

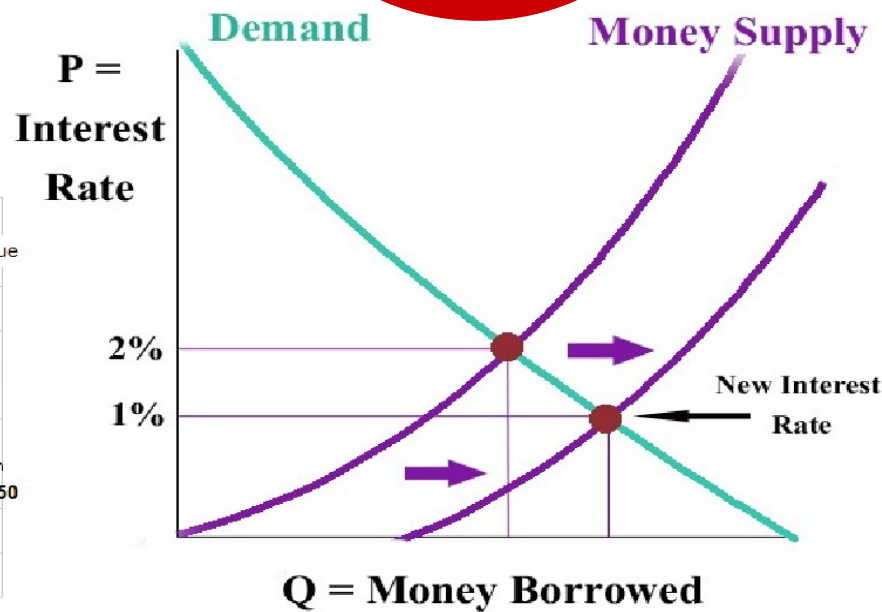
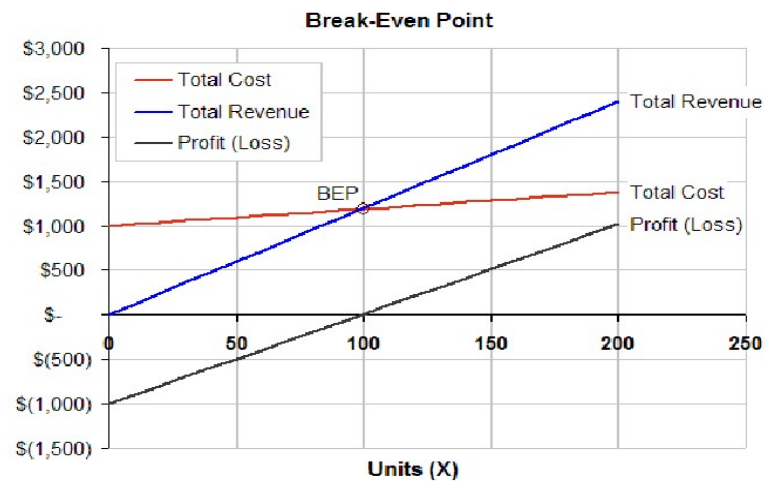


MERGERS AND ACQUISITIONS

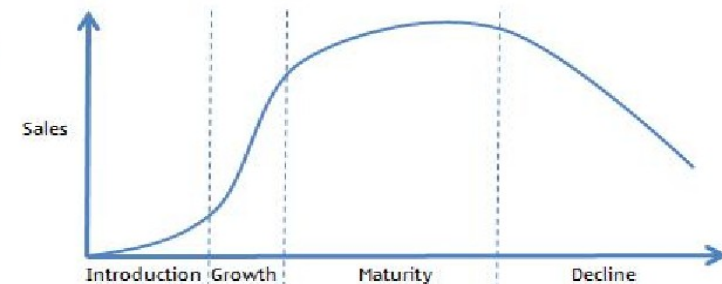


Lecture

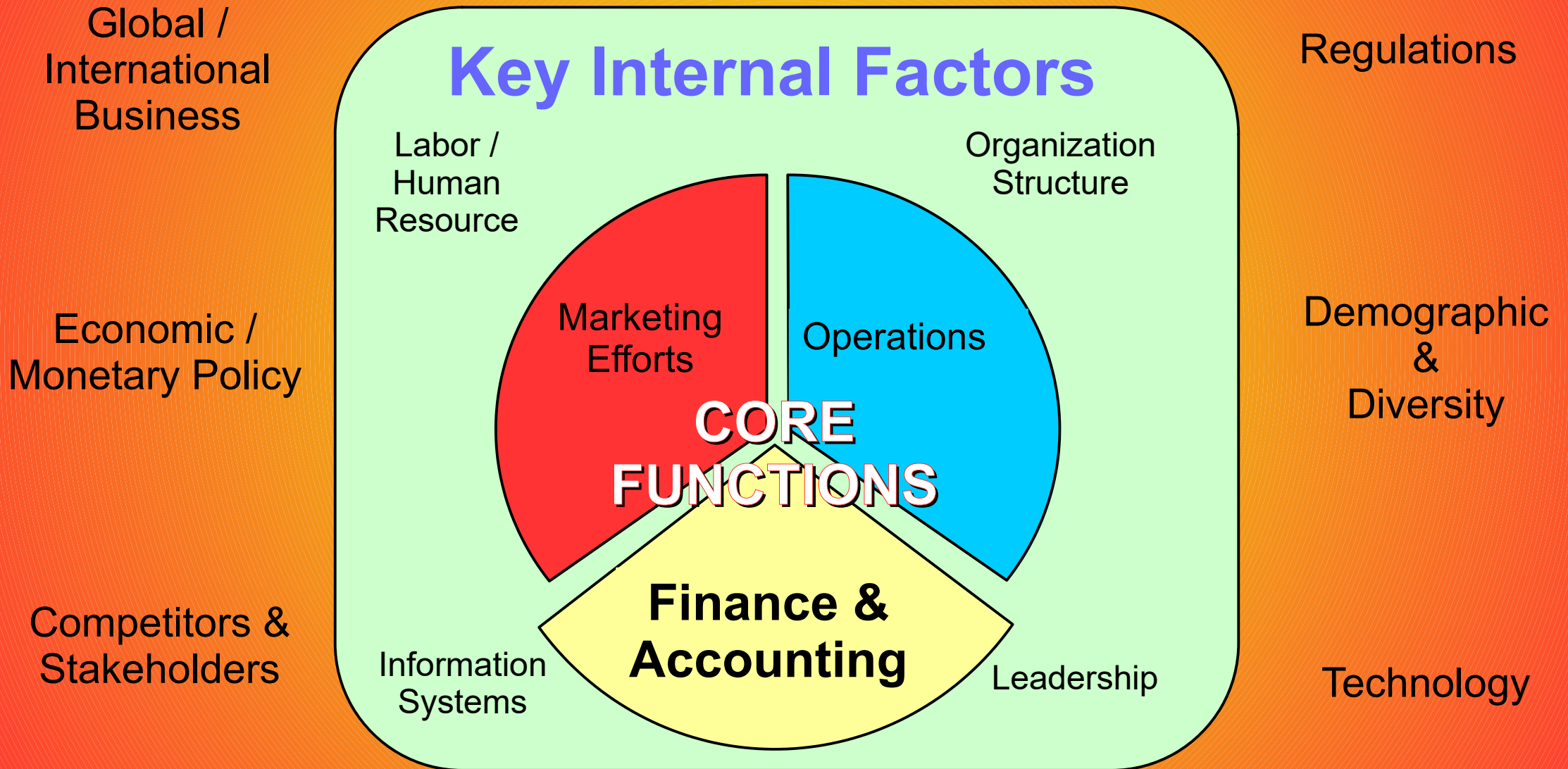
14



Product Lifecycle Stages



External / Social Forces



\$ (1,000)
\$ (1,500)

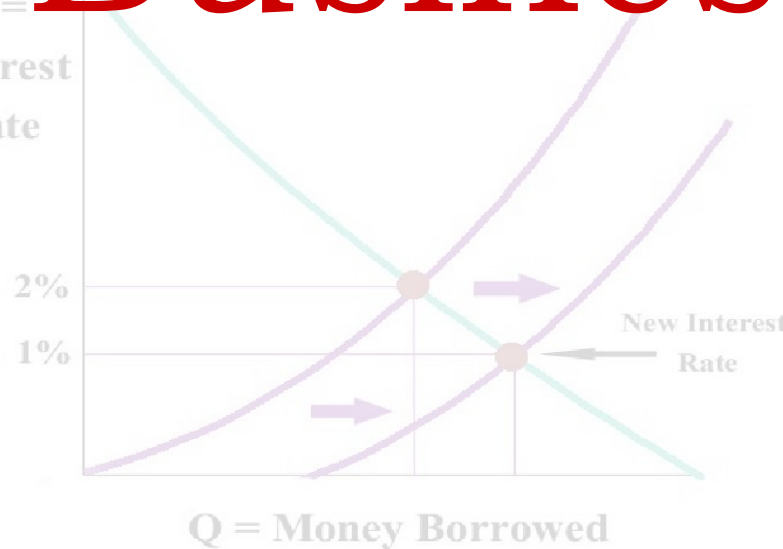
Units (X)

Introduction to Business

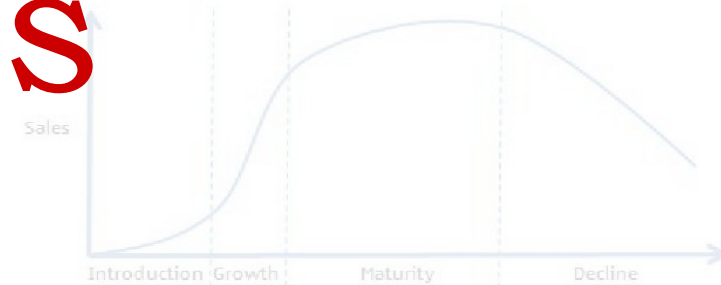
Accounting in Business



Interest
Rate



Product Lifecycle Stages



Learning objectives

- ❖ Accounting information
- ❖ The balance sheet.

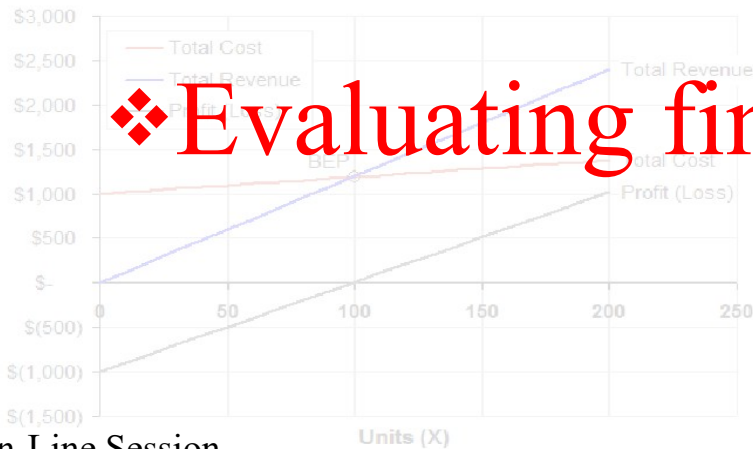
- ❖ The income statement.

- ❖ Evaluating financial statements.

