Accounting research paper example

Business, Company

Financial Analysis: Microsoft

Introduction:

For the purpose of the project and adhering to the requirements, we have selected Microsoft Corporation as the company to be analyzed. The company is a renowned name in the computer industry around the globe and is listed on NASDAQ under the ticker symbol of ‘ MSFT’. Headquartered in Washington, the company is primarily involved in manufacturing and distributing of computer software, consumer electronics and personal computers. Microsoft is the world’s largest software maker in terms of revenue and is also one of the most valuable companies in the world. Below are some of the products of Microsoft Corporation:

- Windows OS
- Office
- Skype
- Xbox
- Bing

As for the financial standing of the company, the company owes $142431 Million of Total Assets, $9991 Million in Property, Plant and Equipment and has $12601 million of outstanding long term debt.

Property and Equipment and other related information:

As of the year ended 2013, the company have a total of $9991 Million worth of property, plant and equipment, net of accumulated depreciation of $12513 Million. Below is the detailed information related to property and equipment held by Microsoft Corporation:

For the purpose of depreciation of Property and Equipment, the company follows straight line depreciation method over the estimated useful life of the said asset or the lease term, whichever is lower. All the components of Property and Equipment are stated at cost and have the following useful lives:

- Computer Software Developed for Internal Use- Three years
- Computer Equipment- 2 to 3 years
- Buildings and Improvements- 5 to 15 years
- Leasehold Improvement- 2 to 15 years
- Furniture and other equipment- 1 to 5 years

Alternative Depreciation Method: Double Declining Depreciation Method

As an alternative depreciation method and to see its relevant impact on the balance sheet and income statement of the company, we will follow the Double Declining Balance method. With this method, more depreciation expense is recognized in the early years of an asset's life a less depreciation expense in the later years. Thus, accelerated depreciation results in lower net income in the early years of an asset's life and higher net income in the later years compared to straight line depreciation method. Below is the formula used for Double Declining Depreciation Method:

[Book value in the beginning of year x/ depreciable life in years]* 2

Effect on components of Property and Equipment:

For the purpose of simplification , we shall be using the book value of all the relevant assets in the beginning of year 2013:

i)Land- No Depreciation

ii) Buildings and Improvement:

Useful Life: 5 years

Book Value on 30th June, 2012: $6768

Depreciation Expense: [6768/ 5]*2= $2707. 20

iii) Computer Equipment and Software:

Book Value on 30th June: $7298

Useful Life: 2 years

Depreciation Expense: [7298/2]*2= $7298

iv) Leasehold Improvements:

Useful Life: 2 years

Book Value on 30th June, 2012: $2550

Depreciation Expense: [2550/ 2]*2= $2550

v) Furniture and Equipment:

Useful Life: 1 year

Book Value on 30th June, 2012: $2087

Depreciation Expense: [2087/ 1]*2= $4174

Total Depreciation: $16729. 20

Conclusion:

In comparison to Straight line depreciation, the depreciation expense under double declining method is manifold and this will result in lower net income as compared to the straight line depreciation method. Furthermore, higher depreciation expense would lead to higher accumulated depreciation expense resulting in lower book value of the assets recorded.

Important to note that, over the life of the asset there is no difference between total depreciation expenses under both the methods. As we have already discussed, double declining method only results in higher depreciation expense in initial years and low depreciation expense in concluding years.

Intangible Assets and Goodwill:

Referring to the financial statement and footnotes, the company has recorded $14655 Million and $3083 Million in goodwill and intangible assets, respectively. Below is the complete description of how the company has recognized relevant amounts under Goodwill and Intangible Assets:

Goodwill:

For the purpose of impairment, the company declared that every year on May 1st, it test the goodwill for impairment at the reporting level using a discounted cash flow methodology by using risk adjusted WACC.

Intangible Assets:

The company carries the amortization of the intangible assets by following straight line method over the estimated useful life of 1 to 15 years.

Short-term and Long-term debt:

Referring to the financial statement and footnotes, the company as of June 30th, 2013 had a total long term debt amounting to $12601 Million of which $2999 Million was due in on year. As of short term debt, the company had accounts payable worth of $4828 Million. Below is the complete description of the total long term debt of the company (including the current portion):

Notes Payable and relative interest rates:

The company has multiple notes issued as a source of long term debt financing and with different interest rates. Following is the description of the various notes issued by the company along with their due date and effective interest rates:

2013: The Company retired $1000 Million worth of notes on September 27th, 2013. These notes carried an effective interest rate of 1%

2014: A high amount of debt worth $2000 Million was retired by the company on 1st June, 2014. These notes carried an effective interest rate of 3. 049%

2015: Another significant amount of note payable, amounting to $1750 Million is due on 25th September, 2015. This note carries effective interest rates of 1. 795%.

