



WICHITA STATE
UNIVERSITY

Fundamentals of Accounting

Module 4

Balance Sheet - Assets

This Module's Focus is on Assets on the Balance Sheet

- What is the general purpose for Assets on the Balance Sheet?
- How are they used to support the business?
- If I am the leader of a business, what types of assets do I need to generate sales and grow the business?
- What should I consider when determining what level of assets to carry?
- If I am considering investing in a company, why look at Assets on their Balance Sheet?

Typical Balance Sheet

Assets

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Liabilities + Stockholders Equity

Assets:

- Current Assets
 - Cash
 - Receivables
 - Inventory
 - Prepaids
- Long-term (Non-Current) Assets
 - Property, Plant & Equipment
 - Goodwill
 - Long-term Receivables

Liabilities:

- Current Liabilities
 - Accounts Payable
 - Other Accrued Liabilities
 - Short-term Debt (payable within the upcoming 12 months)
- Long-term (Non-Current) Liabilities
 - Long-term Debt
- Stockholders Equity
 - Paid-in Capital
 - Retained Earnings (The net income a firm generates *less* any dividends paid out)



THIS MODULE'S FOCUS

Investor perspective: Is the company generating an acceptable return with their investments in assets (or has the company made non-value additive or low return investments)?

Current Assets vs. Long-Term Assets Distinction

- Current assets include cash and those assets that are expected to be converted to cash or used up within one year, or an operating cycle, whichever is longer
- Long-term assets have the ability to generate revenue beyond one year
 - Includes items such as:
 - Land
 - Buildings
 - Equipment
 - Intangible assets
 - Natural resources

Walmart Annual Report - Balance Sheet Assets

Consolidated Balance Sheets

(Amounts in millions)		As of January 31,	
		2014	2013
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents		\$ 7,281	\$ 7,781
Receivables, net	\$476B in Sales -----> DSO of ~ 5 Days <----	6,677	6,768
Inventories	\$358B in COGS-----> DSI of ~ 45 Days <----	44,858	43,803
Prepaid expenses and other		1,909	1,551
Current assets of discontinued operations		460	37
Total current assets		61,185	59,940
<i>Property and equipment:</i>			
Property and equipment		173,089	165,825
Less accumulated depreciation		(57,725)	(51,896)
Property and equipment, net	PP&E Turnover of ~ 4.2X <----	115,364	113,929
<i>Property under capital leases:</i>			
Property under capital leases		5,589	5,899
Less accumulated amortization		(3,046)	(3,147)
Property under capital leases, net	represents the excess of the purchase price over the fair value of net assets acquired in business combinations	2,543	2,752
Goodwill	----->	19,510	20,497
Other assets and deferred charges		6,149	5,987
Total assets		\$204,751	\$203,105

Cash & Marketable Securities Considerations

- Cash includes:
 - Coins and paper money;
 - Petty cash funds,
 - Undeposited receipts,
 - Money orders, and
 - Checking accounts
- Marketable Securities include:
 - Commercial paper,
 - U.S. Treasury securities,
 - Bank certificates of deposit, and
 - Money-market mutual funds
- Effective cash management involves:
 - Investing excess cash with minimal risk,
 - Assures the availability of adequate amounts of cash,
 - Avoids unnecessarily large amounts of idle cash, and
 - Prevents theft and fraud.

