

# Google Inc.-earnings announcements and information environment

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Pro forma and GAAP analysis a) It is conventionally important to have an in-depth understanding of exactly how much assurance auditors offer with regard to financial statements, in addition to creating an understanding of opinions of the auditors. This is important in helping avoid expectations gap. The auditors reflect a positive outlook of Google's financial performance through a strong momentum in core businesses, growing receptivity to new business initiatives, as well as improved discipline in management of operating expenses (Bowen et. al., 2005).

b)

i. Investors consider earnings an important indicator of efficiency of companies as well as company financial potential. As a matter of fact, earnings numbers clearly bear a significant impact on valuations of public market. While per share earnings calculations are straight forward, corporations frequently report " pro forma" EPS numbers. Valuations based on pro forma numbers against GAAP EPS numbers potentially translate into significant valuation changes. Pro forma earnings are non-GAAP and exclude items like restructuring charges, asset impairment charges, losses on asset and businesses sales, goodwill amortization, as well as equity method investments losses (Burns, 2009). It is widely claimed that pro forma numbers are net of " items deemed as non-reoccurring, non-cash or unimportant," and hence pro forma numbers portray a realistic picture of their potential and value.

ii. It is widely held that Pro Forma Analysis gives investors a clearer picture of company operations. As a matter of fact, they are believed to offer more accurate view of financial performance and outlook due to the nature of

businesses. For instance, a firm like a cable and telecommunication company will prefer Pro Forma analysis because constantly makes operating profits by writing down depreciation costs. In essence, investors concerned with long-term company valuation can do well by analyzing pro-forma earnings.

Additionally, pro forma analysis allows companies to identify their core value drivers, in addition to analyzing the changing trends within operations.

iii. In January, 2003 SEC instituted a final rule through §401(b) the Sarbanes-Oxley Act of 2002 (SOA) with regard to use of “ pro forma” financial analysis in information on SEC filings as well as other public disclosures. According to the rules, all companies that provide pro forma must accompany the same with corresponding or equivalent GAAP measures (Burns, 2009). This is to allow industry comparability, in addition to standardization for purposes such as taxation and company valuation.

#### References

Bowen, R. M., et. al. (2005). Emphasis on Pro Form a versus GAAP Earnings in Quarterly Press Releases: Determinants, SEC Intervention, and Market Reactions. *The Accounting Review* 80 no. 4, 1011-38

Burns, J. (2009). SEC Official Reveals Probe Into “ Pro Forma” Earnings Cases. *Dow Jones Business News* (June 18).