

Case Study: Reading Accounting Materials In English(2)

—A case study of teaching American Accounting to Japanese Students via the Internet—

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(The Chuo-Gakuin University Review of Economics & Commerce, Vol. 33, No 2)

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(The Chuo-Gakuin University Review of Economics & Commerce, Vol. 34, No 1)

Chapter 8 Income Statement - Part 1

Determining Gross Margin

<u>Introduction</u>	<u>Income Statement Example</u>	<u>Transactions</u>	<u>Inventory Valuation</u>	<u>Gross Margin Calculation</u>	<u>Homework</u>	<u>Vocabulary</u>	<u>End</u>
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Review of the last lesson:

1. We examined a glossary of accounting terms that we will use frequently in this course.
2. We started an American corporation, Beach Toys, Inc.
3. We learned a little about incorporation.
4. We looked at four transactions of Beach Toys.
5. We recorded those transactions in a journal.
6. We constructed a Balance Sheet as of Jan 10 for Beach Toys.
7. In the homework we changed some of the transactions and made a new Balance Sheet.
8. We translated some accounting terms from English to Japanese (Romaji).

Overview

In this lesson we learn about the second financial statement, the Income Statement.

- We learn the usual form for an Income Statement in the U.S.
- We define Cost of Goods Sold.
- We see more transactions for Beach Toys, Inc.
- We briefly talk about two methods of valuing inventory.
- We develop the first part of an Income Statement for Beach Toys, Inc.

Introduction

The **Income Statement** is the statement that shows:

	Revenue
<i>Less:</i>	Expenses
<i>Equals:</i>	Net Income or Loss

In the U.S., we show losses with brackets < > or parentheses (), so

	Revenue
<i>Less:</i>	Expenses
<i>Equals:</i>	Net Income (Loss)

Expenses are divided into two groups: (1) cost of goods sold and (2) operating expenses.

This is the usual form of an income statement in the U.S.

	Revenue
<i>Less:</i>	Cost of Goods Sold
<i>Equals:</i>	Gross Margin
<i>Less:</i>	Operating Expenses
<i>Equals:</i>	Net Income (Loss)

Cost of Goods Sold is the price the company paid for the product that the company sells. “Goods” and “Inventory” are other names for the product that the company sells. “Cost of Revenue” is another name for cost of goods sold.

The Cost of Goods Sold is calculated this way:

	Beginning Inventory
<i>Plus:</i>	Purchases
<i>Less:</i>	Ending Inventory
<i>Equals:</i>	Cost of Goods Sold

Operating expenses are most of the daily expenses of the business.

Operating expenses exclude: (1) cost of goods sold, (2) interest expense, (3) tax expense and (4) capital expenditures.

In the next lesson we talk more about operating expenses.

Gross margin is revenue less cost of goods sold. Another name for gross margin is “gross profit.”

Gross margin is calculated this way:

	Revenue
<i>Less:</i>	Cost of Goods Sold
<i>Equals:</i>	Gross Margin

When a company sells a product, the company must know the gross margin from that product. Gross margin is a very important number. If gross margin is a negative number, the company cannot make a profit. If the gross margin is a positive number, the company *may* make a profit.

Gross margin is the revenue available to pay the operating expenses.

The net income comes from the gross margin.

In the end, the net income is the revenue that is left after the company pays cost of goods sold expense and operating expenses.

Profitability is the ability of a company to have more revenue than expenses.

It is important to know profitability for two reasons.

1. Creditors want to know if the company can pay back the loans.
2. Investors want to know if the company makes a profit or not.

Compare the size of gross margin to revenue. This is the first measure of profitability.

High gross margin means high profit potential. Low gross margin means low profit potential.

Next, we develop the first part of the income statement for Beach Toys, Inc.

We develop revenue, cost of goods sold and gross margin.

Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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Income Statement Example

Beach Toys, Inc.

Transactions

During March, Beach Toys had the following transactions:

- Beach Toys bought inventory on credit three times.
- Beach Toys made one sale.
- Beach Toys paid for part of its inventory.

The words in **dark red** are defined in the Accounting Glossary document that you received last week. Please look up the definitions.

Transaction		units	amount per unit	total amount
number	type			
5	credit purchase	100	\$100	\$10,000 (100 x \$100)
6	credit purchase	100	\$120	\$12,000 (100 x \$120)
7	credit purchase	100	\$150	\$15,000 (100 x \$150)
8	credit sale	100	\$300	\$30,000 (100 x \$300)
9	cash payment of invoice #1	100	\$100	\$10,000 (100 x \$100)

When these transactions are recorded in a journal, the entries are:

Transaction	Account	Debit	Credit
<i>To record the first credit purchase of inventory:</i>			
5	Inventory	\$10,000	
	Accounts payable		\$10,000
<i>To record the second credit purchase of inventory:</i>			
6	Inventory	\$12,000	
	Accounts payable		\$12,000
<i>To record the third credit purchase of inventory:</i>			
7	Inventory	\$15,000	
	Accounts payable		\$15,000
<i>To record the cost of the inventory sold:</i>			
8A	Cost of Goods Sold	\$10,000	
	Inventory		\$10,000
<i>To record the credit sale:</i>			
8B	Accounts Receivable	\$30,000	
	Sales		\$30,000
<i>To record the payment of the invoice for the first inventory credit purchase:</i>			
9	Accounts Payable	\$10,000	
	Cash		\$10,000

Next, we learn that the amount of cost of goods sold shown in transaction 8A can change. The amount of cost of goods sold (transaction 8A) depends on how we value the inventory. There are several ways to value inventory. We look at two ways to value inventory.

Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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The Value of Inventory

Look again at [how to calculate](#) the cost of goods sold.

The value of the inventory sold (the cost of goods sold) depends on

1	the value given to beginning inventory,
2	the value given to ending inventory and
3	the cost of the inventory purchased during the period.

Under US GAAP there is *one way* to value the *purchase* of inventory: historical cost. We value (record) Purchases at the amount billed at the time of purchase. We ignore shipping costs in this course.

However, US GAAP allows us to value the *beginning and ending inventory* in *several ways*. Two of the ways are FIFO and LIFO. A pronunciation guide: FIFO and LIFO rhyme. LIFO sounds like “life-oh.”

A company may use any US GAAP method to value inventory.

But it must use the *same* method to value both beginning and ending inventory. Examples:

- (1) A company uses FIFO to value beginning inventory. The company must use FIFO to value ending inventory.
- (2) A company uses LIFO to value beginning inventory. The company must use LIFO to value ending inventory.

US GAAP does not let a company use one method to value beginning inventory and another method to value ending inventory.

Examples:

- (1) A company uses FIFO to value beginning inventory. The company may not use LIFO to value ending inventory.
- (2) A company uses LIFO to value beginning inventory. The company may not use FIFO to value ending inventory.

FIFO

FIFO is an abbreviation for “**F**irst-**I**n, **F**irst-**O**ut.”

