

Income Statements for Amazon

The income statements for Amazon.com for the fiscal years 2015, 2016, and 2017 follow (in millions).

Revenue	12/31/2017	12/31/2016	12/31/2015
Total Net Sales	\$177,866	\$135,987	\$107,006
Cost of Sales	<u>111,934</u>	<u>88,265</u>	<u>71,651</u>
Gross Profit	\$65,932	\$47,722	\$35,355
Operating Expenses			
Technology and Content	\$22,620	\$16,085	\$12,540
Selling, General and Administrative	38,992	27,284	20,411
Other Operating Expenses	<u>214</u>	<u>167</u>	<u>171</u>
Total Operating Expenses	<u>61,826</u>	<u>43,536</u>	<u>33,122</u>
Operating Income (Loss)	\$4,106	\$4,186	\$2,233
Interest Expense, net	<u>300</u>	<u>294</u>	<u>665</u>
Income Before Tax	3,806	3,892	1,568
Income Tax Expense	<u>773</u>	<u>1,521</u>	<u>972</u>
Net Income (Loss) from Continuing Operations	\$3,033	\$2,371	\$596

Question 1.1 of 10

Describe how common-size financial statements can be used to evaluate a firm's financial performance. Explain specifically the benefits of vertical analysis and horizontal analysis.

Explanation:

Common-size financial statement analysis allows the user to compare financial statements from different time periods to analyze trends and review the organization's future growth prospects.

Vertical analysis calculates financial statement amounts in each statement as a percentage of a base amount for that statement.

Horizontal analysis is also called trend analysis. It determines the increase or decrease from one time period to another.

Question 1.2 of 10

For the fiscal years 2015, 2016, and 2017, prepare common-size income statements, i.e., calculate each line item as a percentage of total revenue.

Explanation:

Common-size income statement answers and percentages:

Revenue	2017	2016	2015
Total Net Sales	100.00%	100.00%	100.00%
Cost of Sales	62.93%	64.91%	66.96%
Gross Profit	37.07%	35.09%	33.04%
Operating Expenses			
Technology and Content	12.72%	11.83%	11.72%
Selling, General and Administrative	21.92%	20.06%	19.07%
Other Operating Expenses	0.12%	0.12%	0.16%
Total Operating Expenses	34.76%	32.01%	30.95%
Operating Income (Loss)	2.31%	3.08%	2.09%
Interest Expense, net	0.17%	0.22%	0.62%
Income Before Tax	2.14%	2.86%	1.47%
Income Tax Expense	0.43%	1.12%	0.91%
Net Income (Loss) from Continuing Operations	1.71%	1.74%	0.56%

Calculations:

Revenue	2017	2016	2015
Total Net Sales	$\frac{177,866}{177,866} \div$	$\frac{135,987}{135,987} \div$	$\frac{107,006}{107,006} \div$
Cost of Sales	$\frac{111,934}{177,866} \div$	$\frac{88,265}{135,987} \div$	$\frac{71,651}{107,006} \div$
Gross Profit	$\frac{65,932}{177,866} \div$	$\frac{47,722}{135,987} \div$	$\frac{35,355}{107,006} \div$
Operating Expenses			
Technology and Content	$\frac{22,620}{177,866} \div$	$\frac{16,085}{135,987} \div$	$\frac{12,540}{107,006} \div$

Revenue	2017	2016	2015
Selling, General and Administrative	38,992 ÷ 177,866	27,284 ÷ 135,987	20,411 ÷ 107,006
Other Operating Expenses	214 ÷ 177,866	167 ÷ 135,987	171 ÷ 107,006
Total Operating Expenses	61,826 ÷ 177,866	43,536 ÷ 135,987	33,122 ÷ 107,006
Operating Income (Loss)	4,106 ÷ 177,866	4,186 ÷ 135,987	2,233 ÷ 107,006
Interest Expense, net	300 ÷ 177,866	294 ÷ 135,987	665 ÷ 107,006
Income Before Tax	3,806 ÷ 177,866	3,892 ÷ 135,987	1,568 ÷ 107,006
Income Tax Expense	773 ÷ 177,866	1,521 ÷ 135,987	972 ÷ 107,006
Net Income (Loss) from Continuing Operations	3,033 ÷ 177,866	2,371 ÷ 135,987	596 ÷ 107,006

Question 1.3 of 10

Analyze the common-size income statements, commenting on percentages for individual years as well as trends over the three-year period.

