

The acer and apple: what do they have in common?

Business, Risk Management



Apple is a company that was founded in USA and focused on the production of electronic products like phones and computers while. Similar, Acer Inc. was founded in Taiwan with a purpose of designing, developing and selling electronic products. Notably, the company aims at producing product that will top on sales both locally and internationally. Still, the companies have almost a similar ways of maximizing their profits through assets and risks management, building on international standards and attracting potential investors. Nevertheless, there still exist differences in their financial statements and financial ratios. Such a difference is a result of historical, economic, political and cultural influence. The paper will try to compare the financial performance of the two companies along the above factors. Specially put, the financial ratios including the profitability, assets management, liquidity, risk management ratios s published over the recent two years will be analyzed. In this way, it will be possible to explain the performance of the companies and how they deal with upcoming challenges along the line of running the company. The financial ratios can also be used to predict the future of the companies and changes required to maximize the sales and the profit.

Political, Economic and Culture History of the Acer Company and Taiwan

The company was founded in the year 1976 (Young, 2000). At this time, the company was popularly known as Multitech International Company. It was established by Mr. and Mrs. Stan Shih and their friends. The company started to design the electronic hand-held game. Later, they imported semi-conductor for lower price and distributed them. The company was later renamed Acer Inc. in 1981. Microprocessor was the first product the Acer Inc.

successfully produced and they used it to generate revenue for their upcoming projects. In Taiwan, Acer was the first computer company that sold its product directly as they invested their profits by carrying out the research and development of the company. In 1988, the Acer Company was able to attain a profit of \$25 million only. Due to instant worldwide fall of computer hardware and Taiwan dollar strengthening, affected the profit to decrease to \$4 million in 1990.

Acer started shipping different parts of the computer in various locations around the world so as to raise the margin of profit and maintain the sales revenue. By this, the cost of production was decreased and the quality of the product remained high. By 1995, Acer was on top in selling computer in Thailand, Chile, Mexico, Taiwan and Philippines where in 1993 they recorded a profit of \$75 million. In 2012, Acer became number four in the world for production of the PC. Today the company of Acer produces a range of products which are of low prices for affordability by range of people globally. The products of Acer include laptops, peripherals desktops and storage devices.

The economic and culture of the Taiwan was maintained by the ROC as the European Union and others state recognized Taiwan under ROC therefore there was no diplomatic and official relation between Taiwan and other countries. This stagnated the economic growth of Taiwan as a country. They could not control their economic and they could not get any assistance in form of the financial from the other country they related with as those countries and even UN did not recognize Taiwan as single country but under

rule of ROC. Due to this political and economic factor it makes the running of the Acer company face challenges that lowers their sales and profit.

On the culture aspect, Shih and his partners had to employ more people to increase the productions of the goods and services. Nevertheless, the people employed failed to understand the culture of the Acer Company and therefore the goals of the company were not attained. When Shih replaced ineffective workers at that moment, the hatred between the new workers and the old workers was intensified. This was in a way that, they were reluctant to work together with new workers. As a result of lack of team work, the production of quality products was significantly affected and they were ranked down in the global table of the companies' productions.

Political, Economic and Culture History of the Apple Company and USA

The Apple Company was established in the year 1976, California, United States. The company was majorly founded to design, develop and market the computer software, consumer electronics and online services. Notably, the company has been under influence of political, economics and culture factors affecting the USA as well. In early stages of growth, the company was also not able to build on international relations. As a result, most of its product produced was sold within the country, with only 1% being exported. This was specifically due to poor international relation and civil wars in the USA. Still remarkable, the Inflation, currency and recession in economics of the USA have for long affected the sales of the Apple Company. When inflation occurs in the USA, the sales of the product of the Apple Company decrease due to decrease of purchasing power of the people. But still, the Apple Company has been in front line to increase the revenue from their

product sold in international market by purchasing the US dollar when it loses its value to decrease inflation.

Still remarkable, the Globalization in USA has grown fast and wide due to technology development. With a more efficient technology, the development of the technology in the production of the Apple Company products faster compared to Acer. inc and other related companies in the world. This explains why the apple products are on top in technology chart of the world.