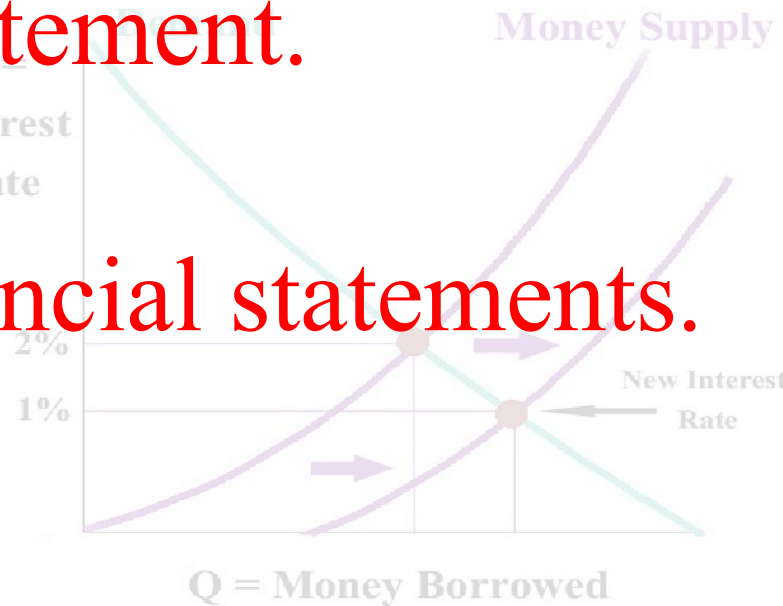
MERGERS AND ACQUISITIONS



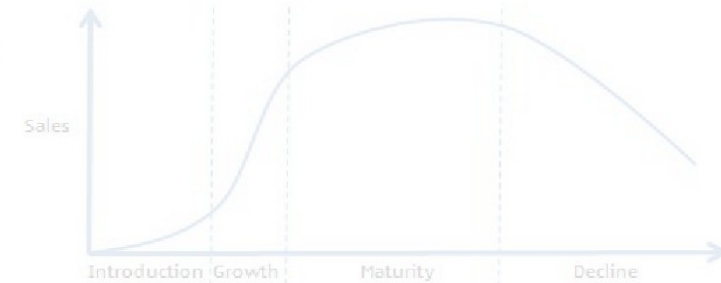
Break-Even Point



Interest Rate



Product Lifecycle Stages

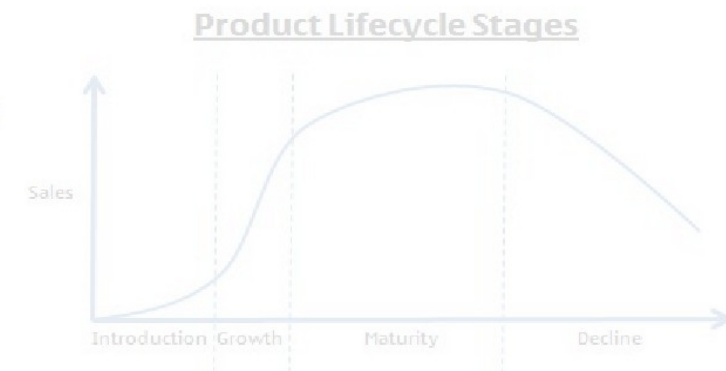
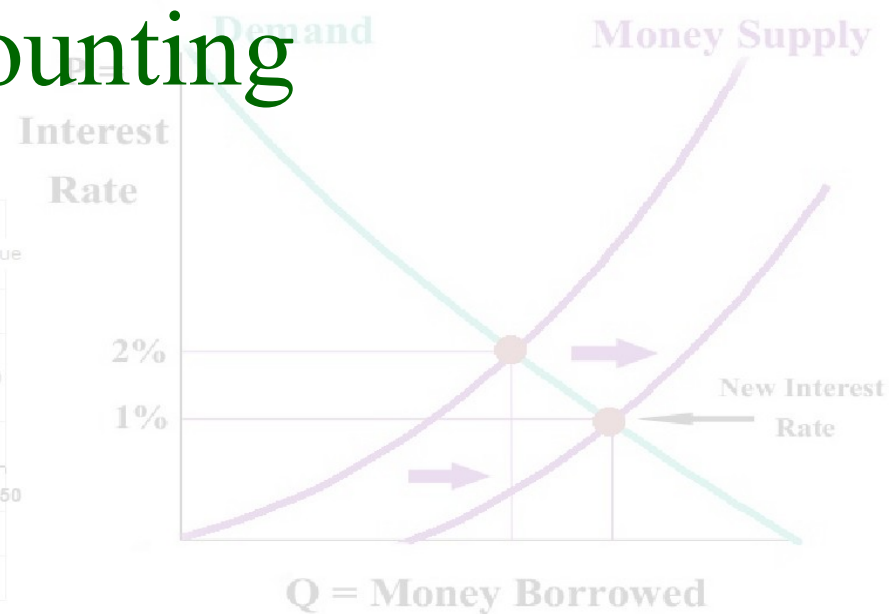
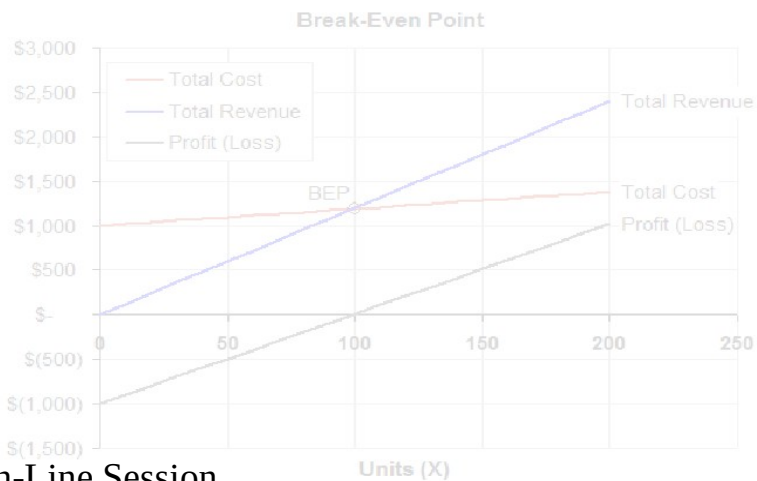


Accounting information

◆ Accounting, audit, GAAP

◆ Sarbanes Oxley 2002

◆ Types of accounting



Accounting, Audit, GAAP

➤ Accounting

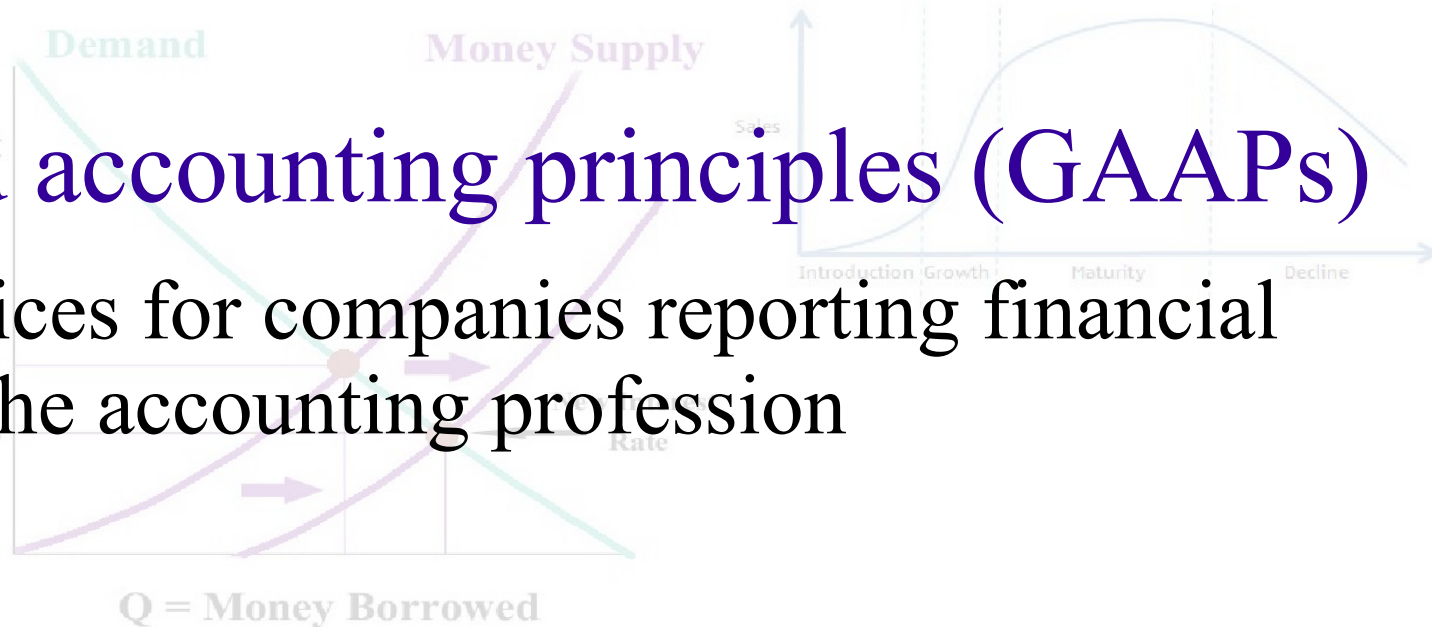
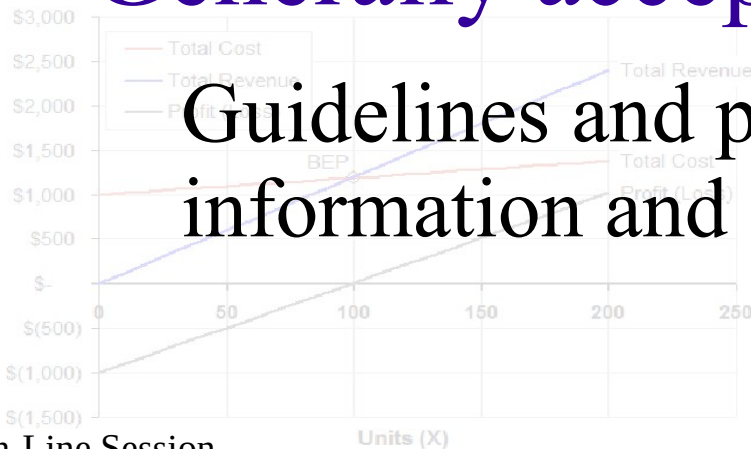
Process of systematically collecting, analyzing, and reporting financial information

➤ Audit

Examination of company's financial statements and accounting practices

➤ Generally accepted accounting principles (GAAPs)

Guidelines and practices for companies reporting financial information and for the accounting profession

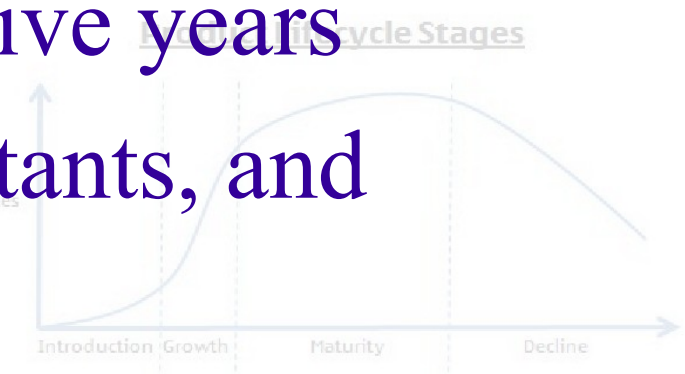
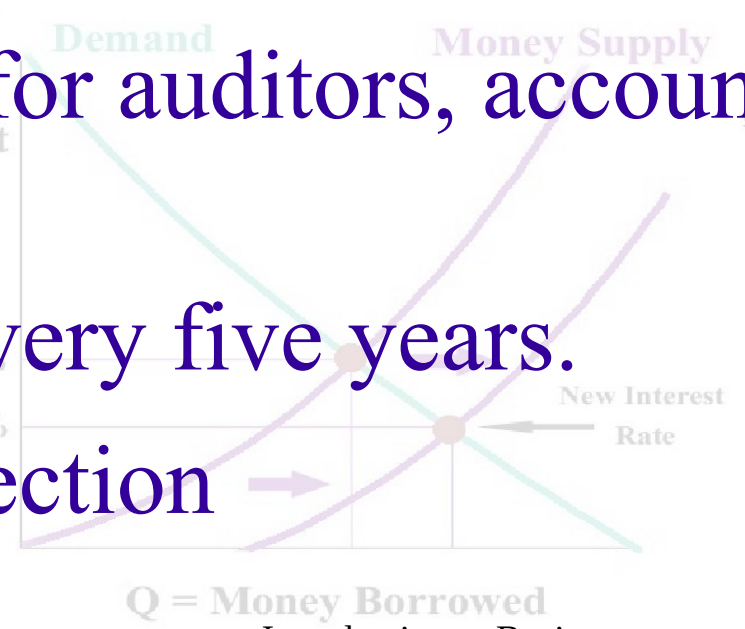


Sarbanes Oxley 2002

- The SEC must police the accounting industry
- Top executives must certify periodic financial reports
- “Chinese Wall” between accounting firms and the audit firms.