This means that:

- The cost of the oldest inventory (First-In) is used as the cost of goods sold.
- The cost of the *ending inventory* is the cost of the *newest purchases*.

FIFO is better to use when prices fall.

When prices fall:

- The first purchase costs more than the last purchase.
- The cost of goods sold is relatively high, because the *early* inventory is the most expensive.
- Net income is lower.
- *Therefore, income tax expense is lower.*

LIFO

LIFO is an abbreviation for “**L**ast-**I**n, **F**irst-**O**ut.”

This means that:

- The cost of the *newest* inventory (Last-In) is used as the cost of goods sold.
- The cost of the *ending inventory* is the cost of the *oldest purchases*.

LIFO is better to use when prices rise (inflation).

When prices rise:

- The last purchase costs more than the first purchase.
- The cost of goods sold is relatively high, because the **most recent** inventory is the most expensive.
- Net income is lower.
- *Therefore, income tax expense is lower.*

This is a sample of inventory valuation methods that real companies use:

Company	Financial Statement Date	Method
Hewlett Packard	FYE October 31, 2017	FIFO
<i>Statement Source:</i>	1. Click this link: Item 15: Financial Statement Table of Contents. 2. Click Notes to Combined and Consolidated Financial Statements. 3. Scroll to page 77 of the SEC filing. See the first paragraph, “Inventory”. See the second sentence.	
Apple	FYE September 30, 2017	FIFO
<i>Statement Source:</i>	1. Click this link: Item 15. Exhibits, Financial Statement Schedules. 2. Click Notes to Consolidated Financial Statements. 3. Scroll to page 48 of the SEC filing. See the second paragraph from the top “Inventories.” See the first sentence.	
Applied Materials	FYE October 29, 2017	FIFO
<i>Statement Source:</i>	1. Click this link: Item 15. Exhibits, Financial Statement Schedules. 2. Click Notes to Consolidated Financial Statements. 3. Scroll to page 61 of the SEC filing. See the last paragraph “Inventories.” See the first sentence.	
Nike	FYE May 31, 2017	average cost or specific identification basis
<i>Statement Source:</i>	1. Click this link: Item 15. Exhibits, Financial Statement Schedules. 2. Click the number 51 on the right hand side of the screen. 3. Click Note 1. Summary of Significant Accounting Policies. 4. Scroll to page 53. 5. Find the fifth set of words in red: “Inventory Valuation.” 6. See the first sentence.	
Patterson Companies, Inc	FYE April 29, 2017	FIFO (foreign inventories)LIFO (all other inventories)

<i>Statement Source:</i>	<ol style="list-style-type: none"> 1. Click this link: Item 8. Financial Statements and Supplementary Data. 2. Scroll down to page 47. 3. This is Note 1. Summary of Significant Accounting Policies. 4. See the seventh paragraph "Inventory." 5. See the second sentence.
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Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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Partial Income Statement - Gross Margin Calculation

The first part of the income statement is a calculation of gross margin. This is the calculation of gross margin for Beach Toys for the month ended March 31, 2018. Beach Toys uses FIFO to value inventory.

Beach Toys, Inc.		
Gross Margin Calculation		
For the month ended March 31, 2018		
Revenues		\$30,000
Cost of Goods Sold:		
Beginning Inventory	\$ - 0 -	
Purchases	37,000	
less: Ending Inventory	27,000	
Cost of Goods Sold		10,000
Gross Margin		\$20,000

This is the first part of the income statement. Later, we will finish the income statement.

Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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Homework:

1. What is the format for an American Income Statement?
2. Use your words to tell me how to calculate cost of goods sold. Please do not use any numbers.
3. Did Beach Toys use LIFO or FIFO to calculate the cost of goods sold?
4. Does the purchase price of inventory rise or fall for Beach Toys, Inc?
5. Which inventory method (LIFO or FIFO) is better for Beach Toys, Inc to use?
"Better" means "results in lower income tax."
6. How easy was this lesson for you?

The accounting was:	The English was:	Finding and using the linked web pages was:
Very easy	Very easy	Very easy
Somewhat easy	Somewhat easy	Somewhat easy
About right	About right	About right
Somewhat hard	Somewhat hard	Somewhat hard
Very hard	Very hard	Very hard

Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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Vocabulary - Income Statement (Part 1)

English	Japanese
cost of goods sold	
first-in, first-out	
gross margin	
inventory	
invoice	
last-in, first-out	
net income	
purchase	
revenue	
sale	

Top	Introduction	Transactions	Inventory Valuation	Gross Margin Calculation	Homework	Vocabulary	End
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Chapter 9 Income Statement - Part 2

Determining Net Income

<u>Introduction</u>	<u>Accrual Method</u>	<u>Transactions</u>	<u>Complete Income Statement</u>	<u>Homework</u>	<u>Vocabulary</u>	<u>End</u>
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Review of Lesson 6

In the last lesson we learned:

1. the form for the U.S. income statement
 2. about Cost of Goods Sold and Gross Margin
 3. two different ways to value inventory
 4. how to write the first part of an income statement for an American company
-

Introduction

In this lesson, we:

1. learn about operating expenses
2. finish the income statement
3. find the definition of **dark red** words in the Accounting Glossary that you have already received in a previous lesson.

Expenses are **outflows** of assets that generate revenues.

Usually an expense requires an outflow of cash.

Sometimes an expense does not use cash.

Operating Expenses are outflows of assets made for the main business of the company.

They are the usual, daily costs of doing business.

Here are some common operating expenses.

Examples of operating expenses:	Depreciation	Electricity
	Insurance	Rent
	Repairs	Telephone
	Salary/Wages	Water

Interest and tax expenses are on the income statement.

They are *not* operating expenses for most businesses.

Businesses do not exist to pay interest or taxes.

Businesses exist to do something else, e.g., sell beach toys.

Interest Expense

Most businesses must borrow money at some time.

The company must pay back the loan.

- The company must pay back the money it borrowed (the principal).
- The company must also pay back the amount the lender charges to borrow money (interest).

Interest expense is the amount charged to borrow money.

Income Tax Expense

Most businesses pay income taxes.

Income tax is paid to the federal (national) and state (prefecture) governments.

Income tax is sometimes paid to counties or cities (local governments).

Income tax expense is the amount the federal (national) and state (prefecture) and other governments' charge on business profits.

<u>Top</u>	<u>Introduction</u>	<u>Accrual Method</u>	<u>Transactions</u>	<u>Complete Income Statement</u>	<u>Homework</u>	<u>Vocabulary</u>	<u>End</u>
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Accrual Method

Under U.S. GAAP, businesses must “match” revenue and expenses.

If a business earns revenue, it will always have expenses.

To match revenue and expenses, the business must record expenses in the same time period as the revenue it creates.

The accrual method is a more accurate way to match revenue and expenses.

Under US GAAP, most businesses must use the accrual method for their financial statements.

Under the accrual method, the income statement for a time period shows the revenue earned in that time.

Cash sales are part of revenue.

Credit sales are part of revenue.

So, credit sales *and* cash sales for a month are in the month's income statement.