Explanation:

Analysis of the common-size income statements:

(Answers may vary)

We can see from the common-size income statement that for the three-year period, Amazon.com's largest expense is cost of sales, roughly two-thirds of sales. Though cost of sales is large, Amazon.com has done a good job of controlling the cost over the three-year period. Cost of sales has gone from just under 67% of sales in 2015 to just under 63% of sales in 2017, increasing gross profit from 33% of sales to 37% of sales in the same period.

Although gross profit has increased, both operating income and net income from continuing operations are essentially flat for the three-year period. Operating income went from 2.09% to 3.08% to 2.31% of sales from 2015 to 2017, while net income from continuing operations went from 0.56% to 1.74% to 1.71% of sales over the same period. This can be attributed to the increase in operating expenses over the three-year period. While technology and content has increased modestly over the time period, the largest increase is in selling, general and administrative expenses, increasing from 19% of sales in 2015 to just under 22% of sales in 2017.

During the three-year period, Amazon.com decreased its interest expense as a percent of sales for each year. Amazon.com's income tax expense is a very low percentage of sales for each year of the three-year period.

Balance Sheets for Amazon.com

The balance sheets for Amazon.com for the fiscal years 2014, 2015, 2016, and 2017 are shown here (in millions)

All numbers in thousands

Period Ending	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Current Assets				
Cash and Cash Equivalents	\$ 20,522	\$19,334	\$15,890	\$14,557
Marketable Securities	10,464	6,647	3,918	2,859
Net Receivables	13,164	8,339	6,423	5,612
Inventory	<u>16,047</u>	<u>11,461</u>	<u>10,243</u>	<u>8,299</u>
Total Current Assets	\$ 60,197	\$45,781	\$36,474	\$31,327
Property Plant and Equipment	48,866	29,114	21,838	16,967
Goodwill	13,350	3,784	3,759	3,319
Total Assets	8,897	4,723	3,373	2,892
Liabilities and Equity				
Current Liabilities				
Accounts Payable	\$ 34,616	\$25,309	\$20,397	\$16,459
Accrued Expenses and Other	18,170	13,739	10,384	9,807
Unearned Revenue	<u>5,097</u>	<u>4,768</u>	<u>3,118</u>	<u>1,823</u>
Total Current Liabilities	\$ 57,883	\$43,816	\$33,899	\$28,089
Long-Term Debt	24,743	7,694	8,235	8,265
Other Liabilities	<u>20,975</u>	<u>12,067</u>	<u>9,926</u>	<u>7,410</u>
Stockholders' Equity				
Common Stock	\$ 5	\$ 5	\$ 5	\$ 5
Retained Earnings	8,636	4,916	2,545	1,949
Treasury Stock	(1,837)	(1,837)	(1,837)	(1,837)
Additional Paid-in Capital	21,389	17,186	13,394	11,135
Accumulated Other Comprehensive Loss	<u>(484)</u>	<u>(985)</u>	<u>(723)</u>	<u>(511)</u>
Total Stockholder Equity	<u>\$27,709</u>	<u>\$19,285</u>	<u>\$13,384</u>	<u>\$10,741</u>
Total Liabilities and Stockholder Equity	\$131,310	\$83,402	\$64,747	\$54,505

Question 2.1 of 10

For the fiscal years 2014, 2015, 2016, and 2017 prepare a comparative financial statement horizontal analysis of the balance sheet, i.e., calculate trend year over year for every item on the balance sheet compared to the base year of 2014.