- Auditors must maintain documents for five years
- Maximum 20 years for auditors, accountants, and employees

- Change audit firm every five years.
- Whistle blower protection



Types of accounting

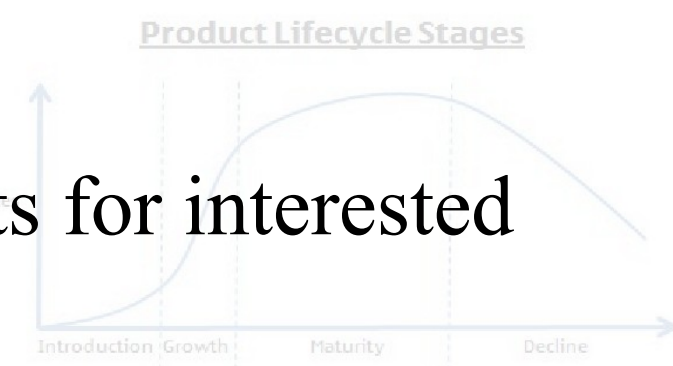
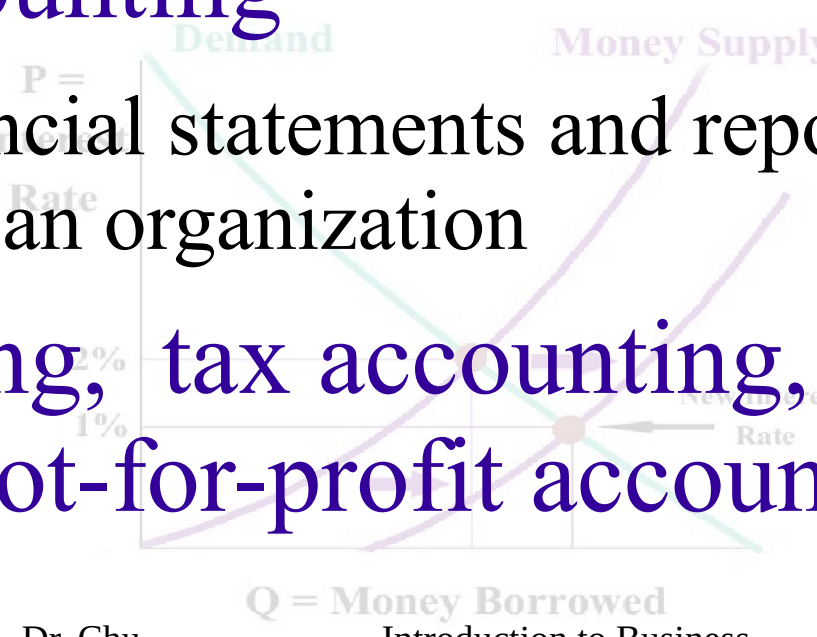
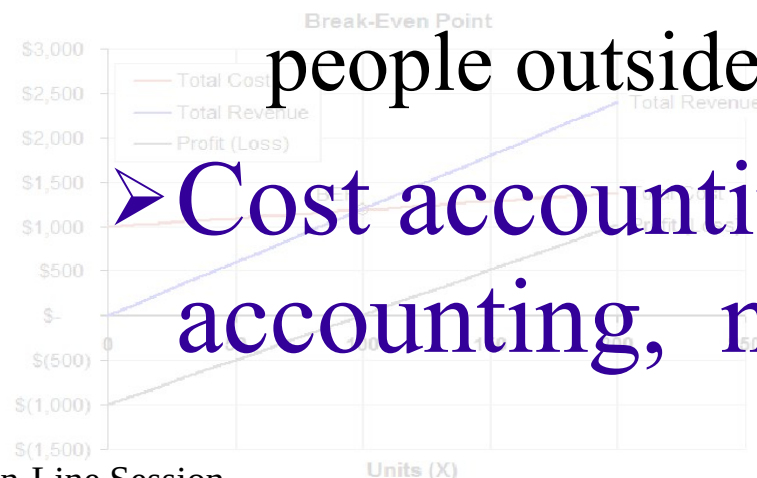
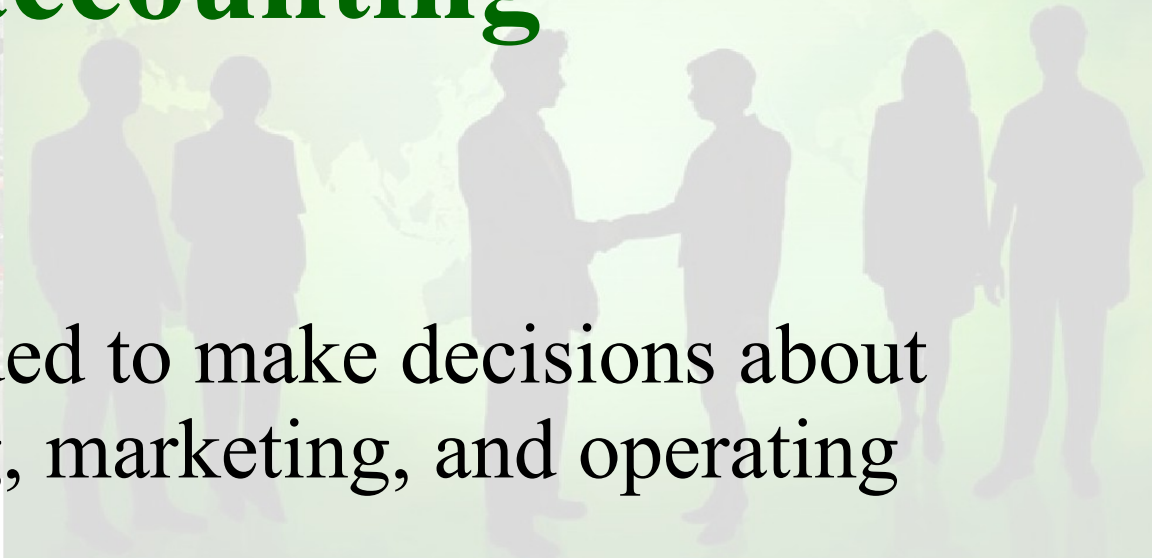
➤ Managerial accounting

Provides information needed to make decisions about firm's financing, investing, marketing, and operating activities.

➤ Financial accounting

Generates financial statements and reports for interested people outside an organization

➤ Cost accounting, tax accounting, government accounting, not-for-profit accounting



Becoming an accountant

➤ Quality

Ethical, financial management, accounting software, good communication skills

➤ Private accountant

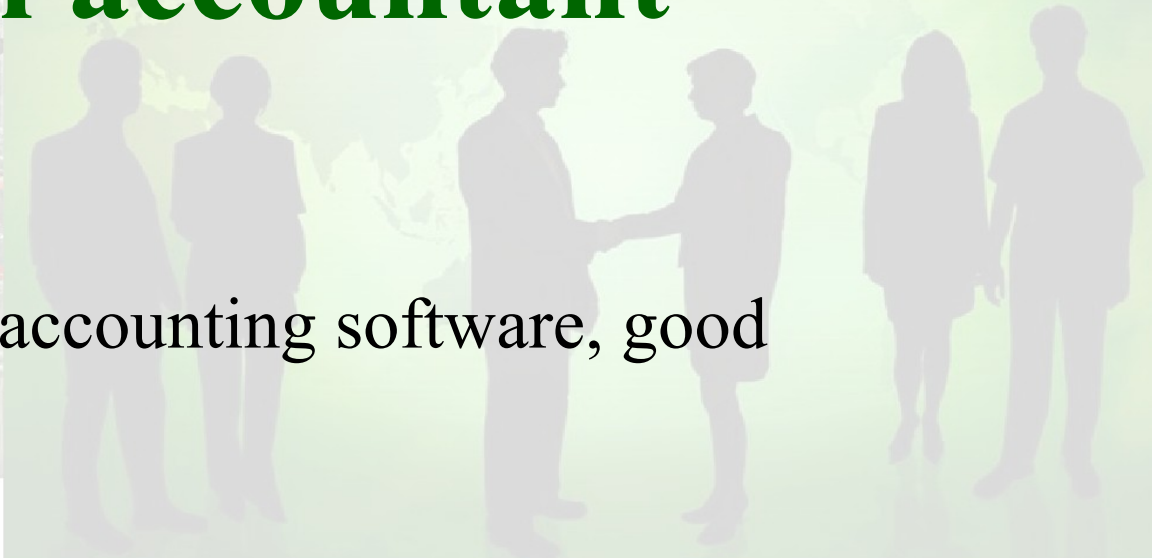
Employed by a specific organization

➤ Public accountant

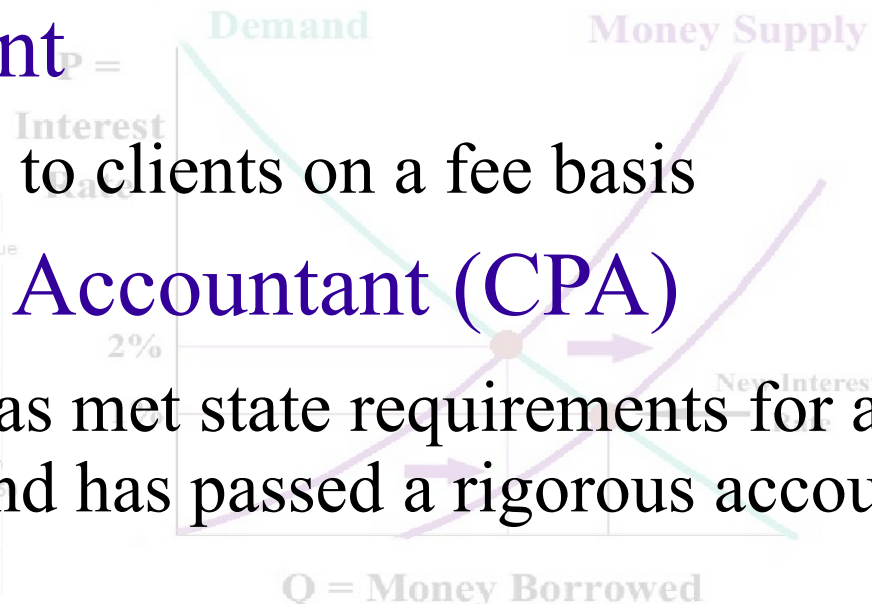
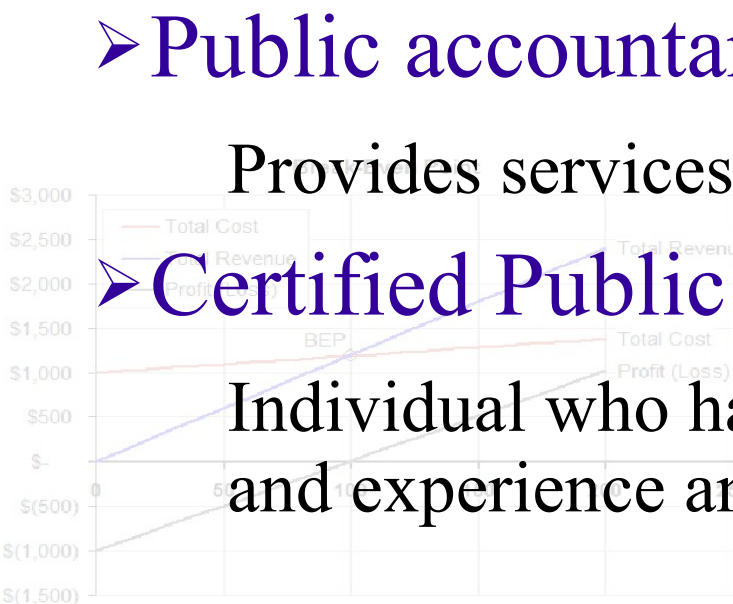
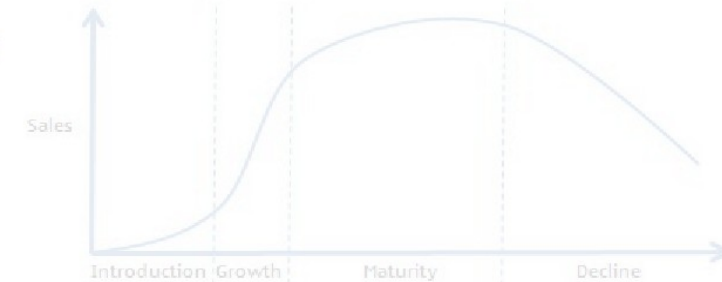
Provides services to clients on a fee basis