Credit sales do not involve cash. The credit customer does not pay cash at the time of sale.

Under the accrual method, the revenue earned in a period is:	
1	the cash received from cash sales <i>and</i>
2	the customers' promises to pay cash owed from credit sales.

Under the accrual method, the income statement for a time period shows the expenses incurred in that time.

Most expenses on the income statement are paid with cash.

Some expenses on the income statement are not paid with cash in that period.

They are paid with cash in a later month.

So, a month's expenses paid in cash *and* the month's expenses that are owed but not yet paid are on the month's income statement.

Under the accrual method, the expenses recognized in a period are:	
1	expenses paid in cash <i>and</i>
2	expenses owed but not yet paid in cash.

Top	Introduction	Accrual Method	Transactions	Complete Income Statement	Homework	Vocabulary	End
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Transactions

Beach Toys has the following additional transactions during March:

Transaction	
number	description
10	Received a bill for \$150 from the telephone company. The bill is paid in April.
11	Employees are paid every Wednesday. The last payday in March is March 28. The first payday in April is April 4. One employee earns \$100 per day. That employee starts work on March 26 (Monday). That employee is paid \$200 on March 28 (Wednesday) for the two days worked that week. That employee works for three more days in March. That employee is paid in April for those three days.
12	The life of the building is 40 years. (The building purchase for \$50,000 is at The Balance Sheet - Part 2, transaction 4.)

The transactions are recorded in a journal on March 31:

Transaction	Account	Debit	Credit
<i>To record receipt of the telephone bill in March</i>			
10	Telephone expense	\$150	
	Telephone payable		\$150
<i>To record earned and paid salary for March. (\$100 per day x 2 days in March—March 26 & 27)</i>			
11A	Salary expense	\$200	
	Cash		\$200
<i>To record earned but unpaid salary for March. (\$100 per day x 3 days in March—March 28, 29, & 30)</i>			
11B	Salary expense	\$300	
	Salary payable		\$300
<i>To record building depreciation expense for March ((\$50,000/40 years)/12)(rounded)</i>			
12	Depreciation expense - building	\$104	
	Accumulated depreciation		\$104

Top	Introduction	Accrual Method	Transactions	Complete Income Statement	Homework	Vocabulary	End
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Complete Income Statement

The income statement at the end of March is now:

Beach Toys, Inc.		
Income Statement		
For the month ended March 31, 2018		
Revenues		\$30,000
<i>Cost of Goods Sold:</i>		
Beginning Inventory	\$ - 0 -	
Purchases	37,000	
less: Ending inventory	27,000	
Cost of Goods Sold		10,000
Gross Margin		\$20,000
<i>Operating expenses:</i>		
Depreciation	104	
Salary	500	

Telephone	150	
<i>Total operating expenses</i>		754
Net Income		\$19,246

Look at the complete Income Statement, above.

Net income changes when these change:

- (1) revenues
- (2) cost of goods sold
- (3) total operating expenses

In the homework, we will change each of these items.

You calculate the new net income amounts.

Top	Introduction	Accrual Method	Transactions	Complete Income Statement	Homework	Vocabulary	End
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Homework:

1. What is Net Income if
revenues change to \$40,000 and
all other transactions are the same?
2. What is Net Income if
revenues change to \$30,000,
cost of goods sold changes to \$20,000 and
operating expenses are the same?
3. What is Net Income if
revenues are \$30,000,
cost of goods sold is \$10,000, and
total operating expenses change to \$25,000?

4. How easy was this lesson for you?

The accounting was:

Very easy

Somewhat easy

About right

Somewhat hard

Very hard

The English was:

Very easy

Somewhat easy

About right

Somewhat hard

Very hard

Getting to and using the linked web pages was:

Very easy

Somewhat easy

About right

Somewhat hard

Very hard

Top	Introduction	Accrual Method	Transactions	Complete Income Statement	Homework	Vocabulary	End
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Vocabulary - Income Statement (Part 2)

English	Japanese
accrual method	
accumulated depreciation	
depreciation expense	
expenses	
operating expenses	
outflow	
income statement	
transaction	

Top	Introduction	Accrual Method	Transactions	Complete Income Statement	Homework	Vocabulary	End
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Chapter 10 Statement of Cash Flows

| [importance](#) | [description](#) | [comparison](#) | [WWW examples](#) | [homework](#) |

Review of Lesson 7:

1. You learned about operating expense.
 2. You finished the Income Statement.
 3. You used the Accounting Glossary to find the definition of some accounting terms.
-

Overview:

In this lesson you learn:

- A. Why Statements of Cash Flow are important to U.S. users of accounting information.
 - B. There are three parts in the Statement of Cash Flows:
 1. operating activities,
 2. investing activities, and
 3. financing activities.
 - C. There are two ways to make a Statement of Cash Flows:
 1. the direct method, and
 2. the indirect method.
 - D. Statements made under the direct and indirect methods are different in only one area.

The main difference is in the operating activities.

The other two areas are the same.
-

| [importance](#) | [description](#) | [comparison](#) | [WWW examples](#) | [homework](#) |

The Importance of the Statement

Basic information about cash:

- Every company receives cash. Cash received is called **cash inflow**.
- Every company spends cash. Cash spent is called **cash outflow**.
- Cash is the most liquid asset. It is the easiest asset to spend.

Cash flow statements are very important to American *investors*.

- Stockholders want the main business of the company to increase cash.
 - Healthy cash flow means a company receives more cash than it spends.
 - Healthy cash flow makes the company very stable today.
 - Healthy cash flow lets the company grow in the future.
- U.S. investors respond to changes in cash flows.
- Stockholders study cash flow to predict
 - dividends and
 - the long-term health of the company.
- Most dividends are paid in cash.
- Liabilities are repaid in cash.

Cash flow statements are very important to American *creditors* (lenders).

- When a loan is made, the borrowing company (borrower) receives cash.
- When the loan is repaid, the borrower pays cash to the lender.
- The borrower pays interest in cash. Often, the interest is paid monthly.
- The borrower repays the **principal amount** ⁽¹⁾ in cash.
 - Sometimes, the principal amount is paid monthly.
 - Sometimes the principal amount is paid all at once at the end of the loan.
- Cash flow information helps creditors decide if the borrower can repay the loan.
- U.S. companies do not have a guaranteed source of cash.
 - U.S. lenders are not required to lend to borrowers.
 - The borrowers must make the lenders believe that the loan is a good risk.
- U.S. lenders lend funds if they believe the borrowers will repay on time.
 - A good cash flow statement shows a good cash increase from the main business of the company.
 - A good cash flow statement helps get the loan.

| [importance](#) | [description](#) | [comparison](#) | [WWW examples](#) | [homework](#) |

(1) Principal amount = The amount borrowed from a source outside the company. It is the amount that is stated "on the face" (in writing, on paper, usually on the first page) of the loan document. This amount is recorded as a liability (debt) on the date the loan is made.

