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SUPPLEMENTARY MATERIAL

Understanding Apple's Balance Sheet[1]

By Investopedia | February 10, 2015 — 6:01 PM EST

For investors in Apple, Inc., the investment has certainly been fruitful. For those who are late to the party and are considering investing in the Cupertino-based consumer products giant, a good place to start gauging the company is its balance sheet. A company's balance sheet presents a picture of its financial situation at a certain point in time. For an investor who wants to understand a company and its potential, the balance sheet is a good guide.

Apple's balance sheet is available in the "Investor News Section" of the company's corporate website as its 10-K filing with the Securities and Exchange Commission. Investors can also access Apple's unaudited balance sheet, which it releases with its quarterly earnings.

Balance Sheet Components

The balance sheet of a company breaks down into its assets (or what it owns), liabilities (or what it owes), and its shareholders' equity (or the money that belongs to shareholders after paying off all liabilities). The total of its assets is equal to the sum of its shareholders' equity plus its liabilities. In the case of Apple, as of September 27, 2014, this consisted of $231.839 billion on the assets side, total liabilities of $120.292, and total shareholders' equity of $111.547 billion.

Cash Is King

For Apple, its strong cash position is a major strength. The company holds cash and cash equivalents of $13.8 billion, and also holds $11.23 billion in marketable securities that can easily be converted into cash. Thus, it has an ample cash chest. A lot of this is held overseas and the company would have to pay US taxes on the money to bring it into the country. That is why the company prefers to borrow money to engage in its share buyback program.

[1] http://www.investopedia.com/stock-analysis/021015/understanding-apples-balance-sheet-appl.aspx

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 27, 2014	September 28, 2013
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 13,844	$ 14,259
Short-term marketable securities	11,233	26,287
Accounts receivable, less allowances of $86 and $99, respectively	17,460	13,102
Inventories	2,111	1,764
Deferred tax assets	4,318	3,453
Vendor non-trade receivables	9,759	7,539
Other current assets	9,806	6,882
Total current assets	68,531	73,286
Long-term marketable securities	130,162	106,215
Property, plant and equipment, net	20,624	16,597
Goodwill	4,616	1,577
Acquired intangible assets, net	4,142	4,179
Other assets	3,764	5,146
Total assets	$ 231,839	$ 207,000
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 30,196	$ 22,367
Accrued expenses	18,453	13,856
Deferred revenue	8,491	7,435
Commercial paper	6,308	0
Total current liabilities	63,448	43,658
Deferred revenue – non-current	3,031	2,625
Long-term debt	28,987	16,960
Other non-current liabilities	24,826	20,208
Total liabilities	120,292	83,451
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value; 12,600,000 shares authorized; 5,866,161 and 6,294,494 shares issued and outstanding, respectively	23,313	19,764
Retained earnings	87,152	104,256
Accumulated other comprehensive income/(loss)	1,082	(471)
Total shareholders' equity	111,547	123,549
Total liabilities and shareholders' equity	$ 231,839	$ 207,000

See accompanying Notes to Consolidated Financial Statements.

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Accounts receivable make up $17.4 billion. This represents the amounts owed by the companies it does business with, such as cellular network carriers, retailers and wholesalers, and government and education customers. Extending credit in business transactions is a risk, and Apple has credit insurance to limit its risk to this exposure. Two big customers account for 10 percent of the company's receivables.

Another major asset is Apple's $130.16 billion in long-term marketable securities. This includes about $79 billion in corporate securities and about $22 billion in US Treasurys. These investments are subject to interest rate risk if interest rates start moving up. The company also reports about $20 billion in the property, plant, and equipment category. This represents the value of what it owns in property and equipment after accounting for the wear and tear associated with use.

Apple also reports $4.6 billion of goodwill, an intangible asset that represents the company's estimate of the positive consumer association with its brand name. For the September 2014 period, the company tacked on $2.2 billion in goodwill connected to its acquisition of Beats Music in July 2014 for $2.6 billion. The acquisition was mostly financed with Apple's readily available cash holding--useful for such acquisitions.