➤ Certified Public Accountant (CPA)

Individual who has met state requirements for accounting education and experience and has passed a rigorous accounting examination



Product Lifecycle Stages



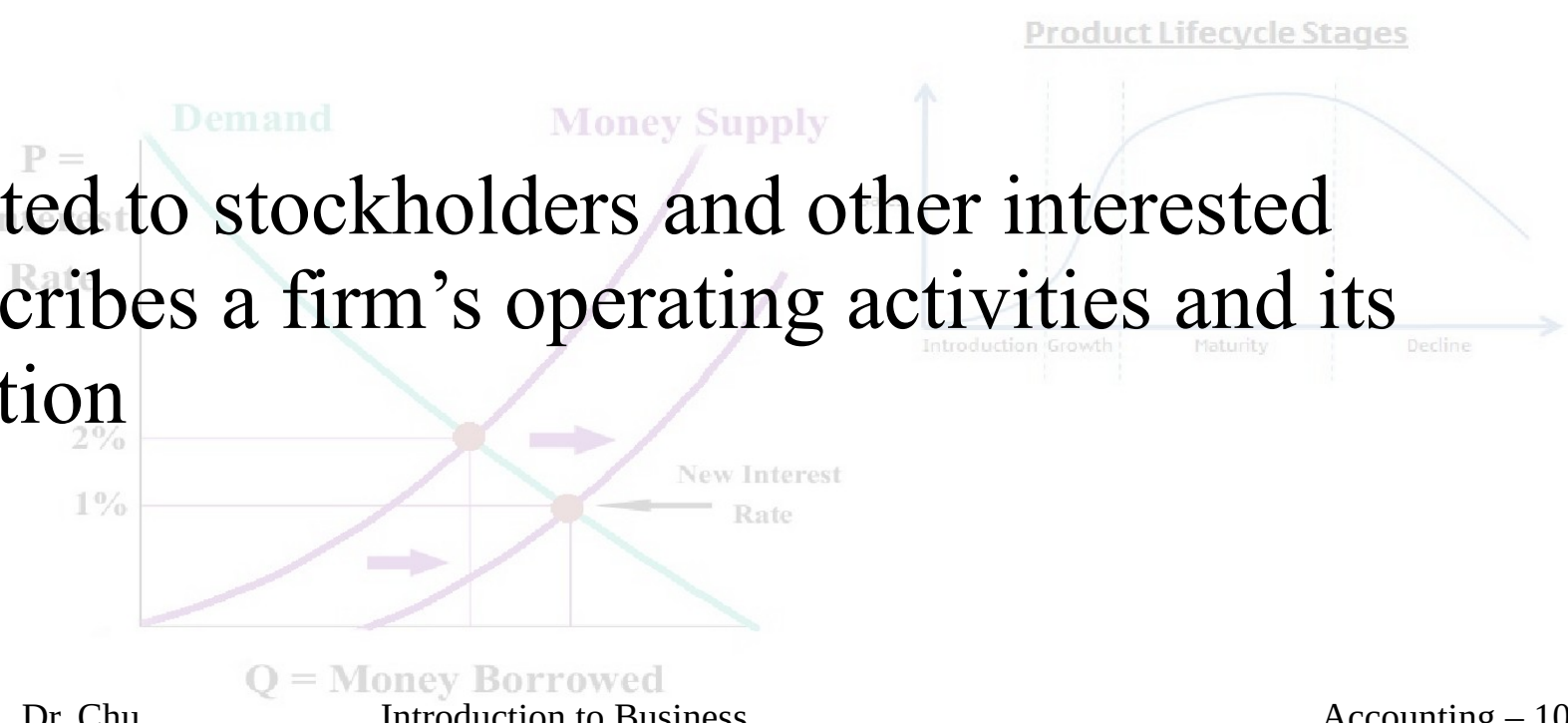
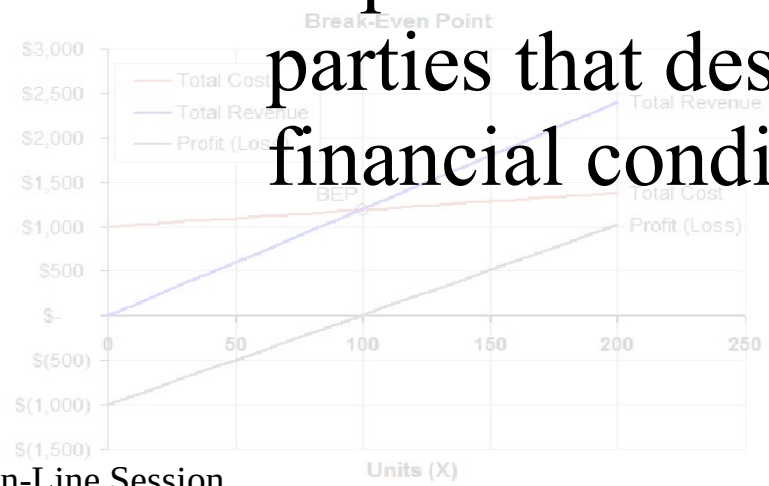
Recording accounting activity

➤ Double-entry bookkeeping system

Each financial transaction is recorded as two separate accounting entries to maintain the balance of the accounting equation

➤ Annual report

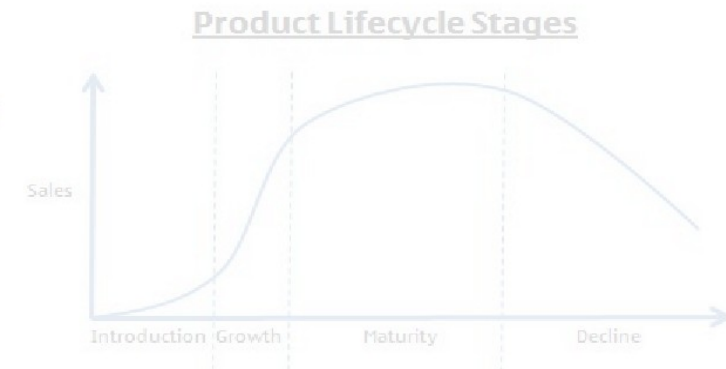
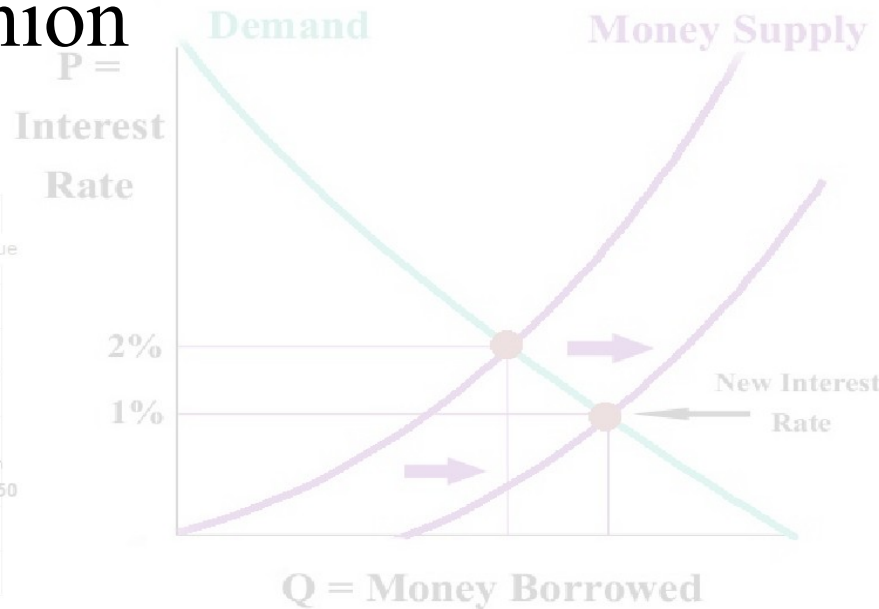
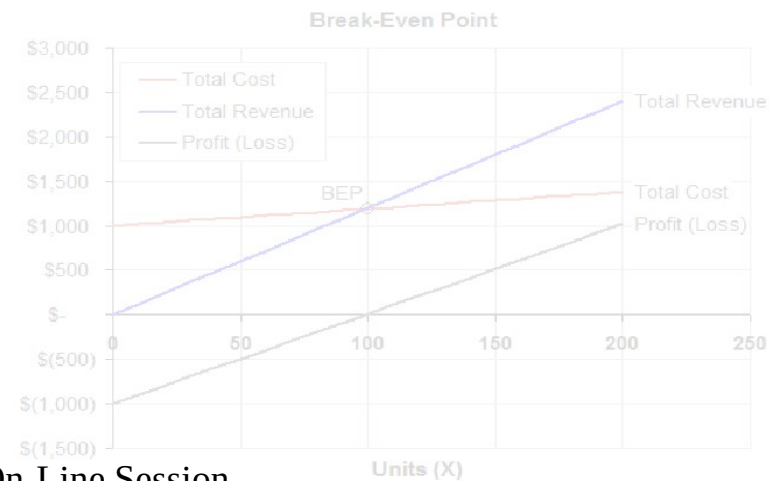
Report distributed to stockholders and other interested parties that describes a firm's operating activities and its financial condition



Annual reports

Accountants prepares the following reports:

- ❑ Balance sheets
- ❑ Income Statement
- ❑ Statement of cash flow
- ❑ Auditor's opinion



The balance sheet

◆ The accounting equation

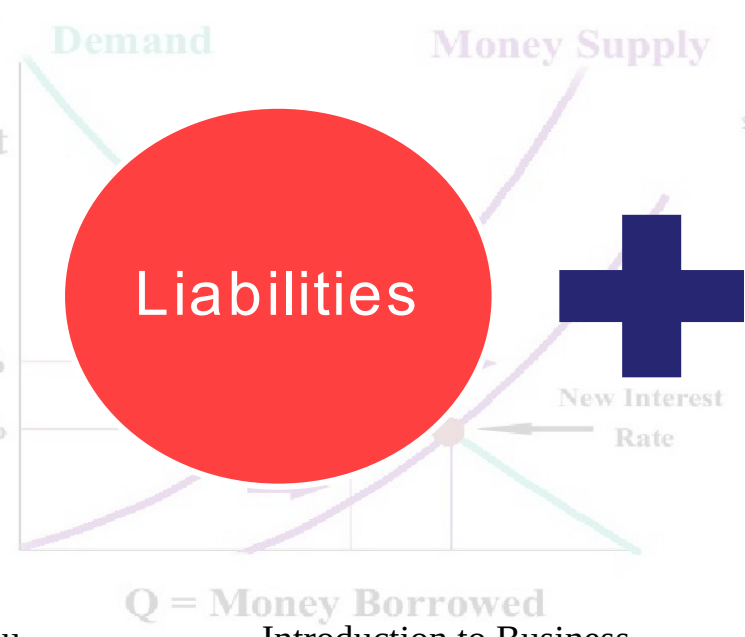
- Assets: Resources that a business owns
- Liabilities: The firm's debts
- Owners' equity: Difference between assets and liabilities



$P =$
Interest
Rate



+



Items in the balance sheet

➤ Balance Sheet

Summary of the dollar amounts of a firm's assets, liabilities, and owners' equity accounts at the end of a specific accounting period