A Description of the Statement

Required by U.S. GAAP?	Yes, the Statement of Cash Flows is one of the three required financial statements under U.S. GAAP. (The other two are the Balance Sheet and the Income Statement.)	
Purpose	To show the changes in Cash during one accounting period.	
Accounting method used	Cash. The Balance Sheet and the Income Statement use the accrual method.	
What the Statement of Cash Flow shows	Cash received (inflow) and cash paid (outflow) in three areas of the business: 1) operating activities, 2) investing activities, and 3) financing activities.	
A Comparison of the Statement of Cash Flow and the Balance Sheet	What Is the Same	What Is Different
	Both show the amount of cash at the end of the period.	The Statement of Cash Flow shows where the cash came from.

A Comparison of Direct and Indirect Methods

	Direct	Indirect
Operating Activities	Independently analyzes the changes that cash transactions cause in each balance sheet non-cash account.	Starts with Net Income on the Income Statement. Cash transactions omitted from income are added. Non-cash transactions included in income are removed. This is called a "Reconciliation to Net Income."
	The amount of cash provided by or used by operating activities is the same no matter which method is used.	
Investing Activities	no differences	no differences
Financing Activities	no differences	no differences
Method most commonly used by companies	No. If this method is used, companies must show a reconciliation to Net Income in the footnotes.	Yes. No reconciliation necessary.
Method recommended by FASB	Yes	No

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Cash Flow Statements on the Web

Company	Business Lines	Comments
Abbott	nutritional, pharmaceutical, and diagnostic products	indirect method
URL	<i>See file attached to email (#8D-AbbotCashFlow2017) (Appendix 7)</i>	
Applied Materials	semiconductor manufacturer	indirect method
URL	<i>See file attached to email (#8E-Applied MaterialsCashFlow2017)</i>	
	If the link does not work, please copy the link and paste it into a new browser window.	
Levi Strauss	manufacturer of clothing for men, women and children	indirect method
URL	<i>See file attached to email (#8B-LeviStraussCashFlow2017)</i>	
Japanese site	http://www.levistrauss.co.jp	

| [importance](#) | [description](#) | [comparison](#) | [WWW examples](#) | [homework](#) |

HOMEWORK			
1.	Why is the Statement of Cash Flows important to U.S. users of accounting information?		
2.	Look at the table that compares the direct and indirect methods. What is the main difference between the indirect and direct methods:		
	a.	in operating activities?	
	b.	in investing activities?	
	c.	in financing activities?	
3.	How do Japanese companies report their changes in cash during the year?		
4.	How easy was this lesson for you?		
	The accounting was:	The English was:	Getting to and using the linked web pages was:
	Very easy	Very easy	Very easy
	Somewhat easy	Somewhat easy	Somewhat easy
	About right	About right	About right
	Somewhat hard	Somewhat hard	Somewhat hard
	Very hard	Very hard	Very hard

(Appendix 7) Abbott Laboratories and Subsidiaries Consolidated Statement of Cash Flows (in millions)	Year Ended December 31		
	2017	2016	2015
	Cash Flow From (Used in) Operating Activities:		
Net earnings	\$477	\$1,400	\$4,423
Adjustments to reconcile earnings to net cash from operating activities —			
Depreciation	1,046	803	871
Amortization of intangible assets	1,975	550	601
Share-based compensation	406	310	292
Impact of currency devaluation	—	480	—
Amortization of inventory step-up	907	—	—
Investing and financing (gains) losses, net	47	86	-18
Amortization of bridge financing fees	5	165	—
Gains on sale of businesses	-1,163	-25	-2,840
Mylan N.V. equity investment adjustment	—	947	—
Gain on sale of Mylan N.V. shares	-45	—	-207
Trade receivables	-207	-177	-171
Inventories	249	-98	-257
Prepaid expenses and other assets	109	113	57
Trade accounts payable and other liabilities	615	-652	-742
Income taxes	1,149	-699	957
Net Cash From Operating Activities	\$5,570	\$3,203	\$2,966
Cash Flow From (Used in) Investing Activities:			
Acquisitions of property and equipment	(\$1,135)	(\$1,121)	(\$1,110)
Acquisitions of businesses and technologies, net of cash acquired	-17,183	-80	-235
Proceeds from business dispositions	6,042	25	230
Proceeds from the sale of Mylan N.V. shares	2,704	—	2,290
Purchases of investment securities	-210	-2,823	-4,933
Proceeds from sales of investment securities	129	3,709	4,112
Other	35	42	52
Net Cash From (Used in) Investing Activities	(\$9,618)	(\$248)	\$406
Cash Flow From (Used in) Financing Activities:			
Proceeds from issuance of (repayments of) short-term debt and other	(\$1,034)	(\$1,767)	(\$1,281)
Proceeds from issuance of long-term debt and debt with maturities over 3 months	6,742	14,934	2,485
Repayments of long-term debt and debt with maturities over 3 months	-8,650	-12	-57
Payment of bridge financing fees	—	-170	—
Purchase of Alere preferred stock	-710	—	—
Acquisition and contingent consideration payments related to business acquisitions	-13	-25	-17
Purchases of common shares	-117	-522	-2,237

Proceeds from stock options exercised	350	248	314
Dividends paid	-1,849	-1,539	-1,443
Net Cash From (Used in) Financing Activities	(\$5,281)	\$11,147	(\$2,236)
Effect of exchange rate changes on cash and cash equivalents	116	-483	-198
Net (Decrease) Increase in Cash and Cash Equivalents	-9,213	13,619	938
Cash and Cash Equivalents, Beginning of Year	18,620	5,001	4,063
Cash and Cash Equivalents, End of Year	\$9,407	\$18,620	\$5,001

Supplemental Cash Flow Information:			
Income taxes paid	\$570	\$620	\$631
Interest paid	917	181	166

The accompanying notes to consolidated financial statements are omitted

source

<https://www.sec.gov/Archives/edgar/data/1800/000104746918000856/a2234264z10-k.htm>

at page 52

Chapter 11 Summary of Part One

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) | [Other Financial Information Sources on the Web](#) | [end](#)

We learned basic items of three financial statements:

1. The Balance Sheet.
 2. The Income Statement.
 3. The Statement of Cash Flows.
-

THE BALANCE SHEET

- Reflects a company's financial position on a single date.
- $\text{Assets} = \text{Liabilities} + \text{Stockholder's Equity}$.
- Usually divides assets and liabilities into two classifications:

1. Current (one year or less), and
 2. Long-term (more than one year).
-

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) | [Other Financial Information Sources on the Web](#) | [end](#)

THE INCOME STATEMENT

- Shows the financial result of the company's activity during the year.
- Shows (1) the sales and (2) the expenses needed to make the sales.
 - The net profit or loss for the year is the difference in sales and expenses.
 - The largest expense is the cost of the inventory (goods) sold.
 - Cost of goods sold is the first expense shown in the Income Statement.
 - Cost of goods sold is not included with other expenses.
 - The other expenses are called operating expenses.
- The method used to value inventory greatly affects the amount of profit or loss.
- FIFO and LIFO are two common inventory valuation methods.