Should The Company's Goal Be to Maximize Cash of the Balance

Textron 2016 Annual Report - Assets

Consolidated Balance Sheets

<i>(In millions, except share data)</i>	December 31, 2016	January 2, 2016
Assets		
Manufacturing group		
Cash and equivalents	\$ 1,137	\$ 946
Accounts receivable, net	1,064	1,047
Inventories	4,464	4,144
Other current assets	388	341
Total current assets	7,053	6,478
Property, plant and equipment, net	2,581	2,492
Goodwill	2,113	2,023
Other assets	2,331	2,399
Total Manufacturing group assets	14,078	13,392
Finance group		
Cash and equivalents	161	59
Finance receivables, net	935	1,087
Other assets	184	170
Total Finance group assets	1,280	1,316
Total assets	\$ 15,358	\$ 14,708

- Cash represents ~ 7 – 8% of total assets depending on the year evaluated

Spirit Aerosystems 2016 Annual Report - Assets

Consolidated Balance Sheets

	December 31, 2016		December 31, 2015	
	(\$ in millions)			
Current assets				
Cash and cash equivalents	\$	697.7	\$	957.3
Accounts receivable, net		660.5		537.0
Inventory, net		1,515.3		1,774.4
Other current assets		36.9		30.4
Total current assets		2,910.4		3,299.1
Property, plant and equipment, net		1,991.6		1,950.7
Pension assets		282.3		246.9
Other assets		220.9		267.8
Total assets	\$	5,405.2	\$	5,764.5

- Cash represents ~ 13 - 16% of total assets depending on the year evaluated

Cash & Marketable Securities - Key Considerations

- Should I view Cash reported on the balance sheet in a positive light or negative light?
- How does Cash factor into some of the ratios discussed in module 2?
- Does the company have too much or too little cash?
- If the company has a significant cash balance, what do they plan to do with it?
- If the company has minimal cash, will there be a near-term liquidity problem?
- Does cash sitting on a company's Balance Sheet help generate any ROI for an investor?
- Would you expect most companies to hold a similar % of their total assets in cash regardless of the industry in which they compete?

Microsoft Annual Report - Assets

Balance Sheets



(In millions)

June 30,	Cash & S/T investments Represent 54% of total assets!	2013	2012
Assets			
Current assets:			
Cash and cash equivalents		\$ 3,804	\$ 6,938
Short-term investments (including securities loaned of \$579 and \$785)		73,218	56,102
Total cash, cash equivalents, and short-term investments		77,022	63,040
Accounts receivable, net of allowance for doubtful accounts of \$336 and \$389		17,486	15,780
Inventories		1,938	1,137
Deferred income taxes		1,632	2,035
Other		3,388	3,092
Total current assets		101,466	85,084
Property and equipment, net of accumulated depreciation of \$12,513 and \$10,962		9,991	8,269
Equity and other investments		10,844	9,776
Goodwill		14,655	13,452
Intangible assets, net		3,083	3,170
Other long-term assets		2,392	1,520
Total assets		\$ 142,431	\$ 121,271

Apple Quarterly Report - Assets

Apple Inc.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except number of shares which are reflected in thousands and par value)

**Cash & investments
Represent 74% of total assets!**

	June 28, 2014	September 28, 2013
ASSETS:		
Current assets:		
Cash and cash equivalents.....	\$ 12,977	\$ 14,259
Short-term marketable securities.....	24,828	26,287
Accounts receivable, less allowances of \$86 and \$99, respectively.....	10,788	13,102
Inventories.....	1,594	1,764
Deferred tax assets.....	3,884	3,453
Vendor non-trade receivables.....	6,053	7,539
Other current assets.....	7,825	6,882
Total current assets	67,949	73,286
Long-term marketable securities.....	126,685	106,215
Property, plant and equipment, net.....	17,585	16,597
Goodwill.....	2,374	1,577
Acquired intangible assets, net.....	3,767	4,179
Other assets.....	4,160	5,146
Total assets	\$ 222,520	\$ 207,000

Receivables - Key Considerations

- The balance sheet presentation for accounts receivable is the **net realizable value due** from the company's customers - principally for items sold on credit terms and/or financed
- **Net realizable value** represents the amount the business expects to collect
 - Accounts receivable minus the allowance for bad debt account.
- Some receivables may end up not being collectable
 - Why?
 - Customer bankruptcy
 - Customer disputes
 - Valuation disputes
- An "Allowance for Doubtful Accounts" is created to reflect the estimated amount of gross receivables that will end up being uncollectible
 - "Contra" asset account
 - Neutralizes the impact of the impaired asset
- Notes receivable are a written promise to pay a specific amount at a specific future date.
 - Typically include an interest charge for use of the money during the time period of the note.