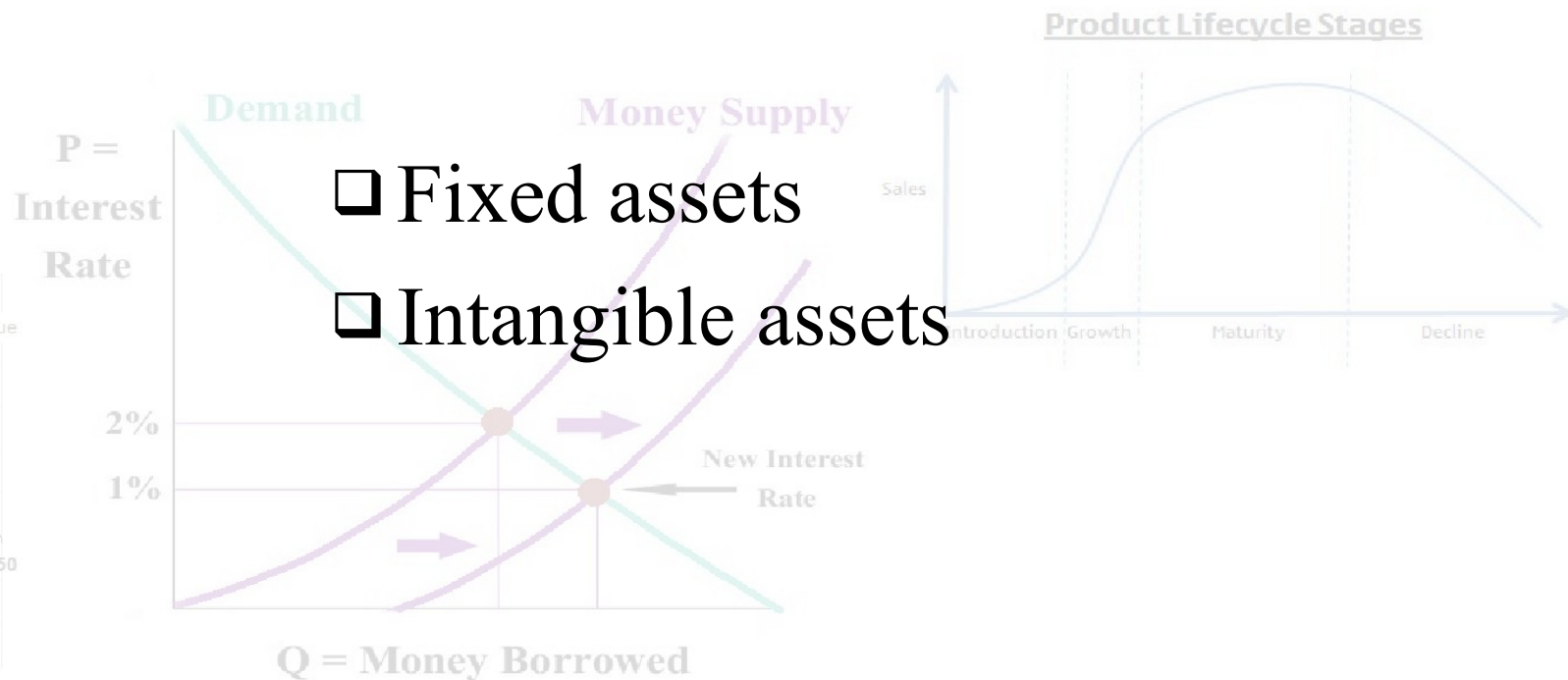
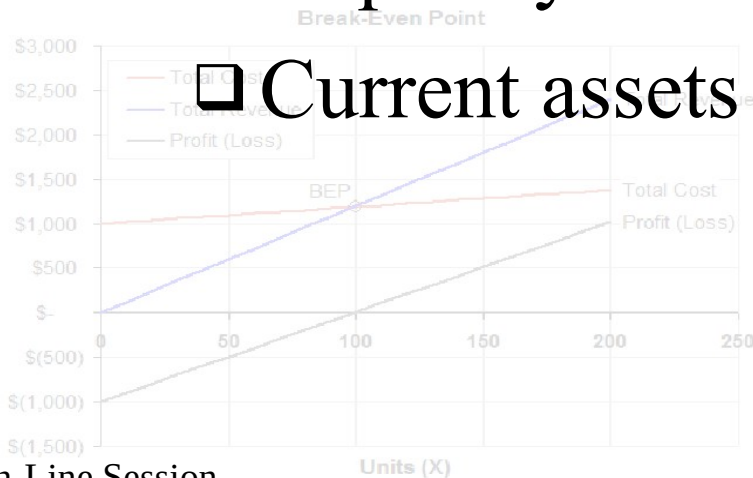
➤ Assets

Liquidity

Current assets

Fixed assets

Intangible assets



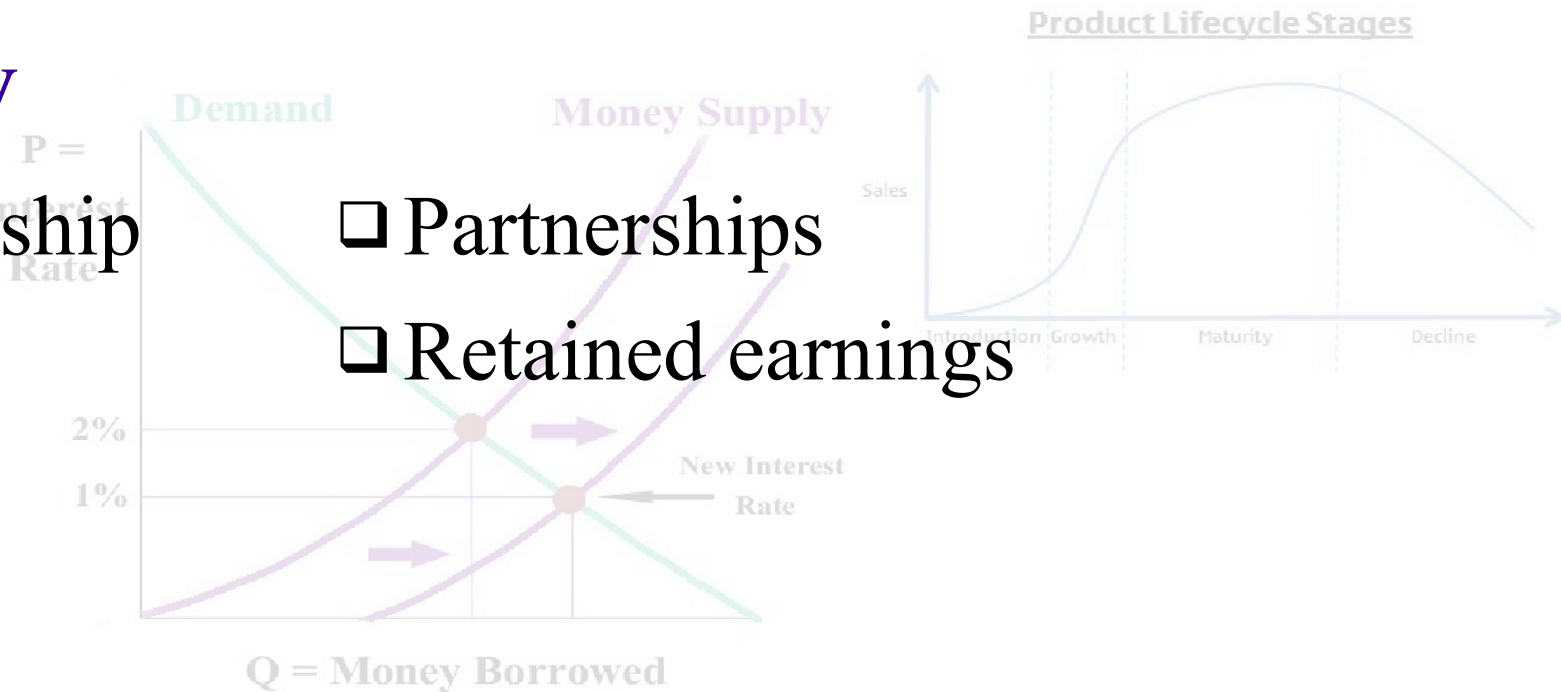
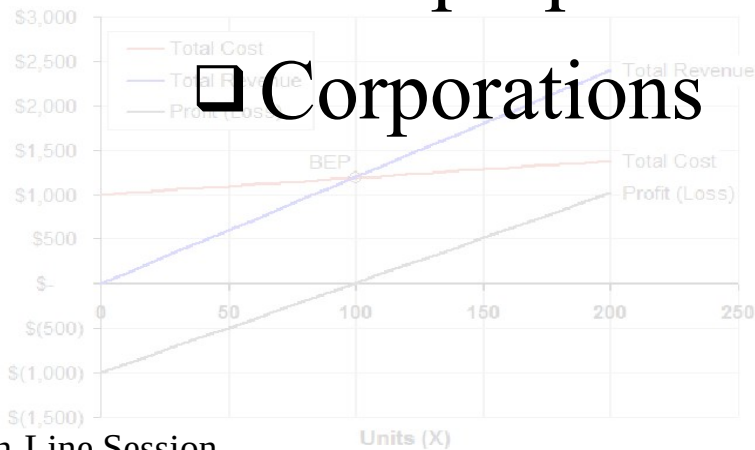
Items in the balance sheet

➤ Liabilities

- Current liabilities
- Long-term liabilities
- Accounts payable
- Notes / Bonds payable

➤ Owners equity

- Sole proprietorship
- Corporations
- Partnerships
- Retained earnings



The income statement

◆ Summary of a firm's revenues and expenses during a specified accounting period

◆ Revenues

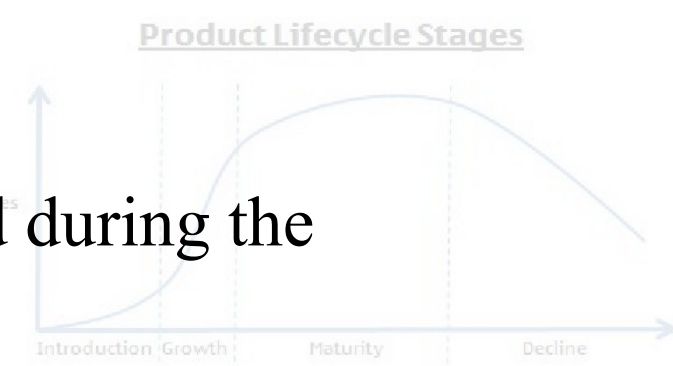
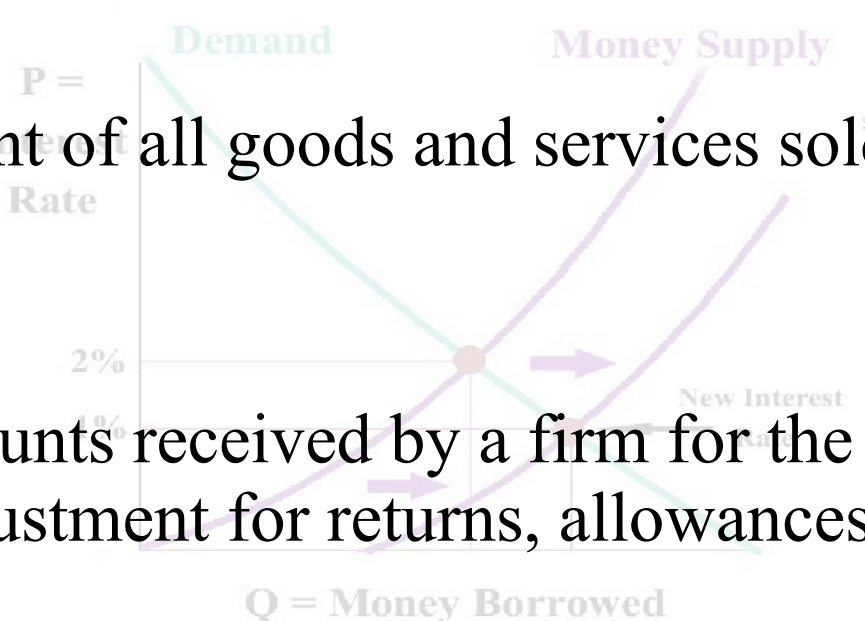
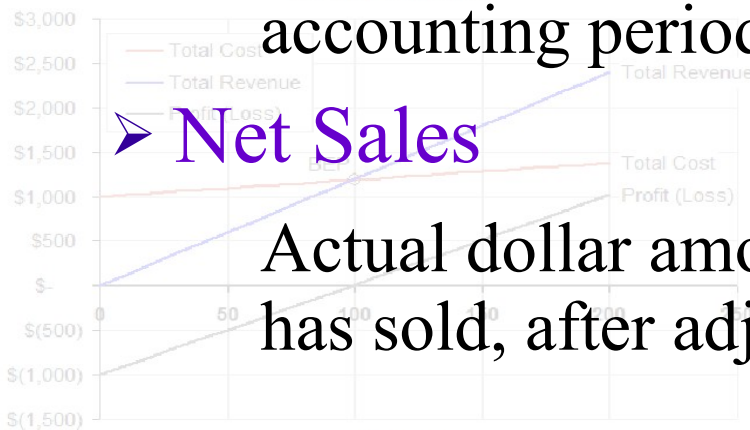
Dollar amounts earned by a firm from selling goods, providing services, or performing business activities