Accounting and Financial Standards

The Acer and Apple companies show a considerable differences when it comes to revenue allocation requirements. This is as a result of different accounting and financial standards in U. S and Taiwan. The differences are majorly due to historical background of the two counties. For instance, in the year 1999 the Financial Accounting Standards Committee (FASC) incorporated much of Taiwanese standards into their financial reporting systems. Ever since they have been trying to fully converge with International Financial Reporting Standards (IFRSs) used by the United States so as to eliminate the challenge of lack of compliance with quality and global accounting standards.

Generally, in what is referred to as General Accepted Accounting Principles (GAAP), the Taiwan and he US significantly differ in the way they prescribe their financial and accounting standards (see figure 1 & 2). This explains why the Acer and Apple Company differ in the conditions and circumstances under which consolidated financial statements are required. Still, the unlike

in the Apple company, the Acer company treats bonus shares as expenses because of the override of the Acer company with the Taiwan GAAP.

Figure 1: Comparison of Accounting Standards in Taiwan and US

Figure 2: Comparison of Accounting Standards in Taiwan and US

Comparison the companies from the perspective of a potential investor and user of financial information

Most of the investors consider investing where there are higher profits. The profit that the investor gets depends on the sales the company is able to make over a given short period of the time. Due to better economic of the USA and more developed technology of the country, the Apple Company products have higher sales compared to that of the Acer Company from Taiwan. The economics and the technology of the Taiwan are far behind compared to that of the USA. From this most of the investors will consider investing in Apple Company than in Acer Company (see table 3).

Table 3: financial reports of the Acer and Apple Company for year 2015 and 2016

ACER COMPANY(TWD) APPLE COMPANY(USD)

2015 2016 2015 2016

Net income (million) 604 4, 900 53, 394 45, 687

Total liability (million) 105, 889 108, 000 171, 124 193, 437

Total assets (million) 171, 742 165, 674 290, 479 321, 686

Total equity (million) 65, 853 57, 674 119, 355 128, 249

Quick assets (million) 58477 82962 87058 105078

Current liability (million) 102, 576 105, 422 80, 610 79, 006

Current assets (million) 132, 950 133, 863 89, 378 106, 869

Average total assets (million) 181, 419 168, 708 261, 159 306, 083

Average Equity (million) 63, 241 61, 764 115, 451 123, 802

Net sales (million) 263, 700 229, 800 233, 715 215, 639

Average accounts receivable 53671 46202 17155 16302

Costs of sales (million) 237 228 140, 089 131, 376

Average inventory (million) 35, 322 36, 570 2, 230 2, 241

Earnings before interest and taxes EBIT (million) 2, 624 2, 657 84, 505 73, 333

Interest expense (million) 340, 454 250, 257 733 1, 456

Market price per share 21. 86 20. 32 22. 53 23. 71

Earnings per share 0. 20 1. 62 9. 22 8. 31

Preferred dividends (million) 0 0 1. 98 2. 18

Dividend per share 1. 25 1. 016 4. 96 6. 16

Average common shares outstanding 74. 27 72. 46 26. 79 27. 59

i) Profitability

Return on Total Assets

The Return on Total Assets is used by the company to evaluate the return on investment of the company. Assets are used to generate income to determine the management's efficiency. It is given by;

$$\text{Return on Total Assets} = (\text{Net Income}) / (\text{Average Total Assets})$$

Year Acer Company (%) Apple Company (%)

2015 $604/181419 \times 100$ $53394/261159 \times 100$

0.33% 20.4%

2016 $4900/168708 \times 100$ $45687/306083 \times 100$

2.9% 14.9%

From the calculations of the return on total assets, it clearly indicates that the Acer Company in 2015 had a low return compared to the return of the Apple Company the same year. The Acer Company in 2016 increased the net income which in return increased the return on total asset. Still, Apple Company experience drop in return on assets due to decrease in net income from 2015 to 2016. This was still affected by the average total assets whereby the Acer decreases the average total assets while Apple increased them. Notably, When the average total assets increase with decrease with the net income, the return on total assets decrease.