The Liabilities Side

Apple's current liabilities are about $63 billion, which includes its $30 billion accounts payable, or the amount it owes companies it does business with, as well as more than $6 billion in commercial paper it issued. The company issued commercial paper debt to finance activities such as share buy backs it has committed to, as well as to pay out dividends.

The company has total long-term debt of more than $28 billion, which includes both fixed-rate debt, on which the interest rate is fixed, and floating-rate debt, on which the interest rate could move up. In order to manage the risk that interest rates could move against the company, Apple has also entered into interest rate swaps. The company's other non-current liabilities, or those that are not due for a while, amount to about $25 billion.

In addition, Apple's shareholder equity position includes about $23 billion, representing its equity base, and more than $87 billion in the earnings it has generated for its shareholders over time. The company had a stock split in June 2014, giving out seven shares for every share held by an investor.

Analyzing the Balance Sheet

Another way to understand Apple's financial position is to look at certain ratios that give an idea of how the company manages its business. One major ratio for this purpose is the liquidity ratio, which provides a measure of how easily the company can pay off its creditors if it had to. This is obtained by taking stock of Apple's current assets versus its current liabilities. In Apple's case, this is a healthy 1.08, indicating the company has enough current assets on hand to cover its current liabilities.

Looking at how much Apple is leveraged, or how much debt it has in relation to its equity position, also provides investors an idea about how prudently its debt is managed. Too much debt relative to equity indicates that a company is over-leveraged. This could be a red flag since it will have less breathing room if it runs into trouble. Apple's debt-to-equity ratio of about .32 is certainly a conservative ratio and gives it lots of breathing room.

As for the company's profitability, it has obtained a healthy return on the equity it has on its balance sheet, generating a net profit of more than $39 billion on its sales and making for a return on equity of about 35 percent.

The Bottom Line

A reading of Apple's balance sheet certainly suggests that it is a well-managed company. It presents its information in a reader-friendly format and does not have any significant exposure to off-the-balance sheet items that might obfuscate its true situation. However, investors should note that a company's balance sheet could deteriorate as its earnings situation and industry position change. Thus, it is important to look at its most recent balance sheet before investing.

The Essentials Of Corporate Cash Flow[2]

By Investopedia Staff

If a company reports earnings of $1 billion, does this mean it has this amount of cash in the bank? Not necessarily. Financial statements are based on accrual accounting, which takes into account non-cash items. It does this in an effort to best reflect the financial health of a company. However, accrual accounting may create accounting noise, which sometimes needs to be tuned out so that it's clear how much actual cash a company is generating. The statement of cash flow provides this information, and here we look at what cash flow is and how to read the cash flow statement.

What Is Cash Flow?

Business is all about trade, the exchange of value between two or more parties, and cash is the asset needed for participation in the economic system. For this reason - while some industries are more cash intensive than others - no business can survive in the long run without generating positive cash flow per share for its shareholders. To have a positive cash flow, the company's long-term cash inflows need to exceed its long-term cash outflows. (For more, see *What Is Money?*)

An outflow of cash occurs when a company transfers funds to another party (either physically or electronically). Such a transfer could be made to pay for employees, suppliers and creditors, or to purchase long-term assets and investments, or even pay for legal expenses and lawsuit settlements. It is important to note that legal transfers of value through debt - a purchase made on credit - is not recorded as a cash outflow until the money actually leaves the company's hands.

A cash inflow is of course the exact opposite; it is any transfer of money that comes into the company's possession. Typically, the majority of a company's cash inflows are from customers, lenders (such as banks or bondholders) and investors who purchase company equity from the company. Occasionally cash flows come from sources like legal settlements or the sale of company real estate or equipment.

Cash Flow vs Income

It is important to note the distinction between being profitable and having positive cash flow transactions: just because a company is bringing in cash does not mean it is making a profit (and vice versa).

[2] http://www.investopedia.com/articles/01/110701.asp

For example, say a manufacturing company is experiencing low product demand and therefore decides to sell off half its factory equipment at liquidation prices. It will receive cash from the buyer for the used equipment, but the manufacturing company is definitely losing money on the sale: it would prefer to use the equipment to manufacture products and earn an operating profit. But since it cannot, the next best option is to sell off the equipment at prices much lower than the company paid for it. In the year that it sold the equipment, the company would end up with a strong positive cash flow, but its current and future earnings potential would be fairly bleak. Because cash flow can be positive while profitability is negative, investors should analyze income statements as well as cash flow statements, not just one or the other.