➤ Gross sales

Total dollar amount of all goods and services sold during the accounting period

➤ Net Sales

Actual dollar amounts received by a firm for the goods and services it has sold, after adjustment for returns, allowances, discounts



Some formula on income statement

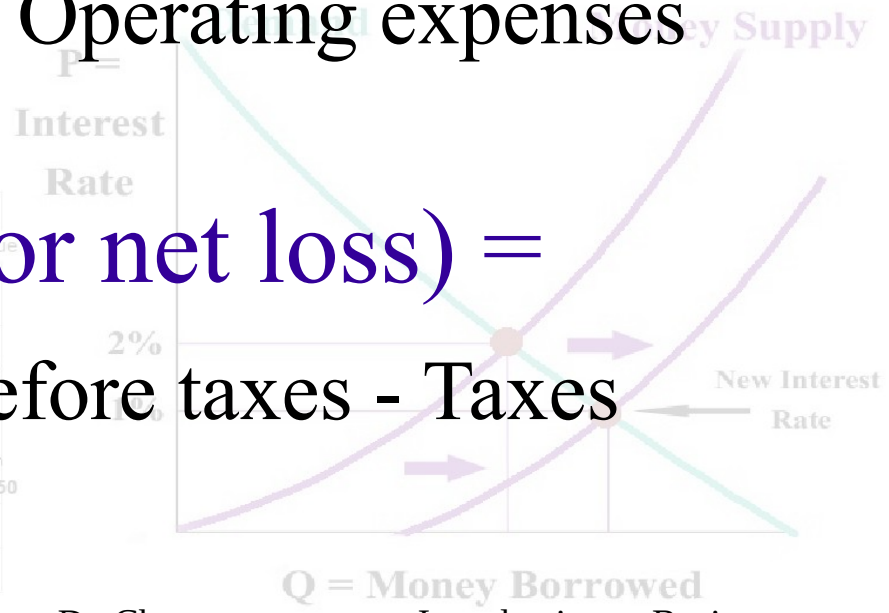
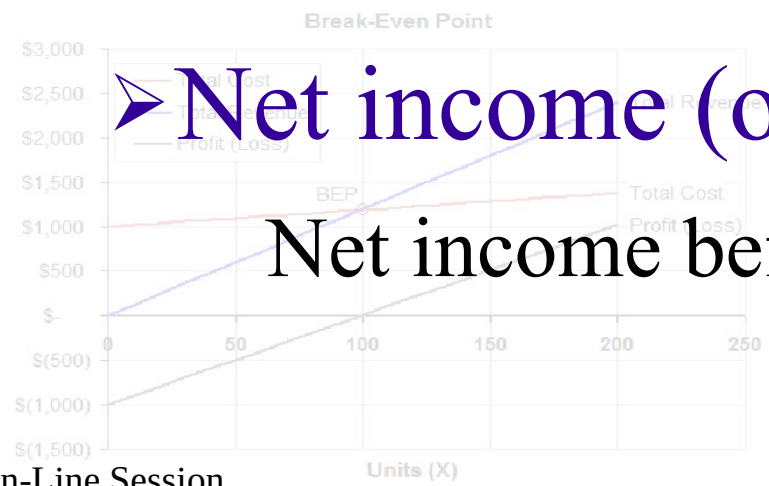
➤ Gross profit =
Revenue – Cost of revenue

➤ Net income before taxes =
Gross profit – Operating expenses

➤ Net income (or net loss) =
Net income before taxes - Taxes

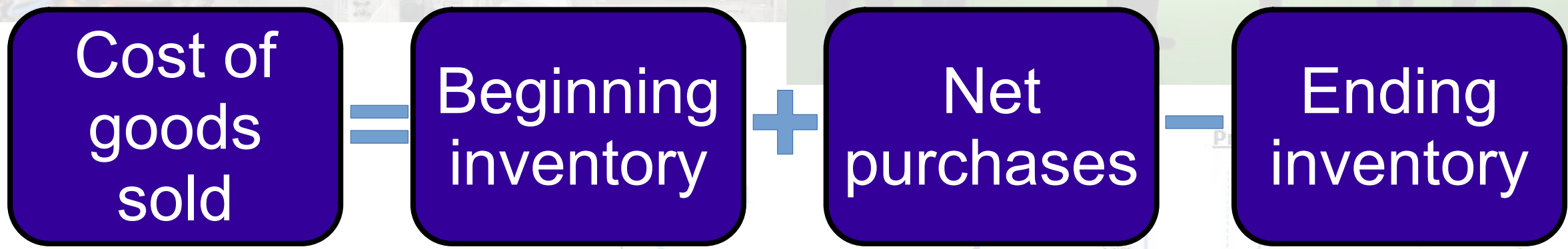


Product Lifecycle Stages

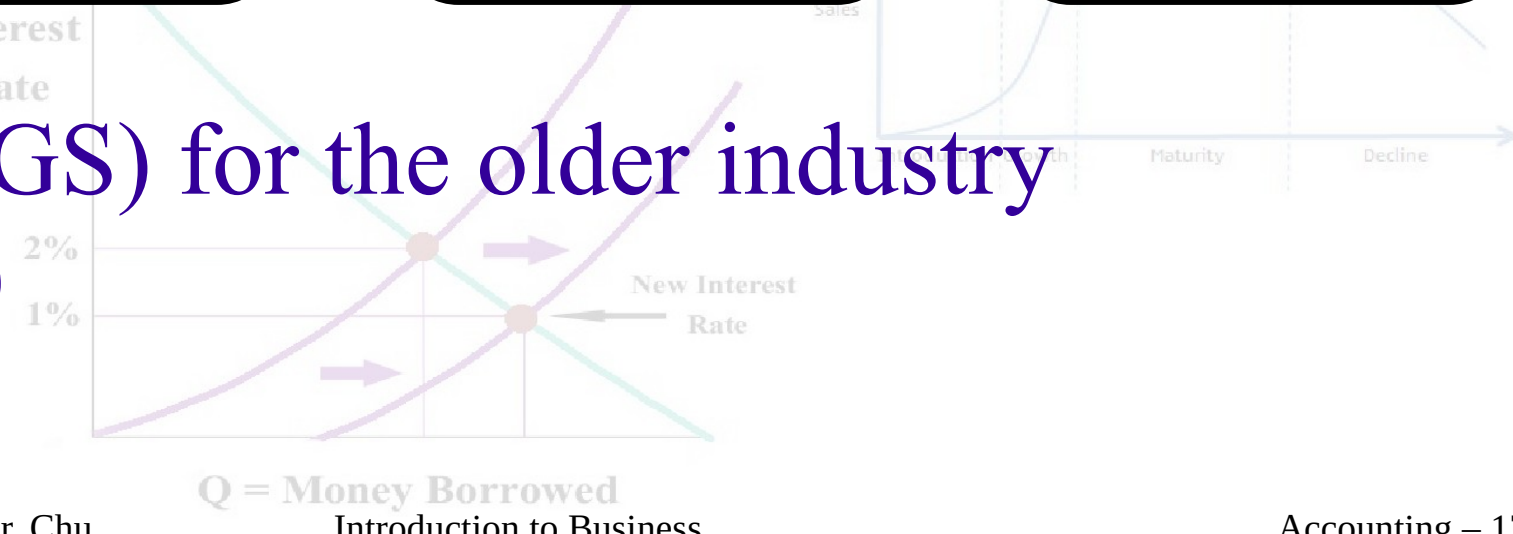
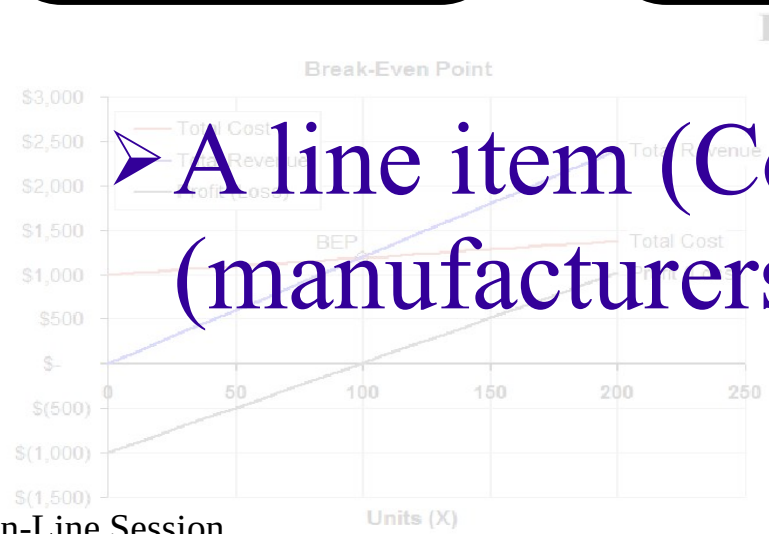


Items in the income statement

- Cost of revenue a/k/a “Cost of goods sold (CoGS)”



- A line item (CoGS) for the older industry (manufacturers)



Items in the income statement

➤ Operating expenses

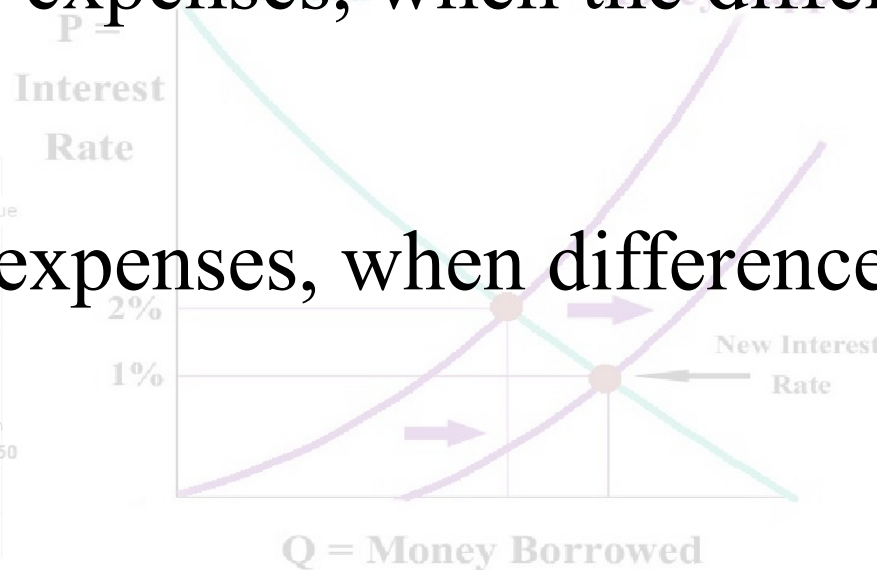
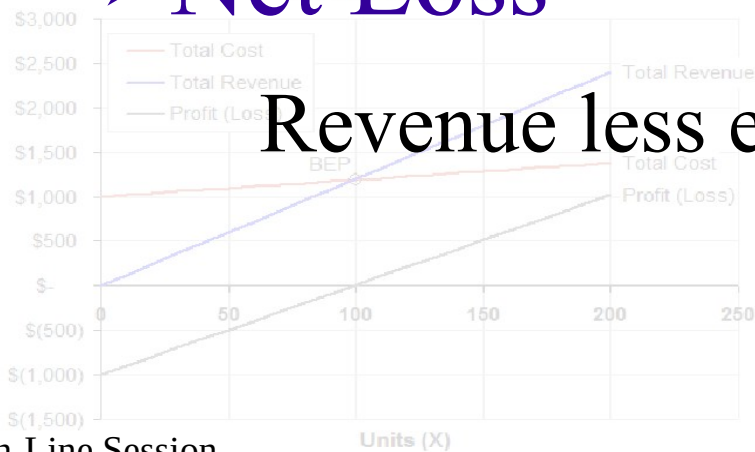
All other business costs that is not part of cost of revenue (or CoGS)