2016: During 2016, notes worth $750 Million and with effective interest rate of 2. 642% will be retired by the company on February 8th, 2016.

2017: A total of $600 Million worth of notes will be retired by the company on 15th November, 2017. These notes carry effective interest rates of 1. 084%.

2018: On 1st May, 2018, notes worth $450 Million and carrying interest rate of 1. 106% will be retired by the company.

2019 and 2020: during 2019 and 2020, notes worth $1000 million will retire. These notes carry interest rates of 4. 379% and 3. 137%, respectively.

2021: On February 8th, 2021, notes worth $500 Million and with effective interest rate of 4. 082% will be retired.

2022: On November 15th, 2022, notes worth $750 Million will be retired. These notes carries interest rate of 2. 239%.

2023: During the year, notes worth $1000 Million will be retired on May 1st, 2023. These notes attracted interest rates of 2. 465%.

2033: After a long gap of 10 years, the company will retire notes worth $715 Million on May 2nd, 2033. These notes are of low cost and carries effective interest rates of 2. 690%.

2039: Following a six year gap again, $750 Million worth of notes will be retired by the company on June 1st, 2039. Important to note that these notes carries high effective interest rate of 5. 240%

2040 & 2041: These two years will see the retirement of $1000 Million worth of notes (each) and carrying high effective interest rates of 4. 567% and 5. 361%, respectively.

2042 &2043: Microsoft issued new notes during 2013 worth $1400 million of which, $900 Million worth of notes will be retired on 15th November, 2042 and another $500 Million worth of notes will be retired on 1st May, 2043. These notes carries interest rates of 3. 571% and 3. 829%, respectively.

Summary: Notes Due by the company

Maturities:

2014: During the current year, a total of $3000 Million worth of long term debt is due for retirement

2015: During the next financial year, the company does not have any long term debt due.

2016: During 2016, the company is liable to pay off long term debt worth

$2500 Million

2017: During 2017, the company does not have any long term debt due.

2018: During 2018, a total of $1050 Million worth of long term debt is due for retirement

** After 2018, the company has declared that a total of $15665 Million of long term debt is due to be retired.

** During 2013, the company reported interest expense of $429 Million with an effective interest rate of 1. 849%. On the contrary, had the effective interest rate would have been 1% higher, i. e. 2. 849%, in that case, the interest expense would have been $661. 017 Million.

Description of Stockholder Equity:

Book Value per Share:

During 2013, the book value per share is $10. 58 and with 8. 26 Billion shares outstanding, the book value of the firm is $87. 390 Billion

Retained Earnings and Contributed Capital:

During 2013, the company had retained earnings worth of $9895 Million and contributed capital of $67306 Million.

Equity Financing:

Other than common stock issue, the company is only using retained earnings and do not have any other source of equity finance.

Other sources of financing:

The company has been largely funded both with debt and equity financing and has maintained a healthy debt-equity ratio. However, it duly understand the importance of right source of funding its business and has even cited the same on their website, where they declared that how a wrong source of financing can lead to fall of business or feud with financiers etc. Below are some of the other sources of finance, which the company can consider:

i)Venture Capitalist: Venture Capital will be happy to serve Microsoft Corporation. With billions of dollars of revenue and sustainable profits, venture investors can be a great source of funds for some short term yet profitable projects of the company. Important to note that VCs want to get their money and profits out as fast as possible. Hence, with meteoric growth likely in Microsoft Projects, this source of finance can be very effective for the company. Important to note, that, the comfort zone of VC's range from $250000 to tens of millions of dollars, this indeed can be a comfort for the company.

ii) Smart leases: Microsoft has good line of assets available with it and thus, leasing fixed assets conserves cash for the working capital needs of the company, which no company will like to fund through bank loans or equity financing.

Works Cited

Microsoft. " SEC 10 K Filing." SEC Filing. 2013.

Sloan, Jeff Sloan and Rich. 3 best types of funding for your biz. 18 June 2014 .