Review of Financial Statements Paper

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Companies will come and go through the years, but those that can survive in this down economy and time of recession will be able to teach other companies how they survived. The following financial comparison of two publicly traded companies, Dell and Delta Air Lines, will increase the understanding for the proposal of a possible merger of the two corporations. The presentation will present financial statements as well as a company profile to support the benefits the merger of the two companies will have for the auditors and investors as they are both financially stable companies. The basic accounting concepts, terminology, and transactions will be addressed for those colleagues in the managerial meeting that may not have a strong financial background.The presentation will provide an overview of Dell’s and Delta’s financial statements by the respective accounting firms and will provide an analysis of the pertinent financial information necessary to determine if the financial statements are strong enough to warrant a successful merger between the two companies.

Company Profile – Dell, Inc.

One of the world’s top suppliers for PC’s, Dell offers technology products directly to the consumer, education, enterprise, and government. “In addition to a full line of desktop and notebook PCs, Dell offers network servers, data storage systems, printers, Ethernet switches, and peripherals, such as displays and projectors” (Hoover's Academic, 2010). “The company's growing services unit provides asset recovery, financing, infrastructure consulting, support, systems integration, and training” (Hoover's Academic, 2010). Dell markets third party software and hardware also. Because of the most recent domestic economic downturn, Dell aggressively campaigned to reposition their growth internationally.

 Dell operates 53% of business in the United States and 47% of business in other countries. The organization is a vertical structure with a board of directors. Michael Dell, the founder of Dell, is the Chairperson, and Chief Executive Officer. Various Senior Vice Presidents, Vice Presidents, Presidents, and managers fall under his authority. Together the Chief Executive Officer and the top management team are responsible to the board of directors. The board of directors is votedin by the stockholders to oversee the organization. The board is responsible for the oversight and making major decisions for the organization.

The company also offers third party software products, which consist of operating systems, business and office applications, anti-virus, and related security software (Yahoo, 2009). Key highlights of this company include:

• A start up by Michael Dell in 1984 with $1000

• In 2005, it became world’s largest direct selling computer company with 57600 employees in 80+ countries and customers in more than 170.

• Dell identified trends in the PC Industry and broke away from the traditional “build-to-stock” strategy.

• In 2005, they also decided to branch out and create a diverse IT portfolio. Therefore, ventured into servers, storage, and mobility products (Yahoo, 2009).

Its Auditors are: PricewaterhouseCoopers LLP

Company Profile – Delta Air Lines, Inc.

Delta Air Lines, Incorporated(NYSE: DAL) is an American airline headquartered in Atlanta, Georgia and one of the world's largest airline. Delta operates an extensive domestic and international network, spanning North America, South America, Europe, Asia, Africa, the Middle East, the Caribbean, and Australia. Delta and its subsidiaries fly to 247 destinations in 66 countries (excluding codeshare), across six continents (Delta Airlines, 2010).

Formed as Huff Daland Dusters, Incorporated, an aerial crop dusting operation, on May 30, 1924, in Macon, Georgia, the company moved to Monroe, Louisiana in Ouachita Parish in northeastern Louisiana, in 1925, and began acting as a passenger airline in late 1929. Collett E. Woolman purchased the company on September 13, 1928, and renamed it Delta Air Service with headquarters in Monroe, Louisiana.

On December 31, 2009, the Company’s entirely owned subsidiary Northwest Airlines, Incorporated, Northwest Airlines merged with and into Delta. The entirely owned subsidiary of the company is Northwest Airlines Corporation. In July 2010, Pinnacle Airlines Corporation acquiredMesaba Aviation, Inc. from Delta Air Lines (MoneyCentral, 2010).

Sales $28.2 Billion

Income -$699.0 Million

Auditors are Ernst&Young.

Accounting Firms

Dell and Price, Waterhouse and Coopers have maintained a unique relationship for more than two decades. PWC is an accounting firm based in New York City. PWC has been Dell's Sole auditor for over twenty years. Since 1986 PWC has processed all of Dell's financial statements on file with the Security and Exchange Commission, because the start of the Sarbanes-Oxley Act. The relationship between Dell and PWC was initiated by Jim Schneider, Chief of Finances, who was once a partner at PWC before the company merged with Coopers &Lybrand(MSN.com,2010). An example of how committed Dell is to PWC, Dell has recommended all shareholders approve PWC as its accounting firm for years. Although they have a long stable relationship PWC auditors have reap enormous reward for their services. Dell has paid PWC over $20 million dollars over the past two years to provide accounting, audit and control services to the computer for them, according to Dell's recent statement that has been filed with the Security Exchange Commission. Among PWC's tasks is to keep Dell in compliance with the Sarbanes-Oxley Act.