What Is the Cash Flow Statement?

There are three important parts of a company's financial statements: the balance sheet, the income statement and the cash flow statement. The balance sheet gives a one-time snapshot of a company's assets and liabilities (see *Reading the Balance Sheet*). And the income statement indicates the business's profitability during a certain period (see *Understanding The Income Statement*).

The cash flow statement differs from these other financial statements because it acts as a kind of corporate checkbook that reconciles the other two statements. Simply put, the cash flow statement records the company's cash transactions (the inflows and outflows) during the given period. It shows whether all those lovely revenues booked on the income statement have actually been collected. At the same time, however, remember that the cash flow does not necessarily show all the company's expenses: not all expenses the company accrues have to be paid right away. So even though the company may have incurred liabilities it must eventually pay, expenses are not recorded as a cash outflow until they are paid (see the section "What Cash Flow Doesn't Tell Us" below).

The following is a list of the various areas of the cash flow statement and what they mean:

- *Cash flow from operating activities* - This section measures the cash used or provided by a company\'s normal operations. It shows the company\'s ability to generate consistently positive cash flow from operations. Think of "normal operations" as the core business of the company. For example, Microsoft\'s normal operating activity is selling software.
- *Cash flows from investing activities* - This area lists all the cash used or provided by the purchase and sale of income-producing assets. If Microsoft, again our example, bought or sold companies for a profit or loss, the resulting figures would be included in this section of the cash flow statement.
- *Cash flows from financing activities* - This section measures the flow of cash between a firm and its owners and creditors. Negative numbers can mean the company is servicing debt but can also mean the company is making dividend payments and stock repurchases, which investors might be glad to see.

When you look at a cash flow statement, the first thing you should look at is the bottom line item that says something like "net increase/decrease in cash and cash equivalents", since this line reports the overall change in the company's cash and its equivalents (the assets that can be immediately converted into cash) over the last period. If you check under current assets on the balance sheet, you will find cash and cash equivalents (CCE or CC&E). If you take the difference between the current CCE and last year's or last quarter's, you'll get this same number found at the bottom of the statement of cash flows.

In the sample Microsoft annual cash flow statement (from June 2004) shown below, we can see that the company ended up with about $9.5 billion more cash at the end of its 2003/04 fiscal year than it had at the beginning of that fiscal year (see "Net Change in Cash and Equivalents"). Digging a little deeper, we see that the company had a negative cash outflow of $2.7 billion from investment activities during the year (see "Net Cash from Investing Activities"); this is likely from the purchase of long-term investments, which have the potential to generate a profit in the future. Generally, a negative cash flow from investing activities are difficult to judge as either good or bad - these cash outflows are investments in future operations of the company (or another company); the outcome plays out over the long term.

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MICROSOFT CORP MSFT

Annual Cash Flow Statement

Fiscal year-end for Microsoft Corp falls in the month of June.
All items in millions except per-share data.

	06/30/04	06/30/03	06/30/02	06/30/01
Cash Flow From Operations, Investments & Financial Activities				
Net Income (Loss)	8,168	9,993	7,829	7,346
Depreciation/Amortization & Depletion	1,186	1,439	1,084	1,536
Net Change from Assets/Liabilities	0	1,046	-231	0
Net Cash from Discontinued Operations	0	0	0	375
Other Operating Activities	5,272	3,319	5,827	4,165
Net Cash From Operating Activities	14,626	15,797	14,509	13,422
Property & Equipment	-1,109	-891	-770	-1,103
Acquisition/ Disposition of Subsidiaries	-4	-1,063	0	0
Investments	-1,632	-5,259	-10,075	-7,631
Other Investing Activities	0	0	0	0
Net Cash from Investing Activities	-2,745	-7,213	-10,845	-8,734
Uses of Funds				
Issuance (Repurchase) of Capital Stock	-635	-4,366	-4,572	-5,821
Issuance (Repayment) of Debt	0	0	0	0
Increase (Decrease) Short-Term Debt	0	0	0	0
Payment of Dividends & Other Distributions	-1,729	-857	0	0
Other Financing Activities	0	0	0	235
Net Cash from Financing Activities	-2,364	-5,223	-4,572	-5,586
Effect of Exchange Rate Changes	27	61	2	-26
Net Change In Cash & Equivalents	9,544	3,422	-906	-924
Cash at Beginning of Period	6,438	3,016	3,922	4,846
Cash at End of Period	15,982	6,438	3,016	3,922