➤ Net income

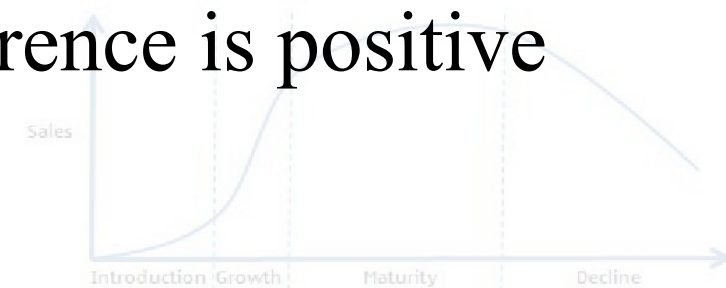
Revenues less expenses, when the difference is positive

➤ Net Loss

Revenue less expenses, when difference is negative



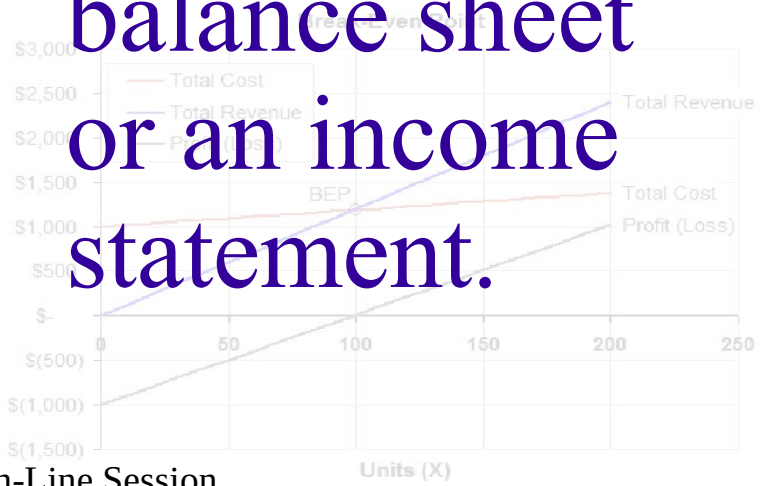
Product Lifecycle Stages



A quick test

For each of the following accounting entries, indicate whether it belongs on a balance sheet or an income statement.

Item	Balance sheet	Income statement
Rent		
Cash		
Patent		
Mortgage payment		
Net income		
Salaries payable		
Purchase		
Delivery equipment		
Sales		
Cost of goods sold		
Common stock		



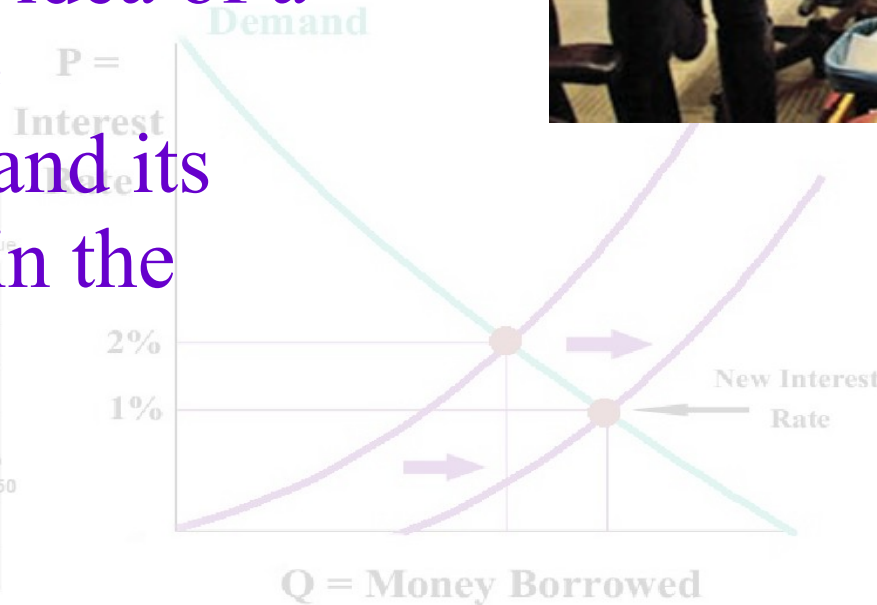
Evaluating financial statements

◆ Comparing financial data

- Comparisons are possible because of GAAP
- Gives general idea of a firm's relative effectiveness and its standing within the industry



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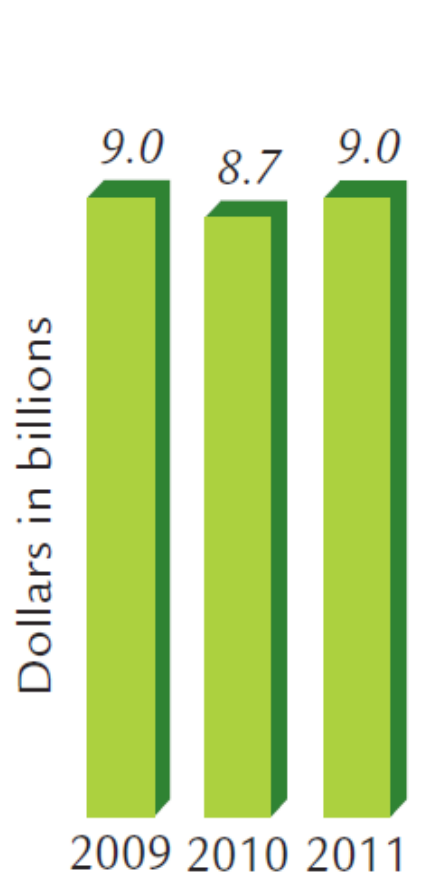


Evaluating financial statements

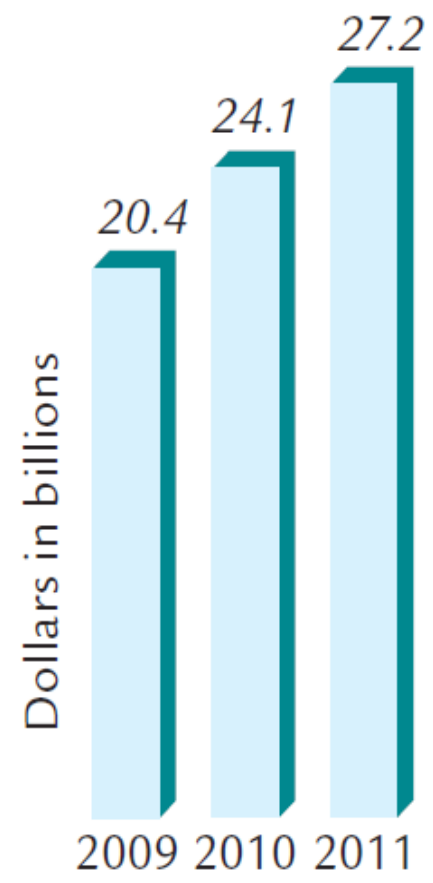
REVENUE



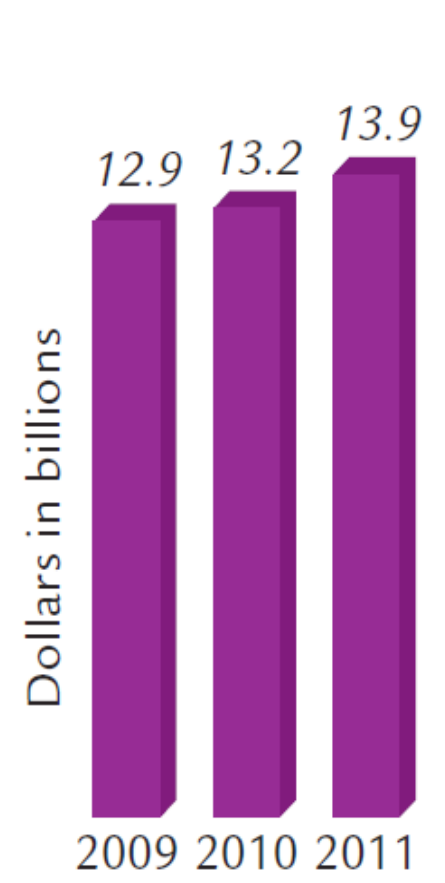
R&D SPENDING



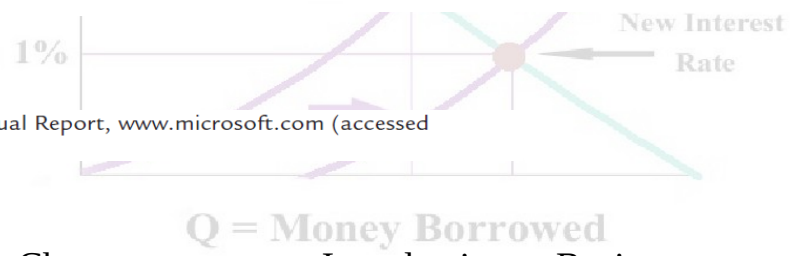
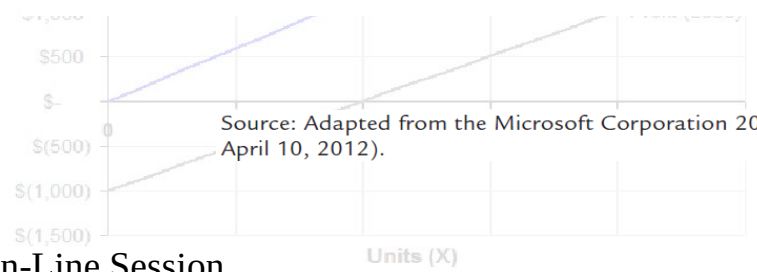
OPERATING INCOME



SALES AND MARKETING EXPENSE



Source: Adapted from the Microsoft Corporation 2011 Annual Report, www.microsoft.com (accessed April 10, 2012).