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) | [Other Financial Information Sources on the Web](#) | [end](#)

BEACH TOYS, INC.

We created an American company, Beach Toys, Inc.

That company had several transactions.

We saw how the financial transactions appeared in the income statement and the balance sheet.

	Transaction	Financial Statement(s) Affected
1, 2, & 3.	Three people started the company. Each person contributed cash (asset). Each person received stock (stockholders' equity).	Balance Sheet
4.	During the year the company spent cash (asset) to buy a building and land (assets).	Balance Sheet
5, 6, & 7.	The company bought inventory (asset) on credit (liability).	Balance Sheet
8.	The company sold (revenue) some of the inventory (asset and expense) for cash (asset).	Balance Sheet & Income Statement
9.	The company paid in cash (asset) for part of the inventory purchased on credit (liability). The payment for inventory reduced both assets and liabilities.	Balance Sheet
10, 11 & 12.	In addition to the cost of the inventory (goods) sold (asset and expense), the company had several other expenses during the period.	Balance Sheet & Income Statement

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) | [Other Financial Information Sources on the Web](#) | [end](#)

FINANCIAL STATEMENTS ON THE WEB

We saw financial statements of real companies on the World Wide Web.

- Balance Sheets
 - Microsoft
 - Nike
 - Oracle
 - Patterson Dental Company
- Income Statements
 - Microsoft
 - Nippon Telephone & Telegraph
 - Patterson Dental Company
- Statements of Cash Flows
 - Abbott
 - Applied Materials
 - Levi Strauss & Company

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) | [Other Financial Information Sources on the Web](#) | [end](#)

OTHER SOURCES OF FINANCIAL INFORMATION ON THE WEB:

Stock Exchanges	
United States	New York
	NASDAQ
European	Deutsche Börse
	London Stock Exchange
	Euronext (NYSE Euronext)
Asian	The Stock Exchange of Hong Kong
	The Japan Exchange Group (JPX)
	The Korean Stock Exchange
	The Nagoya Stock Exchange
	The Shanghai Stock Exchange
	The Shenzhen Stock Exchange
Global	NYSE Euronext
	Intercontinental Exchange (NYSE:ICE)
	NASDAQ OMX

Securities Brokers	
	Merrill Lynch
	Nomura Securities
	Muriel Siebert
Government Agencies	
Federal (national)	SEC (Securities and Exchange Commission)
	IRS (Internal Revenue Service)
State (prefecture)	Delaware (Division of Revenue)
	Maryland (Comptroller)
	Pennsylvania (Department of Revenue)
Privately Sponsored Sites	
	MSN Money
	Dr. Michael Kinsman's Accounting Sites
	Rutger's Accounting Resources on the Net

[top](#) | [Balance Sheet](#) | [Income Statement](#) | [Beach Toys, Inc.](#) | [Financial Statements on the Web](#) |
[Other Financial Information Sources on the Web](#) | [end](#)

Chapter 12 The Role of the CPA, and the AICPA

CPA's role

Be a CPA

Revised CPA Exam

National Professional Organizations

State CPA Societies

Homework

Review of Lesson 10

In the last lesson we:

- Shared our summer experiences
- Briefly reviewed the three financial statements

Overview of this lesson

In this lesson we:

- Get an overview of the role of the CPA in the US
- Summarize the requirements to become a CPA in the US
- See basic facts about the US CPA exam
- Look at some professional CPA societies

The Role of the CPA

Capital markets power the United States' economy.

Capital markets need financial statements.

Investors use financial statements from companies to make good lending and investment decisions.

Good financial statements are reliable.

Financial statements are reliable when someone independent of the company and the government approves (certifies) them.

In the United States, that person is a Certified Public Accountant (CPA).

What do CPAs do for businesses?

CPAs help businesses accurately show what they did in the past.

- Is the company worth more this year?
- Are there more assets and liabilities than last year?
- What were the company's income and expenses last year?

CPAs help businesses predict what they will do in the future.

- Should the company borrow more money?
- Should the company sell different products?
- Should the company expand its factory?
- Should the company hire more employees?
- Should the company make its product overseas?

CPAs help companies find answers to these and more questions.

What do CPAs do for ordinary people?

CPAs do personal taxes for many people.

- ✚ American citizens must file a tax return every year, even if they live in another country.
- ✚ A US resident can be a citizen of another country. That person may also have to file a US income tax return.
- ✚ American employers do not file the income tax returns for their employees.
- ✚ Each worker files their own income tax return.

CPAs help people plan for the future.

- ✚ CPAs help people plan for retirement.
- ✚ Children or parents may be very sick or unable to care for themselves. CPAs help people plan how to care for them.
- ✚ CPAs help people give large gifts to their children or grandchildren.
- ✚ CPAs help people give large gifts to charities such as art museums or schools.
- ✚ CPAs help people plan how to give away their property when they die.

CPAs help ordinary people plan for these events and more.

Learn more about the role of the CPA from [this site](#).
(Read only the first three paragraphs.)

CPA's role

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What federal law affects financial statement audits by CPAs?

Among other tasks, CPAs audit the financial statements of companies.

- ✚ The company drafts financial statements.
- ✚ CPAs make sure that the financial statements present the company's financial picture fairly.
- ✚ The company pays a fee to the CPAs to audit the financial statements.
- ✚ At all times the CPA audit firm must remain independent of the business it audits.
- ✚ The CPA firm cannot overlook problems with the financial statements because the company pays its fee.

What happens if the CPA firm is not independent?

- ✚ The auditors at the CPA firm do not notice problems by their client.
- ✚ Eventually, the fraud is discovered.
- ✚ The fraud badly hurts ordinary individuals.
- ✚ The client and the CPA firm can be forced out of business.
- ✚ Some people lose their retirement savings.
- ✚ Many innocent people lose their jobs.

Since 2002 a national (federal) law affects accounting standards for financial audits.

-  The law is called the Sarbanes-Oxley Act (SOX).
-  The law created an agency to monitor audit firms: the [Public Company Accounting Oversight Board](#) (PCAOB).
-  *Look in the box on the left of the screen. Find the red rectangle, "Learn More About the PCAOB". Click on that link. Read all paragraphs in the section called, "About the PCAOB." It is at the bottom of the screen.*
- You may translate the rest of the page. You may click on any of the links to learn more.*
-  The [PCAOB sets accounting standards](#) for firms that audit publicly traded companies. Please translate this page. Do not translate any of the words in and under the blue boxes on the right side of the screen. However, you may click on any of the links to learn more.
-  The PCAOB exists because of the errors of a very large accounting firm.
-  But the standards apply to **any** CPA firm that audits public companies.

CPA's role

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How To Become A CPA

There are three general requirements to become a CPA:

<i>the education requirement</i>	at least four years of college education
<i>the examination requirement</i>	pass a two-day examination
<i>the experience requirement</i>	one to two years' experience in public accounting

Most pass the CPA examination after the second or third attempt.
Once the examination is passed, one receives a license.
Licenses come from the states (prefectures), not the national (federal) government.
Most states require one to two years' experience in public accounting, before one can attest to (certify) the financial position of a company.
You can learn any state's requirements to be a CPA from this site . Click on the name of the state.