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The "Net Cash from Operating Activities" reveals that Microsoft generated $14.6 billion in positive cash flow from its usual business operations - a good sign. Notice the company has had similar levels of positive operating cash flow for several years. If this number were to increase or decrease significantly in the upcoming year, it would be a signal of some underlying change in the company's ability to generate cash.

Digging Deeper into Cash Flow

All companies provide cash flow statements as part of their financial statements, but cash flow (net change in cash and equivalents) can also be calculated as net income plus depreciation and other non-cash items.

Generally, a company's principal industry of operation determine what is considered proper cash flow levels; comparing a company's cash flow against its industry peers is a good way to gauge the health of its cash flow situation. A company not generating the same amount of cash as competitors is bound to lose out when times get rough.

Even a company that is shown to be profitable according to accounting standards can go under if there isn't enough cash on hand to pay bills. Comparing amount of cash generated to outstanding debt, known as the operating cash flow ratio, illustrates the company's ability to service its loans and interest payments. If a slight drop in a company's quarterly cash flow would jeopardize its loan payments, that company carries more risk than a company with stronger cash flow levels.

Unlike reported earnings, cash flow allows little room for manipulation. Every company filing reports with the Securities and Exchange Commission (SEC) is required to include a cash flow statement with its quarterly and annual reports. Unless tainted by outright fraud, this statement tells the whole story of cash flow: either the company has cash or it doesn't.

What Cash Flow Doesn't Tell Us

Cash is one of the major lubricants of business activity, but there are certain things that cash flow doesn't shed light on. For example, as we explained above, it doesn't tell us the profit earned or lost during a particular period: profitability is composed also of things that are not cash based. This is true even for numbers on the cash flow statement like "cash increase from sales minus expenses", which may sound like they are indication of profit but are not.

As it doesn't tell the whole profitability story, cash flow doesn't do a very good job of indicating the overall financial well-being of the company. Sure, the statement of cash flow indicates what the company is doing with its cash and where cash is being generated, but these do not reflect the company's entire financial condition. The cash flow statement does not account for liabilities and assets, which are recorded on the balance sheet. Furthermore accounts receivable and accounts payable, each of which can be very large for a company, are also not reflected in the cash flow statement.

In other words, the cash flow statement is a compressed version of the company's checkbook that includes a few other items that affect cash, like the financing section, which shows how much the

company spent or collected from the repurchase or sale of stock, the amount of issuance or retirement of debt and the amount the company paid out in dividends.

The Bottom Line

Like so much in the world of finance, the cash flow statement is not straightforward. You must understand the extent to which a company relies on the capital markets and the extent to which it relies on the cash it has itself generated. No matter how profitable a company may be, if it doesn't have the cash to pay its bills, it will be in serious trouble.

At the same time, while investing in a company that shows positive cash flow is desirable, there are also opportunities in companies that aren't yet cash-flow positive. The cash flow statement is simply a piece of the puzzle. So, analyzing it together with the other statements can give you a more overall look at a company' financial health. Remain diligent in your analysis of a company's cash flow statement and you will be well on your way to removing the risk of one of your stocks falling victim to a cash flow crunch.

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Comprehensive Income[3]

What is 'Comprehensive Income'

Comprehensive income is a statement of all income and expenses recognized during a specified period. The statement includes revenue, finance costs, tax expenses, discontinued operations, profit share and profit/loss. Most firms report comprehensive income in a separate statement from income resulting from owner changes in equity but have the option of providing information in a single statement.

