop computer ever sold with no programming language *(Harvey, 1994)*. This meant that the computer could be used by anyone with the means to purchase it. The Macintosh broadened Apple's target audience beyond computer hobbyists, and into the general public. The initial product flew off of the shelves. However, shortly after its release, the product stopped selling. In 1989, Apple utilized the creativity and innovation that they are so commonly known for and developed the Macintosh Portable. The computer was among the very first of its kind and had a 12-hour-battery life. Though the computer was *technically* portable, it still weighed a whopping 17 pounds (Hormby, 2006). Between 1989, Apple released the Macintosh Portable, System 7, and the Powerbook. System 7 provided Apple's operating system coding basis all the way through 2001. MacAddict magazine dubbed 1989-1991 Apple Inc.'s "first golden age" due to the consistent high level of innovation and successful product sales *(Sutton, 2002)*.

Today, Apple Incorporated designs, manufactures, and markets personal computers, software, networking solutions and peripherals. Frequent product introductions and rapid technological advances have increased the demand for mobile communication devices and personal computers.

- *Potential Opportunities*:
    - Apple Watch: Apple is known for it's consistent innovation. When Apple created the iPhone in 2007, they completely took over the technology market. They did this again when they released the iPad in 2010. In the beginning of 2015, Apple is releasing the Apple Watch. The Apple Watch is a "smartwatch" that can send and receive text messages, play music, make phone calls, track health and fitness, and even tell time (Apple, 2014)! They are projecting that the watch will become "the fourth device." (This phrase refers to the commonality of Americans to have a cellular telephone, a tablet, and a laptop-- the other three devices.)
    - Innovation: Technology is expanding at an exponential pace. The technology and ability that Apple possesses today is a minute fraction of what they will potentially have in five years. Apple always has room for expansion because they are involved in the technology field, which provides constant opportunity to create "the next big thing."
- *Potential Challenges*:
    - Competition: Like all companies Apple faces the challenges of having competition. Dell and Google products are the biggest competitors of Apple, as well as Samsung in the mobile phone department, and they have visions and

innovations similar to those of Apple. Many people have formed an opinion on whether they prefer an Apple iPhone or a Samsung Google phone, as well as if they prefer Windows devices or Macs. It is hard to change the opinions individuals may have, as many times with technology people have their minds made up. For these reasons it is imperative that Apple continues to make bigger and better products than their competitors that will convert individuals into Apple users across the board.

- Lawsuits: The potential for a company as big as Apple to face lawsuits is extremely high as they interact and do business with millions of customers, business alliances, and competition. Currently, Apple is facing a lawsuit from a customer, claiming that the company did not disclose to her that she would lose messages when switching from an iPhone to a non Apple device. This could very well lead to a class action lawsuit against the company (Huddleston, 1). It is important that Apple is very careful with disclosures and copyright laws when dealing with customers and competitors in order to avoid such actions against them.

- **Financial Analysis:**
    1. **Using the notes to the consolidated financial statements, determine the company's revenue recognition policies regarding sales to distributors under agreements allowing price protection and/or right of return on merchandise unsold by the distributors. Comment on whether your company uses a conservative method for reporting revenue in this area.**

Apple uses several factors when recognizing revenue. The company recognizes its revenue when there is evidence of a sale or arrangement, delivery of a product has occurred, there is a sales price that is fixed or determinable, and the collection is probable. Apple defines delivery on an FOB shipping point basis, meaning the title of the product switches hands from the company to the customer as soon as it is shipped (Apple, 1). Based on this, Apple has a conservative method for reporting revenue. The fact that they wait until they have almost set prices and are completely sold and shipped shows that Apple does not recognize their revenue until they actually have it in their possession.

