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\n[toc title="Table of Contents"]\n

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1. [Introduction.](#introduction) \n \t
2. [Corporate Structure](#corporate-structure) \n \t
3. [Operations Analysis](#operations-analysis) \n \t
4. [Balance Sheet](#balance-sheet) \n \t
5. [References](#references) \n

\n[/toc]\n \n

## Introduction.

AT&T (Amercian Telephone and Telegraph Company) is an American based public company with history which goes back to the end of XIX century when the first telephone was invented. Originally AT&T was one of the subsidiaries of Bell Telephone Company, whose founder Alexander Graham Bell invented the telephone itself. Company was founded in 1885 and provided short and long distance calls along with telegraph services. Throughout the century it has become one the world’s largest telecommunication companies which provide wide range of services from fixed and mobile telephony to broadband internet services and digital television.
Company was first incorporated in Delaware in 1983 and has been trading at New York Stock Exchange ever since under the ticker T. In 2013 it was the 21st largest company in the world in terms of market value, according to Forbes (2013). It’s impressive performance throughout the century made it a component of Dow Jones Industrial Average and S&P 500. As of 2012, AT&T had 246 000 employees who serve more than 100 million customers worldwide. Annual revenue for the year 2012 exceeded $127 billion.
In order to perform the analysis of AT&T recent performance we will take the AT&T’s. annual report (also known as Form 10-K) for the fiscal year ended December 29, 2012 as an example. The report provides detailed information on company’s business and its operations, presents analysis of financial statements and risk factors throughout the year, and depicts the structure of corporate governance within the company. Annual Report consists of 4 major parts. Part I defines AT&T’s area of expertise and major milestones in its history, as well as potential risk factors which may affect the price of AT&T’s stock. Part II depicts company’s stock performance throughout the year, provides consolidated financial data (Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Changes in Equity) and its analysis, as well as analysis of the effectiveness of the Control System. Part III gives references to the company’s official documents regarding Corporate Governance, Executive Compensation and Investor Relationship issues. Part IV includes Closing Remarks, Exhibits and Financial Statement Schedules.

According to the report, main scope of AT&T’s business is concentrated on providing following services: wireless communications, local exchange services, long−distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking, wholesale services and directory advertising and publishing. Business operations of AT&T are divided into several four major operating segments: Wireless, Wireline, Advertising Solutions and Other. Wireless segment is represented by a subsidiary AT&T Mobility, which is focused on providing wireless internet services to corporate and private customers. Wireline segment provides communication services in domestic and international markets, including voice and data services. Advertising Solutions segment is rather small and represents only 4% of company’s revenues. It’s main focus – preparation and publishing of White and Yellow Papers and selling the internet based advertising services. Notably, Wireless segment keeps growing from year to year as a percentage of company’s revenues, while Wireline and other segments keep shrinking. In 2012, Wireless accounted for 45% of AT&T’s revenues, as opposed to 36% in 2008, while Wireline segment decreased its share form 30% in 2008 to 23% in 2012.
AT&T is also one of the pioneers in the amount of funds spent on R&D in telecommunications industry. In 2011 company invested $1. 3 billion in the research and development. Key focus areas of R&D division are data mining technologies, advanced internet protocols, network design and architecture and operations systems. Besides being one of the most innovative companies in the field, AT&T is one of top 10 employers in United States. According to company’s report, it employs more than 265 000 workers, 73% of whom are located in the US. Company also has more than 340 000 of retirees, who are receiving retirement benefits and support from the employer. Overall, AT&T provides financial security to more than 600 000 people over the world, which makes it a large contributor to country’s well-being.

## Corporate Structure

Through various Merger and Acquisition deals, AT&T has established control over more than 22 subsidiaries, which are grouped according to the scope of its operations. Annual report differentiates subsidies into 3 major groups.
First group of subsidies represent companies which operate in wireless business and provide voice and data services in domestic and international markets. Companies like Aio Wireless and AT&T Mobility are included in this group. Second group of companies are responsible for providing landline voice and data communication services for corporate and private customers. These companies are mostly concentrated in the US. Typically, most of the major US states have an AT&T subsidiary which operates under Bell trademark (Illinois Bell, Michigan Bell, Indiana Bell etc.). Final group of subsidies represents companies which were acquired as a result of corporate or other operations in the telecommunications business. This also includes equity investments into other companies which are not directly related to AT&T’s scope of business.