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The CPA Examination

You can learn about the [American CPA exam](#).
 The test is written and graded by the AICPA (The American Institute of CPAs).
 Candidates must pass all four parts of the CPA exam.
 They have eighteen months in which to pass all the parts.

In 2004 the CPA exam became a computerized exam.

Candidates are tested on International Accounting and Auditing Standards.

	Exam
Test taken with:	Computer
Test length:	14 hours
Test frequency:	Almost daily in 40 out of 52 weeks of the year
Test location:	At more than 300 Prometric testing sites across the U.S.
	<i>Translate everything under "Optimize Your Scheduling Experience". Stop when you see the words "Information about CPA Testing"</i>
Interactive simulations	Included in test
Abilities tested:	Understand information
	Analyze information
	Judge information
	Perform research
	Communicate information
Skills tested:	How to use computers, databases and spreadsheets
Time limit on passing exam	18 months

There are four parts to the computer-based CPA exam:

Financial Accounting and Reporting (FAR)	4.0 hours
Regulation (REG)	3.0 hours
Business Environment and Concepts (BEC)	3.0 hours
Auditing and Attestation (AUD)	4.0 hours
Total	14.0 hours

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Professional Organizations National

In the U.S. the largest professional organization for CPAs is the American Institute of Certified Public Accountants (AICPA) .	
	It is a voluntary organization.
	About two-thirds of U.S. CPAs belong to the AICPA.
	The Mission Statement tells about the main purposes of the AICPA.
	The Mission Statement is in the box entitled "Mission." Please translate that box. (A CGMA is a Chartered Global Management Accountant.) Please also translate the two paragraphs under the heading, "AICPA Mission and History." They are above the Mission Statement box.
	The AICPA sets some professional standards for CPAs.
	The AICPA also explains accounting and tax matters to governmental regulatory boards and Congress.
Frequently Asked Questions about the AICPA tells you more about the AICPA.	
<i>Please translate the paragraph called, "Frequently Asked Questions About the AICPA."</i>	
<i>There are several FAQs about the AICPA. You may click on any and translate them if you wish.</i>	

State CPA Societies

Each of the 50 states in the US has a state society of CPAs.	
	For example, there is the Delaware Society of CPAs .
	Another state society is the Pennsylvania Institute of CPAs .
	A third state society is the Maryland Association of CPAs .
Most states require now that CPAs have 150 hours of college credit to be licensed by the state.	
	This is known as the "150 hour requirement."
	In a few years most CPAs will have five years of college.
	They will have a bachelor' s degree and a master' s degree.

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Homework

1. The [population of the United States](#) is about 300,000,000 (three hundred million).
The exact number is in the blue box labeled U.S. Population. There are about 600,000 (six hundred thousand) CPAs in the United States. One of approximately 500 U.S. citizens is a CPA. (300,000,000 divided by 600,000)
 - A. What is the population of Japan?
 - B. Where did you find your answer?
 - C. How many CPAs are there in Japan?
 - D. Where did you find your answer?

- E. How many Japanese citizens are there per CPA?
2. Why is the citizen to CPA ratio higher in the US than in Japan?
 3. How is the U.S. system of licensing CPAs different from the Japanese system?
 4. How easy was this lesson for you?

The accounting was:	The English was:	Getting to and using the linked web pages was:
Very easy	Very easy	Very easy
Somewhat easy	Somewhat easy	Somewhat easy
About right	About right	About right
Somewhat hard	Somewhat hard	Somewhat hard
Very hard	Very hard	Very hard

Chapter 13 Sources of American Financial Information

Review of Lesson 11

In the last lesson we:

- Got an overview of the role of the CPA in the US
- Summarized the requirements to become a CPA in the US
- Learned basic facts about the US CPA exam
- Looked at some professional CPA societies

Overview of this lesson

We examine one company, [Applied Materials](#).

Applied Materials supplies products and services to the semiconductor industry. Semiconductors are critical components of computers.

We look for information on Applied Materials that is available on the Internet. There are many sources of financial information on the internet.

We look at a few of those sources. The sources we examine are:

- the company
- a federal regulator
- a financial services firm
- a search engine and
- the semi-conductor industry

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Information from the Company

Source: the [Investor Relations section](#) of the Applied Materials' web site

The management of Applied Materials publishes some financial information on the Internet. Anyone can see its annual report and interim financial statements.

●	The annual report contains summary financial data.
●	The annual report contains a letter to the shareholders from the company president and CEO.
The 2017 Annual Letter to Stockholders	
Please open attached file, “#12B-ShareholderLetterAMAT2017”. <i>(Appendix 9)</i>	

The company also publishes its 10-K on its web site.	
●	The 10-K is filed every year with the SEC, a federal government agency.
●	The 10-K contains the complete financial statements of the company.
●	The 10-K also contains the Notes to its financial statements.
●	The Notes are just as important as the financial statements.
●	To access the 10-K:
●	Go to the Investor Relations page.
●	Scroll down to the gray box labelled “Latest Filings and Reports.”
●	Click on the words “Annual Report & Proxy”.
●	Click on the number “2018”.
●	Click on the “2017 Annual Report with 10-K” link.
●	You will be prompted to save or the Save As dialog box will open. The default file name is AMAT 2017 Annual Report.pdf. Keep that name. Select the folder you use for this class. Click Save.
●	Click the box at the bottom of your screen labelled “AMAT 2017 Annual Report.pdf.”
●	The pdf document opens. Follow instructions in the lines below. Do not translate the statements or notes. Just scroll through them.

The 10-K Financial Statements and Notes
To see the Financial Statements, scroll to the following page numbers:
For the 2017 Income Statement (Statement of Operations) scroll to page 56.
For the 2017 Balance Sheet scroll to page 58.
For the 2017 Statement of Cash Flows scroll to page 60.
For the Notes to the 2017 Financial Statements scroll to pages 61 to 99.
There are thirty-eight pages of Notes.

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Information from a Governmental Regulator (the SEC)

Source: the [Securities and Exchange Commission \(SEC\)](#)

Under SEC rules, publicly traded companies must file certain types of historical (traditional) financial information:

- the Income Statement,
- the Balance Sheet and
- the Statement of Cash Flows

The SEC receives these financial statements at certain times during the year.

The SEC makes the information available to all of the public. The annual filings are on the SEC's web site.

The link below takes you to the Applied Materials 2017 10-K.

- The 10-K must be filed every year.
- It contains
 - the three basic financial statements,
 - the notes to the financial statements and
 - other disclosures that are required by federal securities laws.
- This 10-K is the same as the one you saw on the Applied Materials' company website.

[Applied Materials 2017 10-K](#)

The SEC also requires companies to submit much other information.

- Look at the first link below for a list of documents submitted to the SEC by Applied Materials.