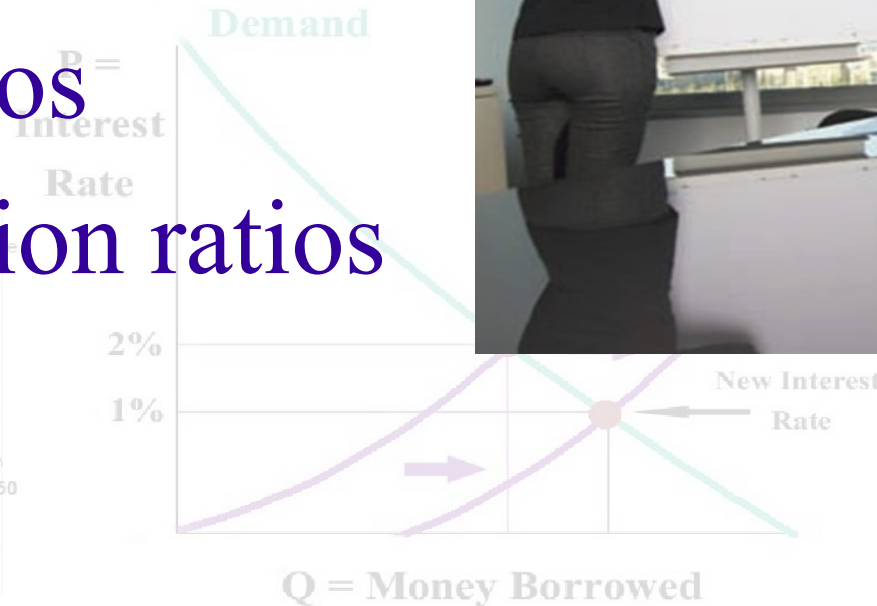
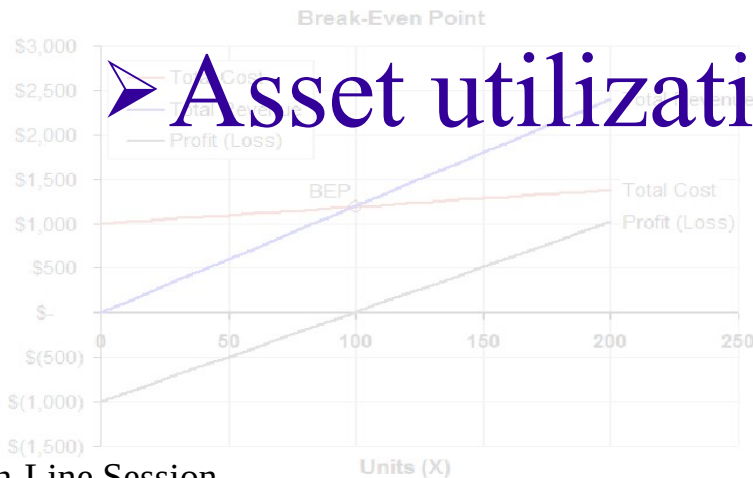
Financial ratios

Numbers that show the relationship between two elements of a firm's financial statements

- Liquidity ratios
- Profitability ratios
- Leverage ratios
- Asset utilization ratios



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Liquidity ratios

➤ Common ratios are:

Current ratio, quick (acid-test) ratio, and cash ratio.

➤ Current ratio: Financial ratio computed by dividing current assets by current liabilities

$$\text{Current ratio} = \text{current assets} / \text{current liabilities}$$

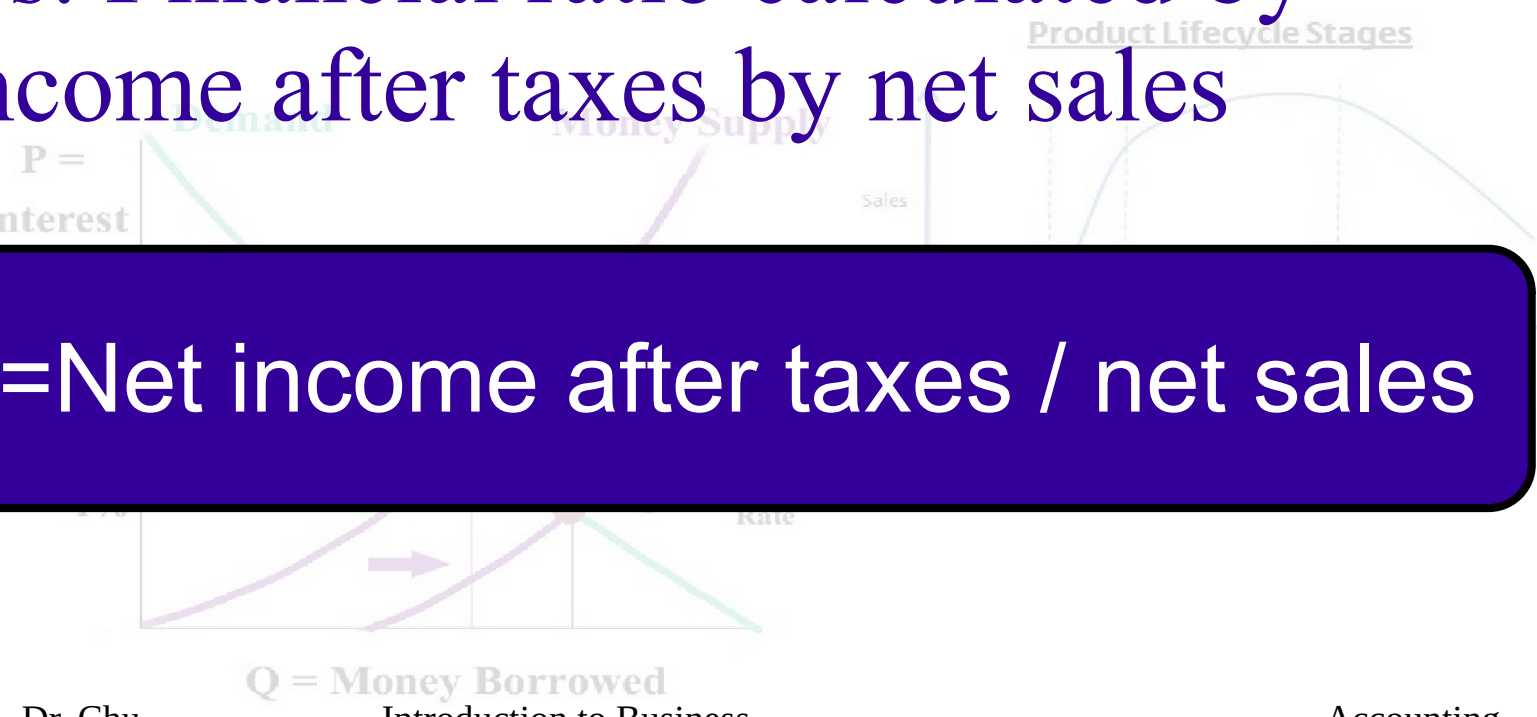
Profitability ratios

➤ Common ratios are:

Return on sales, return on assets, return on equity, return on invested capital, earning per share (EPS).

➤ Return on sales: Financial ratio calculated by dividing net income after taxes by net sales

$$\text{Return on sales} = \text{Net income after taxes} / \text{net sales}$$



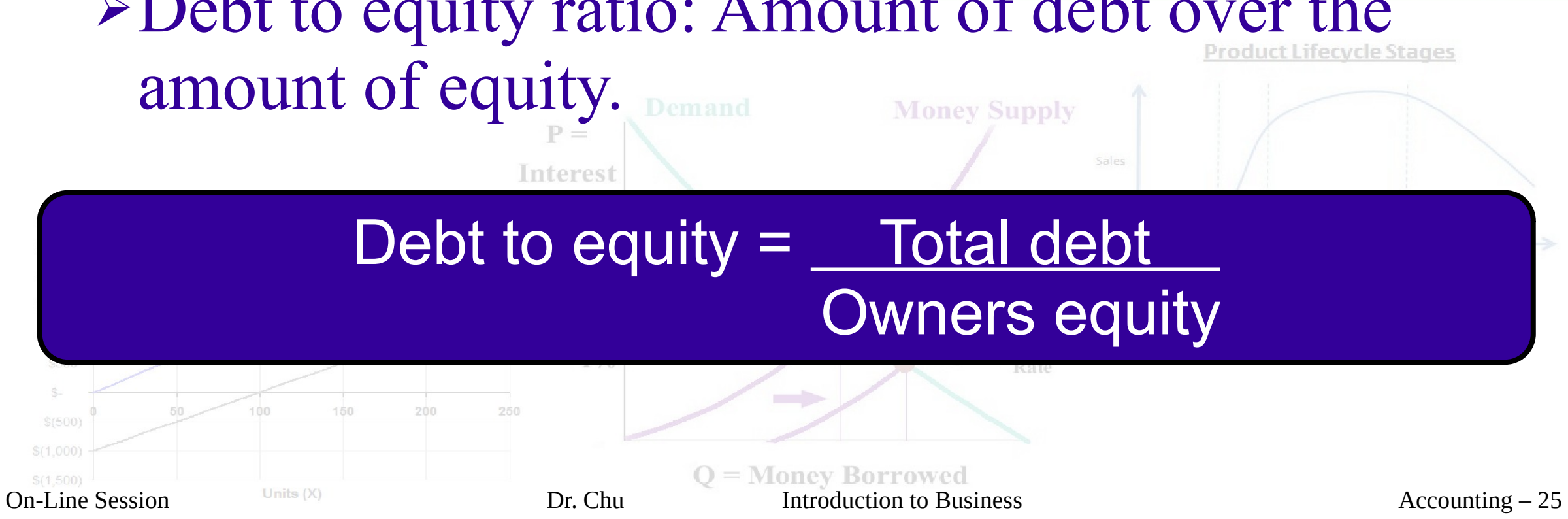
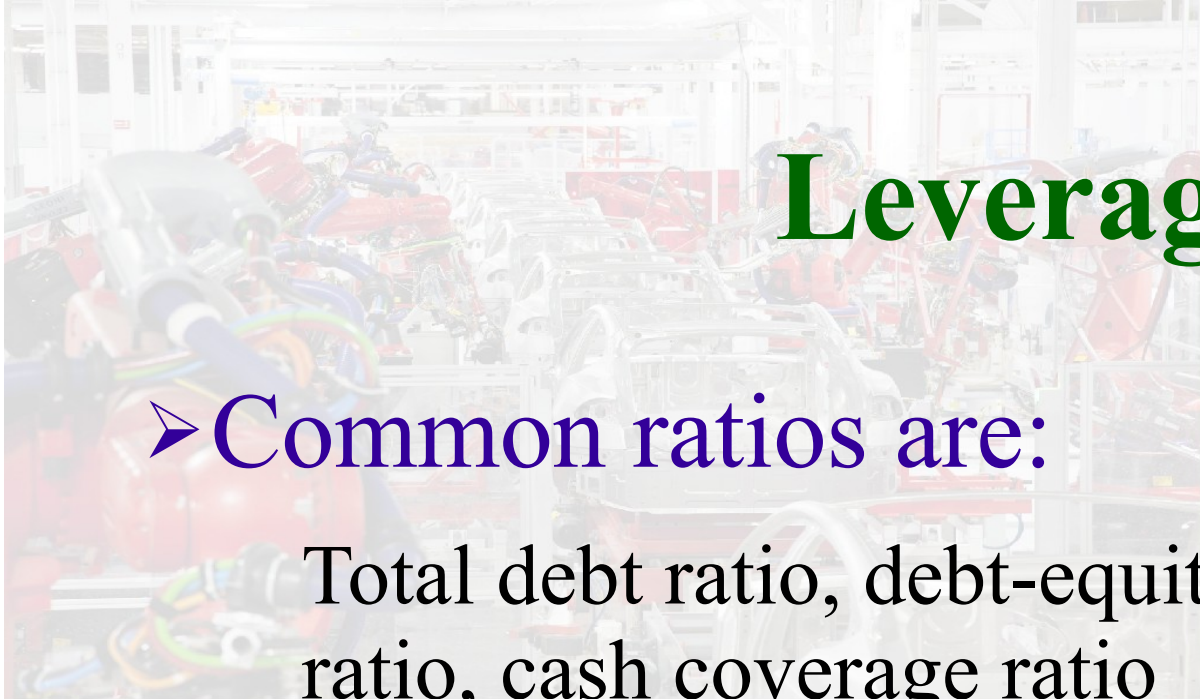
Leverage ratios

➤ Common ratios are:

Total debt ratio, debt-equity ratio, times interest earned ratio, cash coverage ratio

➤ Debt to equity ratio: Amount of debt over the amount of equity.

$$\text{Debt to equity} = \frac{\text{Total debt}}{\text{Owners equity}}$$



Asset utilization ratios

➤ Common ratios are:

Inventory turnover, days' sales in inventory, receivables turnover, days' sales in receivables

➤ Inventory turnover: The number of times the firm sells its merchandise inventory in one year

$$\text{Inventory turnover} = \frac{\text{Cost of revenue}}{\text{average inventory}}$$



Product Lifecycle Stages