Allowance for Doubtful Account Examples

Note 3. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

<i>(In millions)</i>	January 3, 2015	December 28, 2013
Commercial	\$ 765	\$ 654
U.S. Government contracts	300	347
Allowance for doubtful accounts	1,065 (30)	1,001 (22)
Total	\$ 1,035	\$ 979

We have unbillable receivables primarily on U.S. Government contracts that arise when the revenues we have appropriately recognized based on performance cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled \$151 million at Jan

NEWELL RUBBERMAID INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

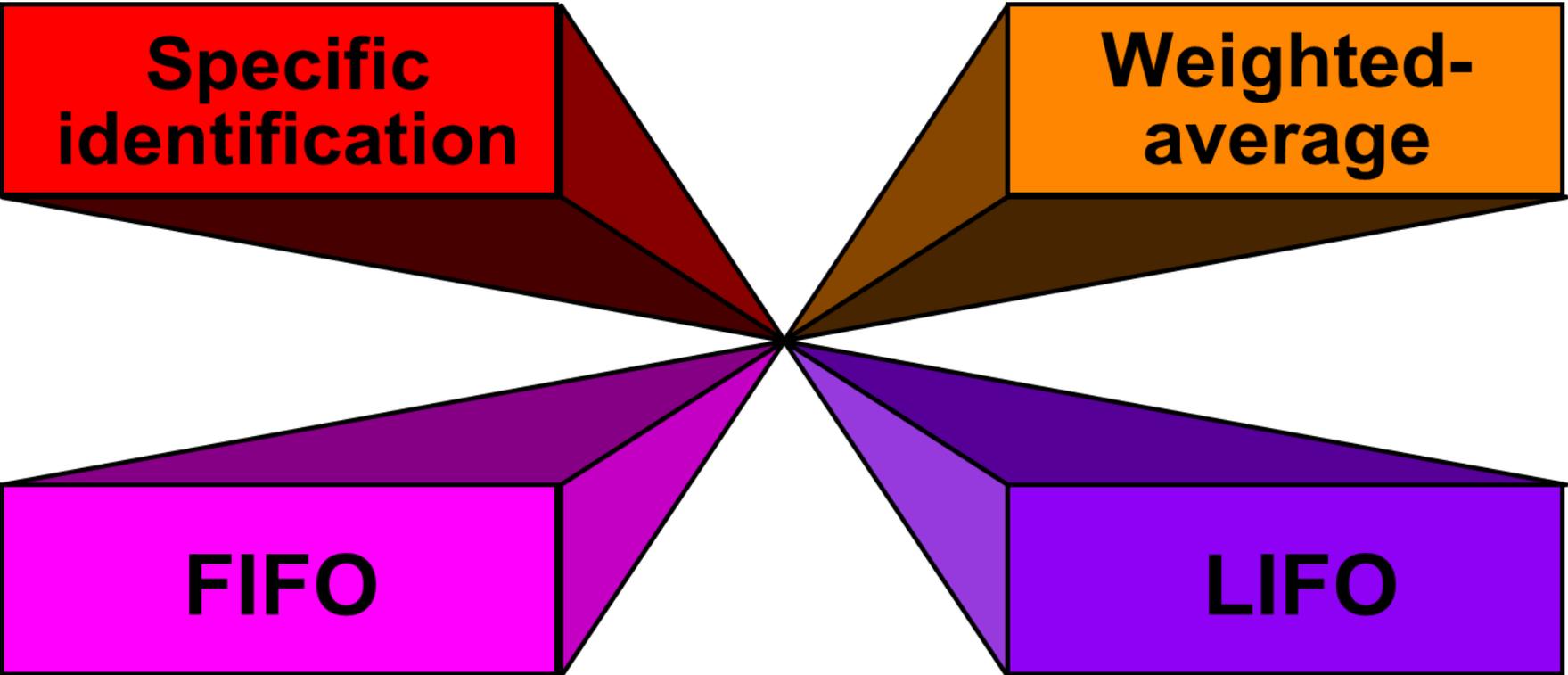
(Amounts in millions, except par values)