Unlike Dell, Delta began a new financial relationship with Ernst & Young in 2006. Delta Airlines had a prior relationship with auditors, Deloitte & Touché LLC, this relationship quickly ended after Delta filed for bankruptcy in 2005 (Delta.com,2006). The decision to hire Ernst & Young LLP was influenced by the need for help to reorganize after filing for bankruptcy. Ernst & Young is one of the largest accounting firms across the globe, Ernst & Young provides Delta Airlines with services in every area of business, which is required. This includes audit tax, corporate finance, transactions, online security, in addition to enterprise risk management. Ernst & Young LLP has 130 countries and employs more than 77,000 people. Like Dell, audit firm PWC, Ernst & Young LLP headquarters is locatedin New YorkCity. Ernst & Young LLP holds the title as the largest tax consulting firms in the United States, accounting professors has choose Ernst & Young the best Tax consulting firm.

Financial Statements

Both Delta and Dell use the four main types of financial statements. They are the income statement, balance sheet, cash flow statement, and the owner’s equity statement. Although all four are very useful, they are all accounting for different information. The income statement, probably the most used statement by the public, outlines the total revenue and the total costs, to give the reader of the statement an accurate picture of how the companies utilizesthe money from its investors. Many investors would use this statement to help make an educated decision whether or not to invest in the company. The most important part of this statement is the net income. The balance sheet is another very important statement that provides a snapshot of where the companies’ funds are at that current time. It outlines the assets and the liabilities of the companies at one particular day. The balance sheet is a good indicator on the near future of the companies becauseit will indicate if the company is upside-downor not. Neither Delta nor Dell are upside-down because they both have more assets then liabilities. For example, if Dell had to pay back all of its liabilities immediately; the company would need $28,011,000. If it had too, they can sell all of their assets and make $33,652,000, and still have money left over. That isa good indicator for the near future. The cash flow statement also tells one how the companies are using their funds. An investor can compare the credits and debits to compare the cash flows from financing activities between quarters. The owner’s equity statement shows what the company does with its profits. It states what the company paid out for dividends and how much money the company reinvested into the company (Yahoo! Finance, 2010).

Accounting Concepts, Terminology, Transactions

The financial statements for Dell, Inc. and Delta Airlines, Inc. show comparative accounting reports mapping business progress from 2006 to 2010. Because 2010 is not yet complete, the 2009 statement provides a more comprehensive view of a full year of business for both companies. Each company’s report depicts reporting by income statement, balance sheet, and statement of cash flow. As Albrecht, Stice, Stice, and Swainel (2008) report that these three financial statements exhibit different areas of reporting. The income statement represents the net income or cash value of the business; the balance sheet reports on the company’s assets, liabilities, and equity at a given time; the statement of cash flow addresses the fluidity of cash in an out of the organization. These reports provide a comprehensive overview of the financial health and stability of a business.

Within the financial statement are groupings of transactions listed under the same account. For example, Dell consolidates current cash transactions into one account in the final report; whereas for internal purposes, journal entries note each transaction throughout the business. Another noticeable accounting concept is that the balance sheet accounts are segmented by assets and a combination of liabilities and owners equity. Albrecht, Stice, Stice, and Swainel (2008) state that the accounting equation “assets = liabilities + owner’s equity” (p. 34) helps bridge the income statement and statement of cash flow into the balance sheet, which ultimately embodies the full scope of financial reporting.

Accounts Affected by Transactions

Two transactions noted on the Delta financial statement shows linking net income after tax to how the same transaction is the starting point for reporting cash flow. In the income statement, total revenue for Delta was $28 billion; however, the company’s total cost of revenue, (which factors in “total operating expenses directly related to the goods sold and services provided” (Goodrich Corporation, Definition, 2008) is an $18 billion dollar deduction leaving the company with $6.5 billion in profits. Before any allocation of profits to shareholders, the company must deduct operational costs and taxes. In Delta’s case, these final expenses result in a net income loss of $1.2 billion. This amount carries over as the initial transaction of the statement of cash flow. Delta’s significant loss of net income proves that the company has more expenses than revenue. The cash flow statement represents the company’s liquidity, meaning how soon Delta can obtain cash. Although the statement begins in the negative, the company has some breathing room in terms of assets. The bulk of the cash is in depreciation/depletion of assets, whichhelps to maintain a positive net cash total of $352 million (MSN.com, 2010).

Conclusion

The above presentation provided an overview of Dell’s and Delta Air Line’s financial statements by the respective accounting firms. It also provided an analysis of the necessary financial information necessary to determine if the financial statements are strong enough to warrant a successful merger between Dell and Delta Air Lines. The financial comparisons of the two publicly traded companies, Dell and Delta Air Lines, will increase the understanding for the auditors and investors proposal of a possible merger of the two corporations as well as assess the risks. The presentation presented financial statements as well as a company profile to support the benefits the merger of the two companies. The basic accounting concepts, terminology, and transactions were addressed for those colleagues in the managerial meeting that may not have a strong financial background.After careful financial review and accounting analysis, the merger between Dell and Delta proves to be a successful acquisition for both companies and the investors.

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