The company filed

- - annual reports (10-Ks),
 - quarterly reports (10-Qs),
 - several types of proxy statements,
 - reports about company pension plans
 - reports about stock ownership plans
 - press releases and
 - many other reports.

- There are many years of SEC reports available on the SEC website.

- Most of these reports are not on the company website.

[All of Applied Materials' submissions to the SEC](#)

One submission: [Quarterly Report](#)

This is the quarterly report for the nine months ended July 29, 2018.

You may scroll through this document.

Please do not translate this document. It is too long and complex.

The SEC knows how important it is for investors to have quick access to information about a company.

- The SEC knows that many investors get investment information from the web.

- The SEC makes some companies file some reports more quickly.

These are the reports the SEC wants filed faster:

- - the annual report (10-K),
 - quarterly reports (10-Q) , and
 - reports about special events (8-K).

When the SEC makes a major rule change, it must publish a proposal.

- The proposal says what the SEC wants to do.

- This proposal is very long. The English is very hard.

- Please try to read the Summary, if you can.

[SEC Proposal on the Potential Use of Financial Statements Prepared in Accordance With International Financial Reporting Standards by U.S. Issuers](#)

(If a dialog box opens and asks if you “would like to open this file?”, click yes or ok.)

**After the SEC publishes the proposal, anyone may comment on the proposal.
Then the SEC publishes the final rule.**

- The final rule may be different from the proposal.
- Sometimes the SEC changes the proposal because of public comments.
- The final rule on the use of Financial Statements prepared using International reporting standards has not been published.

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Information from a Financial Services Firm

Source: Applied Material’s auditor, [KPMG](#)

General Advice

The [global home page](#) shows the type of advice that a multinational financial services firm (CPAs) may give to a large, multinational client.

- These articles were not written for Applied Materials.
- They were written for a wide audience.
- Anyone can read the articles from KPMG.
- The articles are introductions to complex subjects.

Using International Accounting Standards (IFRS)

- KPMG has a [Global IFRS Institute](#).
- The Global IFRS Institute gives information about financial reporting under International Standards.
- KPMG gives up-to-the-minute information about International Standards.

IFRS News Archive	
Please translate only the first three sentences under the picture of the blue globe structure. You may translate more if you choose. You may click on any link you choose.	
Industry Information	
●	Financial services firms will not post to the Web specific information about their clients.
●	The firms must keep specific client information confidential.
●	However, financial services firms publish general information about their clients' industries.
●	Click on the link below. The list of industries is the series of slides at the top of the screen under the word "Industries." There are twenty-three (23).
KPMG's List of Industries	
Applied Materials is in the Semiconductor industry. KPMG classifies the company into its Technology sector. Investors can find general information about the Technology sector on the KPMG website.	
KPMG's general information on the Technology sector	
Scroll through the whole page.	
Please translate the second paragraph called "How Can We Help?"	

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Information from a Search Engine

Source: [Yahoo Finance](#)

Yahoo Finance is one of many sites that provide current stock price information.

- Anyone interested in a particular company may use the site.
- The stock price activity is reported with a relatively short delay.
- Graphs of the stock price history can be generated.
- There are news items that relate to the company or its industry.

[Applied Materials' statistics](#)

Yahoo Finance also provides general information on the Semiconductor Industry.

There are:

- news articles,
- industry profiles,
- research reports,
- market summaries and
- other items.

[Yahoo's information on the Semiconductor Industry](#)

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Information from the Industry

Source: [The Semiconductor Industry Association Home Page](#)

An association (group) of many companies in one industry may jointly produce a website.

- The website has resources for members in the industry.
- These pages have information on more than financial matters.
- The information provided by a trade association is often put in the most favorable terms possible.

- It may not be the most objective information.

Source: [Semiconductor Today](#) - news about the semiconductor industry

- The website reports recent developments in the semiconductor industry.
- This website reports about highly technical aspects of the industry.
- For the article listed below, please translate the first paragraph. (“ClassOne Technology of Kalispell MT...”)
- You may translate the rest of the article if you chose.

News: [Canon to distribute ClassOne equipment in Japan](#)

[The Company](#) | [A Federal \(National\) Regulator](#) | [A Financial Services Firm](#) | [A Search Engine](#) | [The Industry](#) | [Homework](#)

Summary

- There are very many sources of financial information on the Internet today.
 - A few of them are listed above.
 - The quality of the information varies widely.
 - Some of the information is reliable.
 - Other information is not reliable.
 - Users of Internet sources of financial information *must* choose their sources wisely.
-

Homework

1.	A.	Find a stock price quotation of Applied Materials from Yahoo!Finance . To find a stock price quote on Yahoo Finance,					
		(1)	go to the main page				
		(2)	enter the stock symbol, AMAT, in the search bar space near the top of the screen				
		(3)	From the drop down menu, select AMAT – Applied Materials, Inc – Equity NMS.				
		(4)	AMAT information will appear on the page.				
		(5)	The stock price per share will be in large bold numbers near the top of the page.				
1.	B.	Tell me:					
		(1)	the date of the quote,				
		(2)	the time of the quote and				
		(3)	the stock price.				
2.	A.	Is the Yahoo quote the same as the one listed on the company’ s web site at http://investors.appliedmaterials.com/phoenix.zhtml?c=112059&p=irol-stockQuote?					
	B.	If the quotes have different prices, why do you think they are different?					
4.	How easy was this lesson for you?						
	The accounting was:		The English was:		Getting to and using the linked web pages was:		
		Very easy		Very easy		Very easy	
		Somewhat easy		Somewhat easy		Somewhat easy	
		About right		About right		About right	
		Somewhat hard		Somewhat hard		Somewhat hard	
		Very hard		Very hard		Very hard	

(Appendix 8) AMAT 2017 Annual Letter to the Shareholders

Source: AMAT%202017%20Annual%20Report.pdf at Applied Materials Investor page

Dear Fellow Shareholders,

On November 10, 2017, Applied Materials celebrated the 50th anniversary of the founding of our company, and as we look back over the decades we see a world transformed. In 1967 few would have imagined the way that electronics, computing and displays would change how we live; and Applied Materials had a hand in making this possible. We

delivered key enabling breakthroughs that fueled an industry, and the result has been pervasive technology that today is changing nearly every industry and society.

Applied turned 50 at the same time that we are setting new records for growth and performance. In this milestone year, we delivered all-time record performance – far exceeding our previous highs. In fiscal 2017, we grew revenues 34 percent and operating profit at more than twice that rate. It's Applied's breadth that sets us apart, and across the company we are firing on all cylinders. We have tremendous momentum and we are confident that in 2018 we can deliver strong double-digit growth across our semiconductor, display and service businesses.