BREAKING DOWN 'Comprehensive Income'

By definition, the opposite of the word comprehensive is incomplete, empty, limited or narrow. Some may say it is exclusive of something or unfinished in some way. So it is not surprising that when accountants speak of detail, they reference the word comprehensive. The more comprehensive a financial statement, the more detailed.

One of the most important financial statements is the income statement. It provides an overview of sales and expenses, including taxes and interest. At the end of the income statement is net income or earnings, but net income on the income statement is not necessarily all inclusive. That is, it only includes income from business operations. These are the activities that occur due to the company's business model and day-to-day activities. There are times when companies, especially large companies, make or lose money from the change in value of certain assets. These changes can be found on the cash flow statement; however, the net impact to earnings is found in comprehensive or other comprehensive income on the income statement.

A Few Examples

For a personal finance example, say a co-worker won the lottery. The lottery winnings are considered part of his taxable or comprehensive income but not regular income. In the corporate world, comprehensive income examples include unrealized gains and losses on available-for-sale investments. Comprehensive income also includes cash flow hedges, which can change in value depending on the value of the securities in the market, and debt securities transferred from available for sale to be held to maturity, which may incur unrealized gains or losses. Gains or losses can also be

[3] http://www.investopedia.com/terms/c/comprehensiveincome.asp

incurred from foreign currency translation adjustments. Gains or losses in pensions and/or post-retirement benefit plans are also included in comprehensive income.

In general, items that fall in these categories are infrequent; however, they are not always unusual in nature. For example, when the stock market reached a height in 2000, many companies recorded gains in comprehensive income from investments that had appreciated in value. This appreciation, and the gains from the sale of these investments, inflated earnings. Changes in comprehensive income can also deflate earnings.

Sneaky Subsidiary Tricks Can Cloud Financials[4]

By Jonas Elmerraji

In order to get a broad view of a company's financial situation, you must look not only at the company's financials, but also the financials of its subsidiaries. Consolidated financial statements provide a way for investors to get this wholesale view for companies such as FedEx and Berkshire Hathaway.

In this article, we'll look at what sort of company must produce a consolidated financial statement, what information must be excluded from the statement and what special implications these statements present. (To learn the basics of financial statement analysis, see *Introduction To Fundamental Analysis*.)

Who uses consolidated financial statements?

Companies are required to consolidate their financial statements whenever they own a controlling interest in another company. In other words, if a company is able to assert control of another company through its stake in it - regardless of the percentage of ownership - that company (called the parent company) must consolidate its financial statements with those of the subsidiary. (To learn more about subsidiaries, see *What are the differences between affiliate, associate and subsidiary companies?*)

Standard Eliminations

These consolidated statements provide a look at the operations of both the parent company and those of its subsidiaries; however, there is more to this than simply adding up the revenues of the parent and its subsidiaries.

Certain transactions - such as intercompany sales and dividends - must be eliminated from the financial statements in order to provide an accurate picture of how the company performed. These eliminations are essential to ensure that companies aren't artificially inflating their financial numbers.

Some of the typical things eliminated from consolidated financial statements include intercompany sales, and purchases, liabilities, assets and dividends attributable to affiliated companies. Also, the

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[4] http://www.investopedia.com/articles/basics/07/consolidated_financial_statements.asp?ad=dirN&qo=investopediaSiteSearch&qsrc=0&o=40186

parent company's investments and shareholders' equity in subsidiaries are both partially eliminated. This ensures that the financial statements only reflect the independent operations of each company.

How do consolidated financial statements come about?

Companies currently account for consolidations using one of two major accounting methods: the cost method and the equity method (either complete or partial). Regardless of the accounting method chosen, the end result is the same.

From the separate financial information of each company, the eliminations are made, usually through the use of what's called a "consolidated work paper". Consolidated work papers show the methodology used by accountants to step from individual statements to the consolidated statements. They provide a framework for eliminating accounting entries (which show up only on the books of the consolidated entity) in a manner that ensures no stone is left unturned.

Who owns the rest of the subsidiary?

It's popular for companies to elect not to purchase a subsidiary in its entirety. One of the leading reasons for this is cost; buying a 51% stake in a company is considerably cheaper than buying the whole thing, even though both claims provide the same amount of control in the subsidiary.

So, what about the other 49%? The remaining ownership in the company is still accounted for in the consolidated financial statements. It is referred to in these documents as "noncontrolling interest". Noncontrolling interest goes on the books as an equity account in much the same way that a sub-class of stock does. It makes sense to think of noncontrolling interest as a class of stock, such as preferred stock. For most intents and purposes, noncontrolling interest shareholders have no sway in the way the subsidiary conducts its business. All of the control rests in the hands of the parent company. (To learn more about shareholder roles, see *Knowing Your Rights As A Shareholder*.)

Keep in mind that a parent can own less than 51% and still retain the controlling interest in a company. If no larger shareholder exists and the parent company has a significant amount of sway, it can be asserted that this shareholder has a controlling interest.

Using Separate and Consolidated Financial Statements Together

Think of consolidated financial statements as another tool to help you make an informed investment decision. While they do provide an overview of a company's operations, separate financial statements are still an important source of information.

Examining a company's finances along with those of its subsidiaries can offer a new perspective on a possible investment. For many companies, consolidated financials remain summary statements - that is, they are presented in a company's filings in a digest form, leaving out other information that can contribute to your overall view of the company's operations.

While not necessarily the solution for breaking down a company's financials, consolidated financial statements are a great way to make sure that you're getting the full view before you embark on any investment decision.

I strongly recommend reading the Beginners' Guide to Financial Statement published by U.S. S.E.C.

https://www.sec.gov/reportspubs/investor-publications/investorpubsbegfinstmtguidehtm.html

Financial Statements Samples:

https://www.myaccountingcourse.com/financial-statements/

http://accounting-simplified.com/financial/statements/types.html

Annual Report Sample

http://www.coca-colacompany.com/content/dam/journey/us/en/private/fileassets/pdf/investors/2016-AR-10-K.pdf

Financial reporting after a natural disaster[5]

By Michael Cohn

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The recent string of devastating hurricanes and wildfires in the U.S. and its territories has prompted questions about financial reporting by companies striving to recover from natural disasters while wrestling with their insurance companies over damage claims.

“We do see a number of questions that typically come in when you have events occur,” said Dennis Howell, a senior consultation partner in the Accounting Services Consultation Group in Deloitte’s National Office. Deloitte recently released an alert discussing the financial reporting implications of disasters for organizations using U.S. GAAP.

“A lot of these are primarily related to companies that have incurred losses, and they’re really just trying to determine what type of insurance recovery they may have," Howell added. "Part of the challenge is determining first of all the type of loss that a company has recorded and is it even covered by your insurance policies. And if it is covered by your insurance policies, then what we typically see is companies apply what they call a cost recovery model.”

The accounting literature essentially requires companies to first report a loss for any type of damage related, he noted. “These are typically a plant destroyed or certain costs may be incurred that otherwise wouldn’t have been incurred because of a storm,” said Howell. “Then the company would need to separately assess whether they have an insurance recovery.”

Sometimes that process may require some legal analysis because the situation isn’t always perfectly clear. “Companies may have to determine why the damage was caused,” said Howell. “Was it caused, for example, by wind or was it caused by flood? Flood may not be covered, but wind may be covered. Both may have occurred, but they have to determine what type of loss would have been covered by their policy.”

Businesses may find themselves embroiled in a dispute with their insurance company. “Insurance companies may not agree that type of loss was covered, or there may be a dispute as to whether it was really caused by wind if, for example, flood damage isn’t covered,” said Howell.

[5] https://www.accountingtoday.com/news/financial-reporting-after-a-natural-disaster-like-a-hurricane-or-wildfire

A damaged building is seen after Hurricane Irma hit St. John in the U.S. Virgin Islands.Michael Nagle/Bloomberg

He pointed to longstanding guidance on separately recording an insurance recovery. "If the dispute is being contested, then there's been guidance in the accounting literature as well as from the SEC staff that there's generally a rebuttable presumption that an insurance recovery should not be recorded if there's a dispute," said Howell. "If a company overcomes the rebuttable presumption, in other words, if they record some type of insurance receivable, even though there may have been a dispute, then I think the SEC staff would expect disclosure of the fact that there could be contested coverage. The company notwithstanding that still records a receivable or a recovery, and then discloses in its notes the nature of the dispute, the type of insurance that has been recorded and what have you."

