

Apple incorporated- balance sheet and market value

[Finance](#), [Market](#)



Results Page

The calculations have been done using the latest Apple Inc balance sheet.

A. Short Term Debt

Apple's short-term debt is comprised of the current liability. This is debt that is fully repayable within a year.

The book value of the short-term debts as of 2007/09/29 is \$ 9299 million.

The book value is taken to be the market value.

B. Long Term Debt

Apple Inc has not held any long-term debts since 2003 in a trend common in the information technology industry.

YTM = Interest + annual price charge

$(\text{Market rate} + \text{coupon rate})/2$

The present value of the bond = principal amount + interest

$(1 + \text{YTM})^{-n}$

C. Equity

Apple Inc - Outstanding number of shares as of 29/09/2007

= 872.33 million

Market price per share as of 16/11/07 = \$161.71

Market value of equity = Outstanding no of shares x market price = 872. 33
x 161. 71 = \$141, 064. 48

Debt Ratio

It is computed by total debt divided by total assets. It shows the ratio or proportion of total debt to assets. It is a measure of debt load. It indicates the risk levels. The higher the debt ratios less risky the firm is. It shows just how much capital used in capital formation is borrowed. A high debt ratio means that the company is paying more in terms of loan repayment and interest charge. (NetMBA. com, 2007)

Apple Inc has an asset base of \$ 25, 347 million. Its book value debt is \$ 9299 million.

The debt ratio based on book value = book value debt.

Total asset = 9299 million = 0. 37 or 37% 25347 million.

The debt ratio based on market value is equal to the debt ratio based on book values as the company only holds the short-term debt. The market value of short-term debt is assumed to be the same as the book value.

The company is quite stable using either market values or book values. A debt ratio of 37% is considered a good indication of a stable financial position. It shows good creditworthiness. For every one dollar of asset, this company has \$ 0. 37 worth of debt. The company has chosen to eliminate all risks associated with long-term debt but at the same time foregone any tax-

deductible on interest. This is because interest payments are allowable while the cost of equity is not.

Debt to Equity Ratio:

Is arrived at by dividing total debt by total equity. It is also called financial leverage since it shows the level of indebtedness of a company. The higher the ratio, the greater the indebtedness, and the lower it is, the lower the reliance of the company on debt. It is likely to vary from industry to industry depending on the level of capitalization. (NetMBA. com, 2007)

For Apple Inc., the short-term debt is \$ 9299 million while it does not rely on long-term debt in an industry known to maintain very low ratios.

The market value of equity is \$5368 million while the book value is \$ 141064. 48 million.

The debt to equity ratio based on book value = $\frac{9299 \text{ million}}{5368 \text{ million}} = 1.74$ or 174%

The debt to equity ratio based on market value = $\frac{9299 \text{ million}}{141064.48 \text{ million}} = 0.07$ or 7%

For every dollar in book value the shareholders have invested, there is 1.74 dollars worth of debt.

For every dollar in market value in shareholders' investment, there is 0.07 dollars worth of debt. The book values depict a weaker financial position than the market value. The Apple management may find it hard to decide which

of the two sets of ratios to rely on; those based on the book values or the market values.

Market values and book values rarely coincide and this results in a problem of wrong measurement and comparison over time and across space. (Choi, Fredrick, D. S., 2003) The resultant differential in market values and book values of equity and debt is known as market value added (MVA).

The equity MVA for Apple Inc is \$158354. 42.

This difference has a big impact on three areas. First, it affects the computation of the cost of capital in a firm. The value to use when calculating WACC between the two is a major headache. While market values are not easy to compute and may consistently vary they indicate the cost of acquiring more capital. WACC cannot use historical costs but the current cost of acquiring new capital and therefore book values cannot be used.

This difference also affects the cross-sectional evaluation of equity and debt. It interferes with debt ratios and debt to equity ratios as illustrated above. Differentials result in different ratios that make comparison and decision making difficult. Finally, it also affects the evaluation of capital configuration over time. It may not be possible to compare two sets of a firm's components of capital prepared in different time frames.

There is great controversy on which value reflects the true value of a firm's debt and equity. The value picked should not overvalue nor undervalue the item being measured. Proposals to use market value have been met by a number of objections. Firstly, market values are said to be volatile and

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fluctuate often while book values are fairly constant, hence cannot be relied on. However, this is an advantage in disguise because the value incorporates what is happening in the firm, industry, and the economy at that particular time. Book values of equity and debt are unresponsive to these changes and therefore do not reflect the true value. Hence market values are a better approximation of the true value. (Sweeney, Richard. Et al, 1997)

Secondly, book values are used more often because they are to be more conservative as accounting standards require. Accountants prefer to recognize the figure that minimizes profit rather than exaggerate it. It is assumed that book values of debt and equity will be smaller than the market values and therefore should be used. This assumption, however, does not hold because the market value may in certain instances fall below the book value.

Thirdly, it is argued that market values cannot be relied on when acquiring funds from banks and other financial institutions but this is sometimes not the case in homeownership plans especially when getting a second mortgage. Lenders are wary of the frequent fluctuations in market values.

References:

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