Explanation:

Horizontal analysis of the balance sheet percentages

Period Ending	2017	2016	2015	2014
Current Assets				
Cash and Cash Equivalents	140.98%	132.82%	109.16%	100.00%
Marketable Securities	366.00%	232.49%	137.04%	100.00%
Net Receivables	234.57%	148.59%	114.45%	100.00%
Inventory	193.36%	138.10%	123.42%	100.00%
Total Current Assets	192.16%	146.14%	116.43%	100.00%
Property Plant and Equipment	288.01%	171.59%	128.71%	100.00%
Goodwill	402.23%	114.01%	113.26%	100.00%
Other Assets	307.64%	163.31%	116.63%	100.00%
Total Assets	240.91%	153.02%	120.07%	100.00%
Current Liabilities				
Accounts Payable	210.32%	153.77%	123.93%	100.00%
Accrued Expenses and Other	185.28%	140.09%	105.88%	100.00%
Unearned Revenue	279.59%	261.55%	171.04%	100.00%
Total Current Liabilities	206.07%	155.99%	120.68%	100.00%
Long-Term Debt	299.37%	93.09%	99.64%	100.00%
Other Liabilities	283.06%	170.13%	133.95%	100.00%
Total Liabilities	236.73%	146.51%	118.96%	100.00%
Stockholders' Equity				

Common Stock	100.00%	100.00%	100.00%	100.00%
Retained Earnings	443.10%	252.23%	130.58%	100.00%
Treasury Stock	100.00%	100.00%	100.00%	100.00%
Additional Paid-in Capital	192.09%	154.34%	120.29%	100.00%
Accumulated Other Comprehensive Loss	94.72%	192.76%	141.49%	100.00%
Total Stockholder Equity	257.97%	179.55%	124.61%	100.00%
Total Liabilities and Stockholder Equity	240.91%	153.02%	118.79%	100.00%

Calculations:

Period Ending	2017	2016	2015	2014
Current Assets				
Cash and Cash Equivalents	20,522 ÷ 14,557	19,334 ÷ 14,557	15,890 ÷ 14,557	14,557 ÷ 14,557
Marketable Securities	10,464 ÷ 2,859	6,647 ÷ 2,859	3,918 ÷ 2,859	2,859 ÷ 2,859
Net Receivables	13,164 ÷ 5,612	8,339 ÷ 5,612	6,423 ÷ 5,612	5,612 ÷ 5,612
Inventory	16,047 ÷ 8,299	11,461 ÷ 8,299	10,243 ÷ 8,299	8,299 ÷ 8,299
Total Current Assets	60,197 ÷ 31,327	45,781 ÷ 31,327	36,474 ÷ 31,327	31,327 ÷ 31,327
Property Plant and Equipment	48,866 ÷ 16,967	29,114 ÷ 16,967	21,838 ÷ 16,967	16,967 ÷ 16,967
Goodwill	13,350 ÷ 3,319	3,784 ÷ 3,319	3,759 ÷ 3,319	3,319 ÷ 3,319
Other Assets	8,897 ÷ 2,892	4,723 ÷ 2,892	3,373 ÷ 2,892	2,892 ÷ 2,892
Total Assets	131,310 ÷ 54,505	83,402 ÷ 54,505	65,444 ÷ 54,505	54,505 ÷ 54,505
Current Liabilities				
Accounts Payable	34,616 ÷ 16,459	25,309 ÷ 16,459	20,397 ÷ 16,459	16,459 ÷ 16,459