Return on Equity

This is a measure the income percentage as earned from every dollar of company equity. Also referred as to as return on stockholders' equity, this measure is also used to show how shares bought are appreciating or depreciating in value. This helps the shareholders to know the best moment to sell their shares with the maximum profit. It is determined using formula;

$$\text{Return on Equity} = (\text{Net Income}) / (\text{Average Equity})$$

Year Acer Company (%) Apple Company (%)

2015 $604/63241 \times 100$ $53394/115451 \times 100$

0.95% 46.2%

2016 $4900/61764 \times 100$ $45687/123802 \times 100$

7.9% 36.9%

From the analysis of the return on equity, Acer company indicates an increase on the return on equity from 2015 while Apple is experiencing the decrease. In this case, the shares of the Acer Company increased in value while those of Apple Company decreases in value. This is because of the increase on net income of the Acer Company in 2016 and decrease on net income of the Apple Company in the same year.

Profit Margin on Sales

It is also known as “return on sales” and it is used measure the percentage of income derived from dollar sales. Company always aims for higher profit

of margin on sales for better sales. When profit margin on sales is high the profit also is high. Given as;

Profit Margin on Sales $= (\text{Net Income}) / (\text{Net Sales})$

Year Acer Company (%) Apple Company (%)

2015 $604 / 263700 \times 100$ $53394 / 233715 \times 100$

0. 23% 23%

2016 $4900 / 229800 \times 100$ $45687 / 215649 \times 100$

2. 13% 21. 2%

Comparing the two companies, Acer is seen to have an increase in profit margin on sales between the two years while the Apple Company is having a decrease on profit margin on sales. This means that the profit on sales made by the Apple company on 2015 decreases in 2016 to 21. 2%, while the profit made by Acer decrease from 0. 23% in 2015 to 2. 13% in 2016. This does not mean that the Acer made more profit than Apple but only an increase on it profit from previous year.

ii) Asset Management

Inventory Turnover

Indicate sold and replaced stock. At many times, the Cost of Sales is interchangeably used with sales in the formula. The high ratio is an indication of increased company efficient in its inventories managements. Inventory Turnover is determined using the equation below.

Inventory Turnover $= (\text{Cost of Sales}) / (\text{Average Inventory})$

Year Acer Company (%) Apple Company (%)

2015 $237/35322 \times 100$ $140089/2230 \times 100$

0. 671% 6282%

2016 $228/36570 \times 100$ $131376/2241 \times 100$

0. 623% 5862%

The Apple Company is more efficiency compared with the Acer Company for both years. The two companies' experiences decrease on the efficiency from 2015 to 2016. This is due to lower cost of sales of 2016 to that of 2015. Both companies have lowered the cost of sales which a factor of the efficiency.

Asset Turnover

Asset Turnover is used to evaluate the overall efficiency of a company in producing sales using its assets. It can also be referred to as total asset turnover. The higher the assets turnover, the higher the efficiency. Also the opposite is true that the lower the turnover the lower the efficiency of the company. The Asset Turnover is evaluated using the formula below.

Total Asset Turnover $= (\text{Net Sales}) / (\text{Average Total Assets})$

Year Acer Company (%) Apple Company (%)

2015 $263700/181419 \times 100$ $233715/261159 \times 100$

145% 89. 5%

2016 $229800/168708 \times 100$ $215639/306083 \times 100$

136% 70%

Acer has a higher total asset turns over than Apple, therefore being more efficiency than Apple. The two companies drop their total asset turnover from 2015 to 2016 by at least 10%. Again this is because of the drop on the net sales of the Acer and Apple in 2016. By this they need to increase the net sales for the next year.

iii) Liquidity

Current Ratio

The current ratio is used to determine the ability of a firm to use the current assets in pay of short-term obligations. The current assets include of the following; cash, current receivable, prepayments, marketable securities, inventory. The formula below is used to calculate current ratio of a firm.

Current Ratio = (Current Assets)/(Current Liabilities)

Year Acer Company (%) Apple Company (%)

2015 $132950/102576 \times 100$ $89378/80610 \times 100$

129. 6% 110. 9%

2016 $133863/105422 \times 100$ $106869/79006 \times 100$

127. 0% 135. 3%

When the current ratio is high, it shows that the company is able to cover the short-term obligation by using its current assets. In the case above, both the companies have attained high current ratio, meaning that they have the ability to pay their due on short-term bases in period of those two years.