2. **Give two (2) examples of where historical cost information is reported on the company's financial statements and related notes. Give two (2) examples of the use of fair value information reported in either the financial statements or related notes.**

- Historical Cost Information:
    - <u>Buildings</u>: Apple has several buildings which they purchased at a base cost. On the balance sheet, Apple listed Property, Plant, and Equipment (which includes buildings) at their original cost despite the fluctuation of market values.
    - <u>Depreciation</u>: Apple uses a wide variety of equipment to produce their products. This equipment depreciates and the depreciation expense is shown on Apple's Cash Flow Analysis. Even if the equipment weren't worth as much now as it were when Apple originally bought it, Apple would still mark list the equipment at the historical cost.
- Fair Value:

- Shareholders Equity: These figures, including bonds, equity, etc, are shown on the balance sheet. They reflect the values annually as they fluctuate with the market.
- Financing activities: Theses figures are shown on the Cash Flow Analysis. They provide a more detailed description of the numbers that change along with the market. The figures are useful in assessing assets and liabilities.

3. **What were the company's total assets at the end of the most recent fiscal year? At the end of the previous year?**

Year	Total Assets
2012	$207,000,000,000
2013	$176,064,000,000

(Apple 2013 Annual Report, 2013)

4. **How much cash (and cash equivalents) did they have at the end of the most recent fiscal year?**

Year	Total Cash and Cash Equivalents
2013	$14,259,000,000

(Apple 2013 Annual Report, 2013)

5. **What were the company's R&D costs at the end of the most recent fiscal year? Two years before?**

Year	Research & Development Costs
2011	$2,429,000,000
2012	$3,381,000,000
2013	$4,475,000,000

(Apple 2013 Annual Report, 2013)

6. **What were the company's revenues at the end of the most recent fiscal year? Two years ago?**

Year	Total Revenues
2011	$108,249,000,000
2012	$156,508,000,000
2013	$170,910,000,000

(Apple 2013 Annual Report, 2013)

7. **Using the company's financial statements and related notes, identify items that may result in adjusting entries for prepayments and accruals.**

Financial Statement (2013)	Adjustment	Dollar Amount
Consolidated Statements of Comprehensive Income	Change in unrecognized gains/losses on derivative instruments	($458,000,000)
Consolidated Statements of Comprehensive Income	Change in unrealized gains/losses on marketable securities	($131,000,000)
Consolidated Statements of Cash Flows	Adjustments to reconcile net income to cash generated by operating activities	$10,151,000,000

(Apple 2013 Annual Report, 2013)

8. **What were the amounts of depreciation expense reported by the company in each of the three previous fiscal years?**

Year	Depreciation Expense
2011	$1,814,000,000
2012	$3,277,000,000
2013	$6,757,000,000

(Apple 2013 Annual Report, 2013)

9. **What kind of income statement format does your company use? Why might this format be used to present income statement information?**

Apple Inc. uses a “condensed” or “consolidated” income statement *(Apple 2013 Annual Report, 2013)*. This format is used to minimize the length of the statement. Consolidated financial statements allow the reader to look at the financial position of a parent company and its subsidiaries. Consolidated statements enable the reader to gauge the overall financial standing of an entire group of companies as opposed to one company. The conservative length allows all readers and stakeholders to access the information they are looking for easily and quickly.

10. **What are the company’s primary revenue sources?**

Product	2013 Product Sales Revenue	Percentage of Sales
iPhone	$91,279,000,000	53.41%
iPad	$31,980,000,000	18.71%
Mac	$21,483,000,000	12.57%

(Apple 2013 Annual Report, 2013)

11. Compute the company's gross profit for each of the previous three fiscal years. Comment on the trend you observe.

Year	Depreciation Expense
2011	$43,818,000,000
2012	$68,662,000,000
2013	$64,304,000,000

(Apple 2013 Annual Report, 2013)

As each fiscal year comes to a close, it is clear to see that Apple's gross profit continues to rise.

12. Identify the various disclosure techniques the company might have used to disclose additional pertinent financial information. What techniques did it use?