Accrued Expenses and Other	18,170 ÷ 9,807	13,739 ÷ 9,807	10,384 ÷ 9,807	9,807 ÷ 9,807
Unearned Revenue	5,097 ÷ 1,823	4,768 ÷ 1,823	3,118 ÷ 1,823	1,823 ÷ 1,823
Total Current Liabilities	57,883 ÷ 28,089	43,816 ÷ 28,089	33,899 ÷ 28,089	28,089 ÷ 28,089
Long-Term Debt	24,743 ÷ 8,265	7,694 ÷ 8,265	8,235 ÷ 8,265	8,265 ÷ 8,265
Other Liabilities	20,975 ÷ 7,410	12,607 ÷ 7,410	9,926 ÷ 7,410	7,410 ÷ 7,410
Total Liabilities	103,601 ÷ 43,764	64,117 ÷ 43,764	52,060 ÷ 43,764	43,764 ÷ 43,764
Stockholders' Equity				
Common Stock	5 ÷ 5	5 ÷ 5	5 ÷ 5	5 ÷ 5
Retained Earnings	8,636 ÷ 1,949	4,916 ÷ 1,949	2,545 ÷ 1,949	1,949 ÷ 1,949
Treasury Stock	(1,837) ÷ (1,837)	(1,837) ÷ (1,837)	(1,837) ÷ (1,837)	(1,837) ÷ (1,837)
Additional Paid-in Capital	21,389 ÷ 11,135	17,186 ÷ 11,135	13,394 ÷ 11,135	11,135 ÷ 11,135
Accumulated Other Comprehensive Loss	(484) ÷ (511)	(985) ÷ (511)	(723) ÷ (511)	(511) ÷ (511)
Total Stockholder Equity	27,709 ÷ 10,741	19,285 ÷ 10,741	13,384 ÷ 10,741	10,741 ÷ 10,741
Total Liabilities and Stockholder Equity	131,310 ÷ 54,505	83,402 ÷ 54,505	64,747 ÷ 54,505	54,505 ÷ 54,505

Question 2.2 of 10

Comment on the horizontal analysis, noting trends in assets, liabilities, and equity over the four-year period.

Explanation:

Evaluation of the horizontal analysis of the balance sheet

(Answers may vary.)

As we can see from the percentages, Amazon.com has increased nearly every element of the balance sheet from 2014 to 2017. Cash has grown more slowly than other assets, with the 2017 amount only 140% of the 2014 amount, while all other assets have nearly doubled or more. This might be because Amazon.com had adequate cash reserves in 2014 and saw little need to increase the level of cash during the years. Inventory has nearly doubled from 2014 to 2017, while marketable securities in 2017 are 366% of the 2014 amount.

In terms of non-current assets, Amazon.com more than quadrupled its goodwill and intangible assets, while property, plant and equipment had a 2017 amount 288% of the 2014 amount. The growth in goodwill and other assets could be because Amazon.com is making investments in other companies. The increase in property, plant and equipment means that Amazon.com is improving its infrastructure.

In terms of liabilities, Amazon.com's current liabilities increased in 2017 to between 185% and 280% of the 2014 amounts. The largest increase was in long-term debt, with the 2017 amount 299% of the 2014 amount.

In terms of equity, Amazon.com's retained earnings in 2017 is 443% of the 2014 amount. Additional paid-in capital has nearly doubled from 2014 to 2017. Amazon.com has not issued any new stock during the period, and Treasury stock remains constant over the period.

Balance Sheets for Amazon.com

The balance sheets for Amazon.com for the fiscal years 2015, 2016, and 2017 follow (in millions).

Period Ending	12/31/2017	12/31/2016	12/31/2015
Current Assets			
Cash and Cash Equivalents	\$20,522	\$19,334	\$15,890
Marketable Securities	10,464	6,647	3,918
Net Receivables	13,164	8,339	6,423
Inventory	<u>16,047</u>	<u>11,461</u>	<u>10,243</u>
Total Current Assets	\$60,197	\$45,781	\$36,474
Property, Plant and Equipment, net	48,866	29,114	21,838
Goodwill	13,350	3,784	3,759
Other Assets	<u>8,897</u>	<u>4,723</u>	<u>3,373</u>
Total Assets	\$131,310	\$83,402	\$65,444
Liabilities and Equity			
Current Liabilities			
Accounts Payable	\$34,616	\$25,309	\$20,397
Accrued Expenses and Other	18,170	13,739	10,384
Unearned Revenue	<u>5,097</u>	<u>4,768</u>	<u>3,118</u>
Total Current Liabilities	\$57,883	\$43,816	\$33,899
Long Term Debt	24,743	7,694	8,235
Other Liabilities	<u>20,975</u>	<u>12,607</u>	<u>9,926</u>
Total Liabilities	\$103,601	\$64,117	\$52,060
Stockholders' Equity			
Common Stock	\$ 5	\$ 5	\$ 5
Retained Earnings	8,636	4,916	2,545
Treasury Stock	(1,837)	(1,837)	(1,837)
Additional Paid-in Capital	21,389	17,186	13,394
Other Stockholder Equity	<u>(484)</u>	<u>(985)</u>	<u>(723)</u>
Total Stockholder Equity	<u>\$27,709</u>	<u>\$19,285</u>	<u>\$13,384</u>
Total Liabilities and Stockholder Equity	\$131,310	\$83,402	\$65,444