December 31,	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 199.4	\$ 226.3
Accounts receivable, net of allowances of \$25.3 for 2014 and \$38.0 for 2013	1,248.2	1,105.1
Inventories, net	708.5	684.4
Deferred income taxes	134.4	134.4
Prepaid expenses and other	136.1	135.4
Total Current Assets	2,426.6	2,285.6
Property, plant and equipment, net	559.1	539.6
Goodwill	2,546.0	2,361.1
Other intangible assets, net	887.2	614.5
Other assets	262.2	268.9
Total Assets	\$ 6,681.1	\$ 6,069.7

Receivables - Key Considerations

- What is the aging of the receivables?
- What is the receivables bad debt reserve as a % of gross receivables?
- What amount of bad debt write-off's has the company taken in recent periods?
- Are there other receivables valuation adjustments/reserves?
- Does activity in receivables possibly indicate any concerns with the “quality” of the company's recorded sales?

Inventory Valuation Alternatives



Inventory - Key Considerations

- Inventory
 - Raw Materials
 - Work-in-Process
 - Finished Goods

- Inventory valuation methods
 - First in, First Out (FIFO)
 - Last In, First Out (LIFO)
 - Weighted Average
 - Specific Identification

- Different inventory valuation methods between 2 companies will skew a comparison of inventory “efficiency” (turns, days in inventory)

- Inventory must be reported at the lower of cost or market (i.e. replacement cost)

- ***Errors in the amount of ending inventory have a direct dollar-for-dollar effect on cost of goods sold and net income***

Inventory - Key Considerations

- Does the company have too much or too little inventory?
- What is the aging of the inventory?
- What is the inventory write-off trend?
- Is there a potential obsolete or excess inventory issue at the company?
- What are the inventory turns and how do they compare to the company's peers?
- How good are the company's inventory controls?
 - Is it all there?
 - Is there cost still in inventory that should be costed in the P&L?

Prepaid Expense - Key Considerations

- Prepaid expenses are expenses that have been paid in the current fiscal period but will not be charged to the income statement until a subsequent fiscal period
- Typical examples:
 - Insurance
 - Rent
- As discussed during Module 1, these are examples of “reclassifications” that will occur each month to apportion the appropriate amount of expense from the balance sheet into the income statement

Property Plant & Equipment - Key Considerations

- Includes:
 - Land
 - Buildings
 - Equipment
 - Leasehold improvements
- Other than Land, these assets are depreciated over the expected life of the asset
 - Credit Accumulated Depreciation
 - Debit Depreciation Expense on the Income Statement
- Depreciation represents an allocation of the cost of an asset to the years in which the benefits of the asset are expected to be received. It is an application of the matching concept.
- Various depreciation methods
 - Straight line
 - Declining balance
 - Units of production
- Note: Preventative maintenance expenditures and routine repair costs are clearly expenses of the period in which they are incurred

Property Plant & Equipment - Key Considerations

Textron: “Property, Plant and Equipment Property, plant and equipment are recorded at cost and are depreciated primarily using the straight-line method. We capitalize expenditures for improvements that increase asset values and extend useful lives. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying value of the asset exceeds the sum of the undiscounted expected future cash flows, the asset generally is written down to fair value. “

Property Plant & Equipment - Key Considerations

- Are the assets producing value for the company?
- What analyses does the company perform prior to initiating discretionary CapEx expenditures?
- Are the asset lives appropriate?
- How is the company depreciating these assets?
- Are there non-productive fixed assets on the balance sheet?