Acer company is seen encountering drop in current ratio from 2015 to 2016 due to increase in liability while Apple increases the current assets and decreases the current liability in 2016,

Quick Ratio

Also known as Acid Test Ratio, and is used to calculate the ability of the firm to cover short-term obligations by use of quick assets (cash, current receivables and market securities). Calculated using the formula below;

Acid Test Ratio = (Quick Assets) / (Current Liability)

Year Acer Company (%) Apple Company (%)

2015 $58477/102576 \times 100$ $87058/80610 \times 100$

57% 108%

2016 $82962/105422 \times 100$ $105078/79006 \times 100$

78.7% 133%

iv) Risk

Debt to Equity Ratio

Used to estimate the portion of the business property that is financed by debt. The high the debt ratio shows that the Company as a lot of debt that should be paid from the company. Explain by the equation given below.

$$\text{Debt Ratio} = (\text{Total Liabilities}) / (\text{Total Assets})$$

Year Acer Company (%) Apple Company (%)

$$2015 \quad 105889 / 171742 \times 100 \quad 171124 / 290479 \times 100$$

$$61.7\% \quad 58.9\%$$

$$2016 \quad 108000 / 165674 \times 100 \quad 193437 / 321686 \times 100$$

$$65.2\% \quad 60.1\%$$

Both companies experience the increase in debt ratio from between two years. From the data, both companies increase the total liability from 2015 to 2016 therefore causing the debt ratio increase on both sides. Acer Company decreases total assets in 2016 while Apple increases the total assets they hand in previous year.

Times Interest Earned Ratio

Used estimate the number at which the interest expense can be changed to income. Equally important, it is used to evaluate whether the company can use the profit generated to cover its interest expenses. The formula below is used to determine the Times Interest Earned.

Times Interest Earned =(Earnings Before Interest and Taxes)/(Interest expense)

Year Acer Company (%) Apple Company (%)

2015 $2624/340454 \times 100$ $84505/733 \times 100$

0. 77% 11529%

2016 $2657/250257 \times 100$ $73333/1456 \times 100$

1. 06% 5037%

v) Market performance

Dividend Yield

The Dividend Yield; calculated as ratio is used to evaluate the percentage of returns of a company when the dividends are compared with the cost paid for the stock. Remarkably, high dividend yield attracts many investors. But in this case, the investors are after dividends and not the long-term capital appreciation.

Dividend Yield Ratio=(Dividend per Share)/(Market Price per Share)

Year Acer Company (%) Apple Company (%)

2015 $1.25/21.86 \times 100$ $4.96/22.53 \times 100$

5. 7% 22. 0%

2016 $1.016/20.32 \times 100$ $6.16/23.71 \times 100$

5. 0% 26. 0%

Price Earnings Ratio

It is used to determine whether the stock has been underpriced or overpriced. Under-pricing takes place when the ratio is relatively low. On the other hand, overpricing I experienced when the ration is too high. The price earnings ratio is determined by the formula below.

Price Earnings Ratio =(Market Price per Share)/(Earnings per Share)

Year Acer Company (%) Apple Company (%)

2015 $21.86 \div 0.20 \times 100$ $22.53 \div 9.22 \times 100$

10930% 244%

2016 $20.32 \div 1.62 \times 100$ $23.71 \div 8.31 \times 100$

1254%` 285%

Through evaluating the price earnings ratio of the two companies over 2015 and 2016, it is seen that within two years Acer overpriced their stock as the ratio is very high from the normal. Same case applied to Apple Company but they did not overprice their stock very with a big margin as it is to the case of the Acer. It is also found that the Acer ties to lower the price from 2015 to 2016 whereas the Apple Company instead of modernizing their stock price they still add price to the stock.

Earnings per Share

Earnings per Share are used to evaluate the rate earned by shares of a common stock of a company/ stakeholders. To determine the earnings available to common stockholders the preferred dividends are subtracted from net the income. Earnings per share are determined using the formula;

Earning per Share =(Net Income-Preferred dividends)/(Average common shares outstanding)

Year Acer Company (%) Apple Company (%)

2015 $(604-0)/74.27 \times 100$ $(53394-1.98)/26.29 \times 100$

813% 203089%

2016 $(4900-0)/72.46 \times 100$ $(45687-2.18)/27.59 \times 100$ 6762% 165584%

From the figure above is a show that the earnings per shares of the Acer increases while that of the Apple company decreases from 2015 to 2016. This is because the net income of the Acer is increased from 2015 to 2016 while the net income of the Apple decreases from 2015 to 2016. The change in average common shares outstanding and preferred dividends have very marginal change compared to change in net income between two years. Therefore they do not affect a lot the change in earnings per shares.