Question 3.1 of 10

Describe how common-size financial statements can be used to evaluate a firm's financial performance. Explain specifically the benefits of vertical analysis and horizontal analysis.

Explanation:

Common-size financial statement analysis allows the user to compare financial statements from different time periods to analyze trends and review the organization's future growth prospects.

Vertical analysis calculates financial statement amounts in each statement as a percentage of a base amount for that statement.

Horizontal analysis is also called trend analysis. It determines the increase or decrease from one time period to another.

Question 3.2 of 10

For the fiscal years 2015, 2016, and 2017, prepare common-size balance sheets, i.e., calculate each line item as a percentage of total assets.

Explanation:

Common-size balance sheet answers and percentages:

Period	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Current Assets			
Cash and Cash Equivalents	15.63%	23.18%	24.28%
Marketable Securities	7.97%	7.97%	5.99%
Net Receivables	10.03%	10.00%	9.81%
Inventory	12.22%	13.74%	15.65%
Total Current Assets	45.84%	54.89%	55.73%
Property, Plant and Equipment	37.21%	34.91%	33.37%
Goodwill	10.17%	4.54%	5.74%
Other Assets	6.78%	5.66%	5.15%
Total Assets	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Liabilities and Equity			
Current Liabilities			
Accounts Payable	26.36%	30.35%	31.17%
Accrued Expense and Other	13.84%	16.47%	15.87%
Unearned Revenue	3.88%	5.72%	4.76%
Total Current Liabilities	44.08%	52.54%	51.80%
Long-Term Debt	18.84%	9.23%	12.58%
Other Liabilities	15.97%	15.12%	15.17%
Total Liabilities	78.90%	76.88%	79.55%
Stockholders' Equity			
Common Stock	0.00%	0.00%	0.00%
Retained Earnings	6.58%	5.89%	3.89%
Treasury Stock	(1.40%)	(2.20%)	(2.81%)
Additional Paid-in Capital	16.29%	20.61%	20.47%
Other Stockholder Equity	(0.37%)	(1.18%)	(1.10%)
Total Stockholder Equity	21.10%	23.12%	20.45%

Period	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Total Liabilities and Stockholder Equity	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Period	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
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Current Assets

Cash and Cash Equivalents	20,522 ÷ 131,310	19,334 ÷ 83,402	15,890 ÷ 65,444
Marketable Securities	10,464 ÷ 131,310	6,647 ÷ 83,402	3,918 ÷ 65,444
Net Receivables	13,164 ÷ 131,310	8,339 ÷ 83,402	6,423 ÷ 65,444
Inventory	16,047 ÷ 131,310	11,461 ÷ 83,402	10,243 ÷ 65,444
Total Current Assets	60,197 ÷ 131,310	45,781 ÷ 83,402	36,474 ÷ 65,444
Property, Plant and Equipment	48,866 ÷ 131,310	29,114 ÷ 83,402	21,838 ÷ 65,444
Goodwill	13,350 ÷ 131,310	3,784 ÷ 83,402	3,759 ÷ 65,444
Other Assets	8,897 ÷ 131,310	4,723 ÷ 83,402	3,373 ÷ 65,444
Total Assets	131,310 ÷ 131,310	83,402 ÷ 83,402	65,444 ÷ 65,444