Assets Acquired by Capital Lease

- An operating lease is an ordinary lease for the use of an asset that does not involve any attributes of ownership
- A capital lease results in the lessee (renter) assuming virtually all of the benefits and risks of ownership for the leased asset
- To qualify as a capital lease, the asset must achieve one of the following:
 1. Transfers ownership to lessee.
 2. Includes bargain purchase price.
 3. Lease term is 75% of life of asset.
 4. Present value of lease payments is 90% of fair value of asset.

Intangible Assets

- Intangible assets are noncurrent assets without physical substance
 - Useful life of intangible assets is often difficult to determine
 - Often provide exclusive rights or privileges
 - Usually acquired for operational use.
- Intangible assets are recorded at current cash equivalent cost, including purchase price, legal fees, and filing fees
- Intangible assets include: patents, copyrights, leaseholds, leasehold improvements, franchises and licenses, trademarks and trade names, and goodwill.
- Amortization is the term used to refer to the allocation of the cost of an intangible asset over its useful life. The process is similar to straight-line depreciation

Goodwill

- Goodwill occurs when one company buys another company
- Only 'purchased' goodwill is an intangible asset
- Goodwill is the amount by which the purchase price exceeds the fair market value of net assets acquired.
- Goodwill is not amortized
 - Instead, it is tested annually for impairment
 - If the book value of goodwill exceeds its fair value, an impairment loss will be recorded

Intangibles & Goodwill Key Considerations

- Do these assets comprise a significant portion of the company's asset base?
- What is the company's track record in terms of achieving the targeted benefit resulting in the creation of intangibles and goodwill?

Intangibles & Goodwill Example - Textron 2014 Acquisition of Beechcraft

Note 2. Business Acquisitions, Goodwill and Intangible Assets

2014 Beechcraft Acquisition

On March 14, 2014, we acquired Beechcraft for an aggregate cash payment of \$1.5 billion that included a repayment of a portion of Beechcraft's working capital credit facility at closing. The acquisition of Beechcraft and the formation of the Textron Aviation segment provide increased scale and complementary product offerings, allowing us to strengthen our position across the aviation industry and enhance our ability to support our customers. We financed a portion of the purchase price with the issuance of \$600 million in senior notes on January 30, 2014 and by drawing \$500 million under the five-year term loan agreement entered into on January 24, 2014. The balance was paid from cash on hand.

The consideration paid for this business was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. As of January 3, 2015, the valuation process is substantially complete, however, due to the size and breadth of this acquisition, additional time is necessary to complete the valuation of certain liabilities and the related income tax impact. We will finalize the purchase accounting within the one-year measurement period allowed under generally accepted accounting principles. Our allocation of the purchase price as of January 3, 2015 is presented below.

(In millions)

Accounts receivable	\$ 129
Inventories	775
Other current assets	175
Property, plant and equipment	261
Intangible assets	581
Goodwill	228
Other assets	172
Accounts payable	(143)
Accrued liabilities	(294)
Other liabilities	(406)
Total net assets acquired	\$ 1,478

Goodwill of \$228 million was primarily related to expected synergies from combining operations and the value of the existing workforce. Intangible assets of \$581 million included unpatented technology related to original equipment manufactured parts and designs and customer relationships valued at \$373 million and trade names valued at \$208 million. The unpatented technology and customer relationships assets have a life of 15 years, resulting in amortization expense in the range of approximately \$17 million to \$31 million annually. Substantially all of the trade names have an indefinite life and therefore are not subject to amortization. We acquired tax-deductible goodwill of approximately \$260 million in this transaction.

Other Long-Term Assets

- Long-term Investments
- Notes Receivables (with maturities more than a year after the balance sheet date)
- Long-term Deferred Income Tax Assets
- When any of the above assets become current, they will be reclassified to current assets