MATERIALS ENGINEERING SOLUTIONS THAT TRANSFORM POSSIBILITIES INTO REALITY

Applied is working at the foundation of major technology trends and playing a larger and more valuable role in the electronics industry. Our vision is to make possible the technology shaping the future and we've never been in a better position to do that. At Applied Materials, we engineer highly sophisticated manufacturing and process technologies used to build the world's most complex chips and displays. We enable our customers to build a wide range of advanced products, including larger capacity and faster memory chips, more powerful processors that consume less energy, super high-resolution displays and flexible electronics. We are committed to being the innovation leader that pushes the boundaries of science, technology and engineering to solve the world's toughest materials engineering challenges and enable our customers to build chips and displays in entirely new ways.

NEW WAVES OF GROWTH — STRONG MARKETS GETTING STRONGER

Our markets are strong and getting stronger because there is a larger set of demand drivers than we have ever seen before. Every year, smart device manufacturers race to add more and more functionality to their products. Internet of Things (IoT) applications are expanding rapidly and data generation is exploding. Major inflections are taking place in the data center and there is an emerging battle for leadership in high-performance computing and artificial intelligence (AI). At the same time, there is huge demand for new display technology and screen sizes for TVs and mobile devices are growing considerably.

We are at the start of a completely new wave of growth. IoT, big data and AI have the potential to transform entire industries and create trillions of dollars of economic value. A broad spectrum of companies are investing heavily in AI-related technology. From transportation and healthcare to entertainment and retail, future success is dependent on capturing, storing and understanding vast amounts of data. This is driving major innovations in sensors, memory, storage and especially compute — which is key to turning raw data into valuable information. Leading companies are telling us that they need a step change in computing performance. Leadership in AI architecture is shaping up to be the biggest technology battle of our lifetimes and is going to be a major driver for the semiconductor roadmap. The winning architectures will provide large improvements in performance and power, and Applied is in a unique position to deliver the innovative materials needed to enable AI leadership.

BROAD CAPABILITIES TO SPEED INNOVATION

Applied has never been in a better position than we are today thanks to the breadth of our capabilities and product portfolio. Our breadth not only gives us by far the largest exposure to industry inflections, it is also creating strong pull for earlier and deeper collaborations with customers. Speed of innovation and bringing new devices to market faster are more important than ever for our customers. By bringing together the broadest set of enabling capabilities, we can help customers develop winning devices faster and more effectively. To strengthen customer collaborations at our Maydan Technology Center and in their labs, we recently aligned the organization to better connect our broad capabilities across the company.

MAKE POSSIBLE TECHNOLOGY SHAPING THE FUTURE

Our vision to “make possible” is an amazing opportunity and a powerful responsibility. Materials engineering offers tremendous potential as a key enabler of new technology and allows us to transform possibilities into reality. And no one knows more about materials engineering than Applied Materials. We believe that the world our children and grandchildren will share will be influenced by what we can achieve together today, tomorrow and in the years to come. For Applied Materials, the opportunities are enormous, our potential has never been greater, and at 50 years we are just getting started.

Sincerely,

Thomas J. Iannotti
Chairman of the Board

Gary E. Dickerson
President and Chief Executive Officer

Chapter 14 A Summary of this course and Evaluation

We learned that there are three required financial statements under U.S. GAAP.

These statements are:

- The Balance Sheet
- The Income Statement and
- The Statement of Cash Flows

The Balance Sheet

The Balance Sheet gives us a financial picture of the company on the last day of the period.

What the Balance Sheet Does

- Tells what assets the company has.
- Divides (classifies) assets into two categories: current and long-term.
- Tells us what liabilities (debt) the company has.
- Classifies liabilities as current and long-term.
- Shows the value of the owners' interest in the company (owners' equity).

The Income Statement

The Income Statement tells us the financial results of the main business of the company for one whole period.

What the Income Statement Reports

- The gross income for one period,
- The cost of the inventory sold to customers in that period (cost of goods sold),
- The other costs of doing business in the period (operating expenses), and
- The net income or loss for the period.

The Connection Between the Income Statement and the Balance Sheet

The Income Statement and Balance Sheet are related.

- The net income from the Income Statement is in the owner's equity section of the Balance Sheet.
- The Income Statement and the Balance Sheet use the accrual method of accounting.

The Statement of Cash Flows

Cash is the most important asset of a company.

What We Need To Know About Cash

- How much cash was received during the period covered by the Income Statement?
- What did the company do to get the cash?
- How much cash did the company spend during the period?
- What did the company get for the cash it spent?

These questions are answered in the three sections of the cash flow statement.

- The three sections are:
- Operating activities,
- Investing activities and
- Financing activities.

The U.S. Statement of Cash Flows uses the cash basis not the accrual basis of accounting.

Japanese companies include a Statement of Cash Flows with their financial statements.

Evaluation

This week we do evaluations. Your evaluations make the class better.

What are class evaluations?

Most American college courses have class evaluations.

Class evaluations are written.

They are usually on computer forms.

The students do not write their names on the evaluations.

In regular American classes, the professor does not give the evaluations.

Someone else distributes the forms.

Someone else reads the instructions to the student.

Someone else collects the completed forms.

The responses are analyzed.

The chairman of the department sees the evaluations.

The professor sees the evaluations when the course is over and the grades are given.

The professor reads the comments written by the students.

The professor studies their responses.

The professor decides what changes to make to the course.

Here are some examples of real American university-level course evaluation forms.

University	Purpose
University of Virginia Department of English	undergraduate Department of English
Villanova University	for all undergraduate classes (click OK in the popup dialog box. It asks if you want to open the file)

You may have trouble with the Villanova file. Do not worry. Just ignore that example.

The evaluations for this Chuo Gakuin course are different from regular American evaluations in four ways:

1. They are not anonymous. All professors know what comments each student makes.
2. All professors see the evaluations before the end of the course.
3. These questions are more general than the ones I asked my American students.
4. This course evaluation is shorter than American class evaluations.

Homework

- 1 Please complete the evaluation of this lesson. How easy was this lesson for you?

The accounting was:	The English was:	Finding and using the linked web pages was:
Very easy	Very easy	Very easy
Somewhat easy	Somewhat easy	Somewhat easy
About right	About right	About right
Somewhat hard	Somewhat hard	Somewhat hard
Very hard	Very hard	Very hard

2. Do Japanese professors offer evaluations of their classes?
3. Please complete the evaluation of the entire course.
-

The Course Evaluation (November, 2018)

Please copy all of these questions into one “new message” window in your email program. Please answer each of these questions. Make your answers as long or as short as you want. Then send your email to Prof. Garreis and a copy to Shiina Sensei.

1. Why did you take this course? (You may give more than one reason.)
2. What made your learning easier in this course?
3. What made your learning harder in this course?
4. Can you think of anything to make this course better?
5. What was the hardest part of the course? Why?
6. What was the easiest part of the course? Why?
7. What could you do for yourself to make this course better?
8. What could the American professor do to make this course better?
9. How easy (or hard) was it to get to the weekly lesson attached to the email?
10. How helpful was the weekly lesson?
11. What problems did you have in getting to the web sites?
12. Each lesson had several links to other web sites, such as Applied Materials. How helpful were the web sites given in each lesson?
13. Was the English used in these lessons too hard?