Liabilities and Equity

Current Liabilities

Accounts Payable	34,616 ÷ 131,310	25,309 ÷ 83,402	20,397 ÷ 65,444
Accrued Expense and Other	18,170 ÷ 131,310	13,739 ÷ 83,402	10,384 ÷ 65,444
Unearned Revenue	5,097 ÷ 131,310	4,768 ÷ 83,402	3,118 ÷ 65,444
Total Current Liabilities	57,883 ÷ 131,310	43,816 ÷ 83,402	33,899 ÷ 65,444
Long-Term Debt	24,743 ÷ 131,310	7,694 ÷ 83,402	8,235 ÷ 65,444
Other Liabilities	20,975 ÷ 131,310	12,607 ÷ 83,402	9,926 ÷ 65,444

Period	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Total Liabilities	103,601 ÷ 131,310	64,117 ÷ 83,402	52,060 ÷ 65,444
Stockholders' Equity			
Common Stock	5 ÷ 131,310	5 ÷ 83,402	5 ÷ 65,444
Retained Earnings	8,636 ÷ 131,310	4,916 ÷ 83,402	2,545 ÷ 65,444
Treasury Stock	-1,837 ÷ 131,310	-1,837 ÷ 83,402	-1,837 ÷ 65,444
Additional Paid-in Capital	21,389 ÷ 131,310	17,186 ÷ 83,402	13,394 ÷ 65,444
Accumulated Other Comprehensive Loss	-484 ÷ 131,310	-985 ÷ 83,402	-723 ÷ 65,444
Total Stockholder Equity	27,709 ÷ 131,310	19,285 ÷ 83,402	13,384 ÷ 65,444
Total Liabilities and Stockholder Equity	131,310 ÷ 131,310	83,402 ÷ 83,402	65,444 ÷ 65,444

Question 3.3 of 10

Analyze the common-size balance sheets, commenting on percentages for individual years as well as trends over the three-year period.

Explanation:

Analysis of the common-size balance sheets:

(Answers may vary)

We can see from the percentages that Amazon.com has significantly reduced its holdings of cash and current assets. Cash made up almost 25% of total assets at the end of fiscal year 2015, and is 15.6% of assets as of the end of fiscal year 2017. Total current assets decreased from 55% of total assets at the end of fiscal year 2015 to just under 46% of total assets at the end of fiscal year 2017. The company has increased its investment in property, plant and equipment from 33.4% of total assets at the end of fiscal year 2015 to over 37% of total assets at the end of fiscal year 2017. The company also increased goodwill over the same period, from just under 6% of total assets to over 10% of total assets.

Amazon.com's capital structure remained somewhat unchanged over the three-year period, with total liabilities accounting for 79.6% of total assets at the end of 2015, 76.9% of total assets at the end of 2016, and 78.9% of total assets at the end of 2017. The mix of financing changed somewhat, with short-term debt going from 51.8% of total assets to 44.1% of total assets from 2015 to 2017 while long-term debt increased from 12.6% of total assets to 18.8% of total assets over the same time period. Amazon.com's retained earnings decreased from 2.8% of total assets to 1.4% of total assets from 2015 to 2017.

Income Statements for Amazon.com

The income statements for Amazon.com for the fiscal years 2014, 2015, 2016, and 2017 follow:

Revenue	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Net Sales	\$177,866	\$135,987	\$107,006	\$88,988
Cost of Sales	<u>111,934</u>	<u>88,265</u>	<u>71,651</u>	<u>62,752</u>
Gross Profit	\$65,932	\$47,722	\$35,355	\$26,236
Operating Expenses				
Technology and Content	\$22,620	\$16,085	\$12,540	\$9,275
Selling, General and Administrative	38,992	27,284	20,411	16,650
Other Operating Expenses	<u>214</u>	<u>167</u>	<u>171</u>	<u>133</u>
Total Operating Expenses	<u>61,826</u>	<u>43,536</u>	<u>33,122</u>	<u>26,058</u>
Operating Income (Loss)	\$4,106	\$4,186	\$2,233	\$178
Interest Expense, net	<u>300</u>	<u>294</u>	<u>665</u>	<u>289</u>
Income Before Tax	3,806	3,892	1,568	(111)
Income Tax Expense	<u>773</u>	<u>1,521</u>	<u>972</u>	<u>130</u>
Net Income (Loss) from Continuing Operations	<u>\$3,033</u>	<u>\$2,371</u>	<u>\$596</u>	<u>\$(241)</u>

Question 4.1 of 10

For the fiscal years 2014, 2015, 2016, and 2017, prepare a comparative financial statement horizontal analysis of the income statement, i.e., calculate trend year over year for every item on the income statement compared to the base year of 2014.

Explanation:

Income statement horizontal analysis answers:

Revenue	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Net Sales	199.88%	152.81%	120.25%	100.00%
Cost of Sales	178.38%	140.66%	114.18%	100.00%
Gross Profit	251.30%	181.90%	134.76%	100.00%
Operating Expenses				
Technology and Content	243.88%	173.42%	135.20%	100.00%
Selling, General and Administrative	234.19%	163.87%	122.59%	100.00%
Other Operating Expenses	160.90%	125.56%	128.57%	100.00%
Total Operating Expenses	237.26%	167.07%	127.11%	100.00%
Operating Income (Loss)	2306.74%	2351.69%	1254.49%	100.00%
Interest Expense	103.81%	101.73%	230.10%	100.00%
Income Before Tax	(3428.83)%	(3506.31)%	(1412.61)%	100.00%
Income Tax Expense	594.62%	1170.00%	747.69%	100.00%
Net Income (Loss) from Continuing Operations	(1258.51)%	(983.82)%	(247.30)%	100.00%

Calculations:

Revenue	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Total Net Sales	177,866 ÷ 88,988	135,987 ÷ 88,988	107,006 ÷ 88,988	88,988 ÷ 88,988
Cost of Sales	111,934 ÷ 62,752	88,265 ÷ 62,752	71,651 ÷ 62,752	62,752 ÷ 62,752
Gross Profit	65,932 ÷ 26,236	47,722 ÷ 26,236	35,355 ÷ 26,236	26,236 ÷ 26,236
Operating Expenses				

Revenue	12/31/2017	12/31/2016	12/31/2015	12/31/2014
Technology and Content	22,620 ÷ 9,275	16,085 ÷ 9,275	12,540 ÷ 9,275	9,275 ÷ 9,275
Selling, General and Administrative	38,992 ÷ 16,650	27,284 ÷ 16,650	20,411 ÷ 16,650	16,650 ÷ 16,650
Other Operating Expenses	214 ÷ 133	167 ÷ 133	171 ÷ 133	133 ÷ 133
Total Operating Expenses	61,826 ÷ 26,058	43,536 ÷ 26,058	33,122 ÷ 26,058	26,058 ÷ 26,058
Operating Income (Loss)	4,106 ÷ 178	4,186 ÷ 178	2,233 ÷ 178	178 ÷ 178
Interest Expense, net	300 ÷ 289	294 ÷ 289	665 ÷ 289	289 ÷ 289
Income Before Tax	3,806 ÷ (111)	3,892 ÷ (111)	1,568 ÷ (111)	(111) ÷ (111)
Income Tax Expense	773 ÷ 130	1,521 ÷ 130	972 ÷ 130	130 ÷ 130
Net Income (Loss) from Continuing Operations	3,033 ÷ (241)	2,371 ÷ (241)	596 ÷ (241)	(241) ÷ (241)

Question 4.2 of 10

Comment on the horizontal analysis, noting trends in revenues and expenses over the four-year period.

Explanation:

(Answers may vary)

We can see from the percentages that Amazon.com has nearly doubled its sales from 12/31/14 to 12/31/17. