

# Session 5

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- Announcements
- Intel Cash Collections
- Circuit City



# Reverse Engineering: How Much Cash Did Intel Collect From Customers In 2002?

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Reverse Engineering process:

Identify Relevant Balance Sheet Accounts: A/R, Allowance for Doubtful Accounts, Deferred Income

Identify the activities that affect these accounts:

- Recognizing sales revenue as A/R
- Recognizing bad debt expense
- Writing off uncollectible accounts
- Invoicing products that affect the Deferred Income Liability

Obtain amounts from the Financial Statements, notes, other

- i.e., Intel's Bad Debt Expense (\$10M) and Write-offs (\$21) are disclosed in its 10-K report filed with the SEC, but not in the annual report.

- Set up BSE template and “plug” the remaining numbers



# Determining Intel's Cash Collections

	Cash	+AR	-ADA	+OA	=Def Inc	+RE
<b>Begin Balance</b>		<b>2,675</b>	<b>68</b>		<b>418</b>	
Sales Revenue		26,764				26,764
Bad Debt Expense			10			-10
Write-Offs		-21	-21			
Change in Def Inc		115		-58	115 -58	
Cash Collected	26,902	-26,902				
<b>End Balance</b>		<b>2,631</b>	<b>57</b>		<b>475</b>	



# Summary Points

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- Criteria for recognizing revenue
  - Collectibility: Match expected bad debts to the period in which the sales occur
    - Distinguish between Bad Debt Expense and Write-Offs
    - Methods for estimating Bad Debts / Uncollectible Accounts
  - Right of Return: match expected returns to the sales period, or more conservatively, defer revenue recognition until return protection / price protection ends.
- Reverse Engineering: infer the activities that underlie a firm's reported financial results