One disclosure technique in financial reports that could be used by a company are footnotes. Footnotes can be used to identify major accounting policies used by the company in their reporting. They can also be used to provide additional information on assets or liabilities. Another way to disclose information is by the use of supplementary items. These can be in the form of tables or charts in which information is presented to those interested in the reports. Other forms of disclosure of information in the financial statement include cover letters, finance tables, a management discussion and analysis

(MD&A), historical summaries, and graphics (Disclosures, 2014). In their annual report, Apple uses all of these methods as a means of disclosing financial information to their potential and current investors.

13. **What investment basis does the company use to report its investments? Does it differ between long and short term investments? How much working capital did the company have at the end of each of the last two fiscal years?**

Apple uses a cost basis when reporting its investments. This means that the company takes an investment and its' original value and adjusts it based on stock splits, dividends and capital investments. This is basically the total amount invested in the company plus any commissions they may incur (Langager, 2009). Apple does not differ between long and short term investments as many of the investments in the company are for the long term. The working capital of Apple at the end of 2013 fiscal year was 26.58 billion dollars and 25.47 billion dollars at the end of 2012 (WikiInvest, 2014).

14. **What were the company's cash flows from operating, investing, and financing activities for the most recent fiscal year?**

Fiscal Year	Operating	Investing	Financing
2013	$50,856	($48,227)	$10,746

(Apple 2013 Annual Report, 2013)

15. **Compute the company's (1) current cash debt coverage ratio, (2) cash debt coverage ratio, and (3) free cash flow for the most recent fiscal year. What do**

these ratios suggest about the company's financial condition?

Current Cash Debt Coverage Ratio

$$\frac{Net\ Cash\ Provided\ by\ Operating\ Activities}{Average\ Current\ Liabilities} = \frac{53{,}666{,}000{,}000}{14{,}552{,}670{,}000} = 3.69$$

Cash Debt Coverage Ratio

$$\frac{Net\ Cash\ Provided\ by\ Operating\ Activities}{Average\ Total\ Liabilities} = \frac{53{,}666{,}000{,}000}{13{,}908{,}500{,}000} = 3.86 \text{ times}$$

Free Cash Flow

Net Cash Provided by Operating Activities - Capital Expenditures - Dividends = Free Cash Flow

\$53,666,000,000 - \$7,000,000,000 - \$10,000,000,000 = \$36,666,000,000

All of these ratios suggest that Apple is in extremely healthy financial standing.

(See question 22 for a further detailed explanation of each equation.)

16. **Examining each item on the company's balance sheet, identify those items that require present value, discounting, or interest computations in establishing the amount reported (the accompanying notes can be helpful here).**

Items on Apple's balance sheet that would require present value, discounting, or interest computations are as follows:

- Bonds
- Notes
- Investments
- Interest

17. Comment on the relative liquidity of your company.

With so much inventory on hand all valued at high prices, and products that are valuable and wanted by most of the general public, the liquidity of Apple is extremely high compared to other companies. For example, Apple's current ratio and current quick ratios are 2.68 and 2.65 respectively. Dell, a competitor to Apple, has ratios of 1.25 and 1.30. It is clear to see the vast number of liquid assets Apple has when comparing it to Dell. With so many liquid assets, the liquidity of the company will remain high for the many years of life the company has left.

18. How does your company value its inventories? What inventory costing method(s) does it use?

Inventories are stated at the lower of cost or market. The cost is computed using FIFO (the first-in, first-out method). If the cost of the inventories exceeds their market value, provisions are made currently for the difference between the cost and the market value *(Apple 2013 Annual Report, 2013)*.

19. How does your company report its inventories on the balance sheet?

Apple reports its inventories as current assets on the balance sheet. They use the First In First Out inventory method to compute costs.

20. What was the dollar amount and percentage change in the company's inventories from the end of the previous fiscal year and the current one?

2012 Inventory	2013 Inventory	Dollar Amount Change	Percent Change
$791,000,000	$1,764,000,000	$973,000,000	55.15%

(Apple 2013 Annual Report, 2013)

21. What are the company's gross profit margin expectations for next year? Explain.

Apple anticipates gross profit margin during the first quarter of 2014 to be between 36.5% and 37.5%. Gross margins and margins on individual products are generally expected to remain under downward pressure due to continued industry wide global product pricing pressures. Increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins are also predicted by Apple.

22. Compute all of the ratios on page 1524 of your textbook for each of the last two years. Comment.

I. Liquidity

A. **Current Ratio**

$$\frac{Current\ Assets}{Current\ Liabilities} = \frac{\$73{,}286{,}000{,}000}{43{,}658{,}000{,}000} = 1.68$$

The current ratio measures the company's short-term debt paying ability

(Kieso, Weygandt & Warfield, p.729). Apple's current ratio is higher than 1:1, and therefore, it is reasonable to assume that Apple could easily pay back their short term debts.

B. Quick or Acid-Test Ratio

$$\frac{Cash + Short\ Term\ Investments + Net\ Receivables}{Current\ Liabilities} =$$

$$\frac{14{,}259{,}000{,}000 + 26{,}287{,}000{,}000 + 13{,}102{,}000{,}000}{43{,}658{,}000{,}000} =$$

$$\frac{53{,}648{,}000{,}000}{43{,}658{,}000{,}000} = 1.23$$

The quick ratio relates a company's total current liabilities to cash, marketable securities, and receivables. It measures the company's immediate short-term liquidity (Kieso, Weygandt & Warfield, p. 730). Apple's acid-test ratio is above a one, showing that Apple is relatively liquid and does not carry high levels of inventory.

C. Current Cash Debt Coverage

$$\frac{Net\ Cash\ Provided\ by\ Operating\ Activities}{Average\ Current\ Liabilities} = \frac{53{,}666{,}000{,}000}{14{,}552{,}670{,}000} = 3.69$$

The higher the ratio, the less likely a company is to have liquidity problems. A "healthy ratio" is near 1:1 (Kieso, Weygandt & Warfield, p.234). Apple's ratio is far higher than 1:1, and therefore, Apple is unlikely to highly unlikely to have liquidity issues.

II. <u>Activity</u>

A. Accounts Receivable Turnover

$$\frac{Net\ Sales}{Average\ Trade\ Receivables\ (net)} = \frac{170{,}910{,}000{,}000}{13{,}102{,}000{,}000}$$

= 13.04 times a period, or every 27.98 days.

The accounts receivable turnover ratio measures the number of times, on average, that a company collects receivables during the financial period. It conveys how successful a company is in collecting their outstanding debts (Kieso, Weygandt & Warfield, p.373). Apple has a healthy turnover, collecting their debts approximately every 27.98 days.

B. Inventory Turnover

$\frac{Cost\ of\ Goods\ Sold}{Average\ Inventory} = \frac{106{,}606{,}000{,}000}{1{,}764{,}000{,}000} =$ 60.43 times a period, or every 6.04 days

The inventory turnover ratio measures the liquidity of a company's inventory. Companies that keep inventory at low levels with high turnover rates tend to be more successful (Kieso, Weygandt & Warfield, p.496). Apple has a very high inventory turnover rate.

C. Asset Turnover

$\frac{Net\ Sales}{Average\ Total\ Assets} = \frac{170{,}910{,}000{,}000}{191{,}532{,}000{,}000} =$ $0.89

The asset turnover ratio measures how efficiently a company uses its assets to generate sales (Kieso, Weygandt & Warfield, p.611) In Apple's situation, they generate $0.89 for every dollar in assets. This is a high and healthy asset turnover rate.

III. Profitability

A. Profit Margin on Sales

$\frac{Net\ Income}{Net\ Sales} = \frac{37{,}037{,}000{,}000}{170{,}910{,}000{,}000} =$ 21.67%

The profit margin on sales ratio alone does not accurately predict a company's profitability. In using both the Profit Margin on Sales ratio and the Asset turnover ratio, we can determine how profitably the company used its assets (Kieso, Weygandt & Warfield, p.612).

B. Return on Assets

$$\frac{Net\ Income}{Average\ Total\ Assets} = \frac{37{,}037{,}000{,}000}{191{,}532{,}000{,}000} = 19.34\%$$

The rate of return on assets measures profitability well because it combines the effects of profit margin and asset turnover (Kieso, Weygandt & Warfield, p. 612). Apple has a better ROA than a company with a 10% return, and a lesser ROA than a company with a 25% return.

C. Return on Common Stock Equity

$$\frac{Net\ Income - Preferred\ Dividends}{Average\ Common\ Stockholders'\ Equity} = \frac{37{,}037{,}000{,}000 - 10{,}528{,}000{,}000}{123{,}549{,}000{,}000} =$$

21.46%

The return on common stock equity ratio measures profitability from the common stockholders' viewpoint. This ratio shows how many dollars of net income the company earned for each dollar invested by the owners (Kieso, Weygandt & Warfield, p. 849). Apple earned 21.46% of every dollar they invested through net income.

D. Earnings per Share

$$\frac{Net\ Income - Preferred\ Dividends}{Weighted-Average\ Number\ of\ Shares\ Outstanding} = \frac{26{,}509{,}000{,}000}{925{,}331{,}000{,}000} = \$2.86$$

Stockholders and potential investors widely use earnings per share to evaluate the profitability of a company (Kieso, Weygandt & Warfield, p. 900). Apple investors generally earned $2.86 per share they had in Apple.This means that the shares turned a profit, which is generally a fair indicator of profitability.

E. Payout Ratio

$$\frac{Cash\ Dividends}{Net\ Income} = \frac{10{,}528{,}000{,}000}{37{,}037{,}000{,}000} = 28.43\%$$

The payout ratio is the ratio of cash dividends to net income (Kieso, Weygandt & Warfield, p. 850). Apple paid out 28.43% earnings in the form of dividends.

IV. Coverage

A. Debt to Assets Ratio

$$\frac{Total\ Liabilities}{Total\ Assets} = \frac{83{,}451{,}000{,}000}{207{,}000{,}000{,}000} = 40.31\%$$

The debt to assets ratio measures the percentage of total assets provided by creditors (Kieso, Weygandt & Warfield, p. 787). The higher the percentage, the more likely it is that a company will not be able to repay their debts. 40.31% of Apple's assets were provided by creditors this fiscal year. This percentage is low enough to show that Apple is in good financial standing.

B. Times Interest Earned

$$\frac{Income\ before\ Income\ Taxes\ and\ Interest\ Expense}{Interest\ Expense} = \frac{50{,}155{,}000{,}000}{136{,}000{,}000} = 368.79$$

times

The times interest earned ratio indicates the company's ability to meet interest payments as they come due (Kieso, Weygandt & Warfield, p. 787). Apple's times interest earned rate is extremely high. This shows that they can easily make their interest payments as they are due.

C. Cash Debt Coverage

$$\frac{Net\ Cash\ Provided\ by\ Operating\ Activities}{Average\ Total\ Liabilities} = \frac{53{,}666{,}000{,}000}{13{,}908{,}500{,}000} = 3.86\ times$$

The cash debt coverage ratio provides information on financial flexibility. It conveys a company's ability to repay its liabilities from net cash provided by operating activities, without having to liquidate assets used in operations (Kieso, Weygandt & Warfield, p. 234). The higher the ratio, the easier it will be for a company to pay back their liabilities without having to liquidate. Apple has approximately 3.86 times the amount they would need to repay their liabilities. This shows healthy financial standing.