## Operations Analysis

Annual report claims that all financial statements of the company were audited by Ernst & Young LLP, one of the big 4 accounting firms. Their report may be found in the Part II of the annual report titled “ Report of Independent Registered Public Accounting Firm”. Independent auditors produced an unqualified opinion. According to the Ernst and Young, AT&T’s financial statements present the financial position of AT&T fairly in all material respects. Auditors also notice that AT&T maintained effective control over financial reporting in the year ended 29 December, 2012. From the auditor’s report we may conclude that there were no subsequent events, errors and irregularities, illegal acts, or related-party transactions that had a material effect on the financial statements.
Uncertain global economic conditions in 2011 affected AT&T’s financial position in the accounting period. However, company’s managers claim that situation was improving in 2012. AT&T uses a multiple-step income statement, which means that expenses are subtracted multiple times in order to provide a clear understanding of gross profit, operating profit and net profit. Income statement contains consolidated information about company’s sales, costs and other income and expenses. Operating revenues kept increasing at the average rate of 0. 6% starting from 2010. However, in 2012, cost of sales were growing faster than revenues (increase by 0. 7% compared to 2011). This negative trend was offset by the ability of AT&T to manage its administrative expenses which decreased by almost 1% in 2012. These operations, overall, let the company to increase its revenues by 0. 8% and decrease its expenses by 2. 6%, which resulted in increase in total operating income by 41%, to $12. 9 billion in 2012. Overall, company’s managers claim that slow revenue growth occurs because of the fact that voice revenues keep declining for several years in a row. According to the report, revenues from total switched access lines decreased by 13. 2% in 2012. Nonetheless, decrease in wireline revenues is offset by significant increase in revenues from wireless services, as customers keep switching from obsolete wireline services to wireless.
In particular, operating income margin for the wireless segment equaled 24. 9% in 2012, as opposed to 24. 7% in 2011 and 27. 0% in 2010. Board of Directors claims that this year’s increase in margins occured due to growth in data revenue as well as improved operating efficiencies. Company notices that subsidies associated with sales of smartphones put pressure on operating margins, since company has to cover almost 50% of the cost of a smartphone. However, AT&T expects that subsidizing sales of particular smartphones will bring benefits in the future, as consumers will actively use company’s services on the purchased devices.
AT&T emphasizes that uncertain conditions in global economy continue to affect financial performance of the company. Although goods and financial markets are stabilizing, there is still not enough confidence in the strength of the US economy which limits AT&T’s sales growth. Many of the AT&T’s suppliers were forced to get out of the business due to difficult economic conditions, which resulted in additional costs to AT&T. Besides, low consumer confidence results in lower demand for company’s services by both private and corporate customers. For this reason, expected growth rate in 2013 should not exceed 2%.
Overall, company managed to successfully overcome global economic crisis which broke out in 2007. It could be seen from the report that even in the crisis years during 2007-2009 there was no significant decline in revenues and profit levels: In 2007-2009, annual revenues exceeded $118, $124 and $123 billion respectively. Annual profits were at around $12. 5 billion during crisis years. A series of successful M&A deals (including acquiring of BellSouth and Cingular Wireless LLC) and an increased demand for wireless and data services let AT&T to maintain its sound financial position despite global economic meltdown. Another reason, why AT&T had not suffered from crisis as hard as other American companies is that communications industry itself is less vulnerable to economic shocks and company’s innovative approach in the wireless services offset the negative trends in the market climate. In addition, since AT&T had high credit ratings, it could have access to short-term borrowing market and didn’t experience problems with liquidity, which contributed to its financial stability. In the upcoming years during 2009-2012 company continued to invest heavily in its fastest growing source of revenue – wireless data services. As global economy continued its recovery, AT&T gained leadership in communications industry accounting for 29% of the American market share in 2011.
AT&T expects that primary sources of growth in the future periods would come from wireless services and data/broadband services, as recent acquisitions by the company secured its competitive position in this segment. Moreover, company expects that it would benefit from R&D investments, which would help it to maintain leader of telecommunications industry. Since wireless segment is one the fastest growing business unites, AT&T hopes to utilize its competitive advantage in this field. In particular, company is conducting a transition from 3G technologies towards LTE, which will help to foster growth in revenues. It is expected that in 2013 this service would be provided to 300 million of customers in United States.

## Balance Sheet

We may see from the Balance Sheet statement that AT&T’s total assets increased by 1. 3% from $270 billion to $273 billion. This growth was mainly driven by increase in net Property, Plant and Equipment, which increased from $107 billion in 2011 to $110 billion in 2012. Other asset accounts remained more or less stable, compared to 2011. Major assets of AT&T include Buildings and improvements evaluated at $15. 9 billion, machinery and equipment, including licences and software ($52. 3 billion) and goodwill evaluated at $69. 9 billion. Interestingly, that AT&T’s reputation and other intangible assets, such as licences are worth more than its depreciated tangibles, which proves that AT&T’s has a strong brand and projects a reliable and respectful image in the industry. Overall, unstable economic situation around the world did not significantly influenced Company’s efficiency. AT&T continues to maintain a reasonable level of inventory turnover through the 4-year period. It also efficiently manages its receivables, maintaining the receivables turnover ratio at around 9. Since company experienced slight growth in sales, return on assets had slightly increased in 2012 and equaled 0. 88, compared to 0. 84 in 2011 and 0. 85 in 2009.
Growth in Liabilities and Shareholder’s equity was driven by increase in long-term debt obligations (increase by $6 billion), increase in short term debt (increase by $1. 7 billion). Shareholder’s equity account decreased from $106 billion in 2011 to $93 billion in 2012 due to decrease in the retained earnings account (decrease from $25. 5 billion in 2011 to $22. 5 billion in 2012) and decrease in Treasury Stock account (from $20. 8 billion in 2011 to $32. 9 billion in 2012). According to the report, AT&T has limited liquidity levels, as quick and current ratio indicators remain lower than 1. This means that AT&T might have difficulties in repaying its short-term obligations and maintains reasonable level of cash to finance its operations.
Structure of AT&T’s liabilities may seem a little bit disturbing as company has been accumulating long-term debt for the past 3 years. In 2012 it equaled $66. 5 billion compared to $49 billion in 2009. As a result, debt-to-equity ratio increased from 0. 44 in 2009 to 0. 75 in 2012. Increased debt will result in increased interest payments in future periods, which may affect AT&T’s profitability. In addition, high amount of debt may deter potential investors from the company. However, if company manages to invest debt money into profitable and valuable projects, it could result in subsequent growth of sales and development of the business.

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