Businesses may need to consider impairments too. "Companies may have fixed assets that have to be impaired," said Howell. "If they had complete destruction of a business or significant loss of a business, and if a company had recorded goodwill, you may need to assess whether that goodwill should be impaired. If you have a receivable that may have been impacted by some of these storms, you have to assess whether those receivables continue to qualify for collectability."

The proper classification of losses on the income statement is also important. “U.S. GAAP does require that if you meet certain criteria that could be considered unusual, then you would need to specifically call out that loss on the face of your income statement or in your disclosures,” said Howell. “But the loss would have to qualify. It would either have to be unusual in nature, or infrequent in occurrence. One of the things the accounting literature talks about is that you have to consider the environment in which the entity operates. For example, if you’re in Florida and a hurricane hits, that may not qualify for the classification of unusual in nature or infrequent in occurrence. When you’re looking at something that is unusual in nature or infrequent in occurrence, the magnitude of the loss does not necessarily drive that conclusion, so while it may be a significant loss, it may not necessarily be indicative that something is unusual or infrequent in occurrence.”

However, even if companies don’t meet the technical criteria for separately calling that out on the face of the income statement, most likely they should be reporting in their disclosures the nature of the losses. “In other words, if you had a goodwill loss, there’s already specific disclosure requirements for asset impairments, for example,” said Howell. “If you record an insurance receivable, even if it’s not disputed and if it’s a material amount, those types of transactions most likely would warrant disclosure. But even if it is disputed, then historically there have been requirements that companies need to disclose the fact that insurance coverage may be disputed.”

Companies may also have environmental issues to consider. “In the Gulf area, you may have underground tanks that could have been damaged,” said Howell. “Or there could be damages that caused leaks from natural gas. Companies may be required to look at whether they have environmental liabilities that they may need to consider reporting, which would potentially require disclosure. If you’re a public company, an SEC registrant, and if you have a material loss from these natural disasters, I would imagine that the SEC would be expecting these companies to have transparent disclosure on the types of losses they had.”

The Financial Accounting Standards Board’s Emerging Issues Task Force clarified some of the guidance on recording insurance recoveries last year. “There were a number of cash flow matters that the EITF issued guidance on and one of those topics was how to classify insurance recoveries,” said Howell. “When you’re recording insurance, you may have an insurance claim that you receive in cash, and that claim could be for a multiple things. It could be related to inventory damage. It could be related to fixed asset recoveries. The EITF clarified that you have to look at the nature of the cash that you’re receiving. If part of that receipt may be related to inventory, that would be an operating activity because the nature of it is related to inventory, and if part of the cash is related to, say,

recovery of fixed assets, that would be an investing activity. Companies need to be mindful when they actually start receiving cash from insurance companies, they may receive it in a lump sum. But they have to understand that some of that is related to an operating activity versus an investing activity."

Multinational companies will also need to look out for some of the income tax reporting implications if they need to repatriate some of the foreign earnings they have been holding abroad, in case they need the funds to help them recover from a natural disaster.

"If a company has indefinitely reinvested their earnings in a foreign jurisdiction, they may not have provided taxes for that," said Howell. "If you've made an assertion that you may have foreign earnings that you're not going to repatriate, one of the things we highlight in our alert is that if you ever have a cash crunch and you may now need to start consider repatriating earnings that have historically been asserted to be indefinitely reinvested, then that may change their tax treatment such that they may actually have to start providing for income taxes on that."

Companies will also need to be mindful of their subleases if they are incurring a loss due to a natural disaster. "If you now are not going to be able to collect on that, we walked through situations where you might have a liability for that," said Howell.

Deloitte's alert doesn't discuss in detail the impact of FASB's new leasing standard because it hasn't yet taken effect. "Most companies haven't really adopted this yet," said Howell. "We do say that to the extent that you have a question on that, you need to consult with your independent accounting advisor as to what the impacts could be."

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Michael Cohn, editor-in-chief of AccountingToday.com, has been covering business and technology for a variety of publications since 1985.

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