D. Book Value Per Share

$$\frac{Common\ Stockholders'\ Equity}{Outstanding\ Shares} = \frac{123{,}549{,}000{,}000}{899{,}738{,}000} = \$137.32$$

Book value per share of stock is the amount each share would receive if the company were liquidated on the basis of amounts reported on the balance sheet (Kieso, Weygandt & Warfield, p. 850). If Apple were to liquidate on the last day of the published financial period, Apple's investors would receive $137.32 per share.

Would you buy this company's stock at the market price on the balance sheet date? Why or why not?

We would in fact buy this company's stock at the market price on the balance sheet. Apple is an extremely profitable company that will only grow with new products. With their continued vision and innovation Apple products are the future to all things technology. FOr these reason the company stock price will continue to rise, even in times of depression. Despite that there may be some fluctuations Apple will continue to be the frontrunner of computers and music technology for quite some time. For these reasons, we believe an investment in Apple would be a good one.

- **Business World**
    - **Actuals:** These refer to the real costs, sales, and expenses incurred by a company over time. Many times the company also discloses estimations and expectations for the coming year (s).
    - **Glamour Stock:** This stock refers to those that are very popular to investors. Thier popularity is due to their success on the stock exchange.
    - **Off-Balance Sheet:** Refers to items such as assets or debts which are not recorded on a company's balance sheet.
    - **Rogue Trader:** A broker who makes high risk trades on behalf of their employer. These are usually trades in which the company would not authorize. These trades also usually result in losses of huge extent.
    - **Zero Based Budgeting:** Also known as ZBB, it refers to a yearly budget that starts at zero with no pre-authorized funds for a department. Throughout the year the department will be required to justify its budget requests.

(Business, 1-10)

- **Accounting Policies and Procedures:**

While studying and reading through Apple's financial statements the policies and accounts we learned about in Accounting 301 were very helpful in further understanding the information presented. The knowledge obtained was particularly useful in looking at Apple and their inventory method. Apples uses FIFO when keeping and recording their information in their financial statements. Having the background of Accounting 301 helped to understand this method in great detail and better comprehend how Apple operates as a whole.

Before taking Accounting 301 all that was known about FIFO was the basics. FIFO stands for

First In First Out and means just that-the first items that were put in (the oldest) are the first ones to be taken out. However in Accounting 301 we learned that FIFO also has meaning when it comes to filing taxes and how they are recorded. In this way, knowing that Apple reports their inventory under FIFO, was also an insight into how they file for taxes. Knowing how Apple reports their inventory is also good insight on how their financials will look on income statements as well. Both concepts were unknown prior to taking Accounting 301. As discussed in 301 using FIFO will lead to higher taxes and will show a greater profit in the long run. However, if required to pay higher taxes why would a company choose to use this method? With a higher profit on income statements, potential and future investors will look highly on the company. A company like Apple wants to keep investors happy and also draw in new investors at the same time. Buy using a FIFO method of inventory tracking Apple will be able to show the maximum amount of profit possible and therefore increase the overall appeal of the company. Without studying Accounting 301 it would not have been feasible to draw these conclusions simply off of noticing the use of FIFO.

- **Intangible Assets:**
    - Market to Book Ratio:
        - If the value of the ratio is above 1 then the stock is undervalued; if it is less than 1, the stock is overvalued
        - $Market\ to\ Book\ Ratio = \frac{Share\ Price}{Book\ Value\ per\ Share}$
        - Market to Book Ratio= 3.546
        - The value of the ratio is above one, and therefore the stock is undervalued. This is largely due to Apple’s extensive collection of intangible assets.
            - Brand Equity: Apple is one of the most recognizable brands in the entire world. According to Forbes’ list of “The World’s Most Valuable Brands,”

Apple comes in at number 1. In fact, Apple's brand is so valuable, it has a higher brand equity (at $124.2 billion) than both Microsoft (ranked #2 at $63 billion) and Google (ranked #3 at $56.6 billion) combined *(Badenhausen, 2014)*.

- Frequent Innovation: Apple continues to be known as a company with one of the best innovation teams in the world. Their products are often times cutting edge and contain the newest and best technology. With every new Apple product there are better features and new and exciting additions compared to its' predecessors. The innovation of Apple is one of its' most valuable intangible assets.
- Design: Apple products are thought of as some of the most schick, slick, and hip products to carry. Due to their light-weight and appealing aesthetic the designs of their products are always geared to the future. When a new product is launched by Apple is is almost always guaranteed to be pleasing to the eye. With their slim structures, Apple iPhones and Macs will fit in virtually any pocket, purse, backpack or briefcase, making the design of their products ideal for students and professionals of any age, and to be used academically, in the workplace, or for leisure at home. The popular and well known design of Apple products is and will continue to be one of the many intangible assets to the company.
- Intelligence: The team behind the innovation and design is by far the greatest intangible asset that Apple could possibly have. This team of intelligence is the brains behind the operation and execution of the new products, innovation, and design mentioned above. Without the

intelligence of these individuals the other intangible assets would be impossible.

- 2012 Net Acquired Intangible Assets: $4,224,000,000 *(Apple 2013 Annual Report, 2013)*
- 2013 Net Acquired Intangible Assets: $4,179,000,0 *(Apple 2013 Annual Report, 2013)*

- **Reporting Quality:**

Mr. Maestri,

Our names are Ashleigh Somers and Raphaella D'Alonzo and we have just completed a very comprehensive Financial Reporting Project for our Accounting 301 class on Apple. While working on this project we thoroughly looked over Apple's Annual Report and passed judgement on the financial reporting of the company. We thought it would be beneficial for both us and Apple if we analyzed and offered suggestion about the manner of how financials are reported and presented to the public.

Overall the quality of Apple's financial reporting exceeded expectations. It was clear, concise, and to the point. The reporting also offered insight and good background information on Apple as a company. The financial statements were easy to read and understand and footnotes were appropriately used. There were many useful charts and graphics throughout the reporting that would be beneficial for investors, as well as individuals like ourselves, who may be researching Apple. Using the Annual Report was a pleasant experience as the Table of Contents made accessing particular sets of data or information simple. For all of these reasons working with Apple's statements made this project more accessible, which was much appreciated. Having such an accessible set of financial data will also allow for future or potential investors to better asses Apple and whether or not they would wish to invest in your company.

There are a few suggestions we would have in order to further your enhance your financial reporting. For example, the use of color in your graphs will make them more eye catching and ensure that individuals will see what you want them to. Condensing information into more charts could also be beneficial as charts are quicker and easier to read. Businessmen and women who may not have much time in their day to read financial reports will get a better idea about the company in a faster time period if they have charts or graphics to refer to. These are two minor changes that could enhance the usefulness of Apple's financial reporting that could benefit the company in the years to come.

Lastly, we have one more idea in order to make Apple's financial reports even better than they are now. Possible inclusion of how Apple is doing in comparison to their competition is something that the company should think about. Considering Apple is ahead of their competitors it would do them good to show this to their potential investors. This would be very useful to them as they could make judgement on the company and see that it is worth the price of investing. This is also a minor change that could help Apple's investors present and future feel more comfortable with their decision in putting money into the company.

We would like to thank you for the time you took in reading this letter and any consideration you may give your suggestions. It was a great experience working on this project using Apple's financials. If you would like to contact us with any questions, do not hesitate to email us at rmd17@geneseo.edu.

Sincerely,

Ashleigh Somers & Raphaella D'Alonzo

ACCT 301 students at SUNY Geneseo

- **Judgment Call**

  We would in fact buy this company's stock at the market price on the balance sheet. Apple is an extremely profitable company that will only grow with new products. With their continued vision and innovation Apple products are the future to all things technology. For these reason the company stock price will continue to rise, even in times of depression. Despite that there may be some fluctuations Apple will continue to be the frontrunner of computers and music technology for quite some time. For these reasons, we believe an investment in Apple would be a good one.

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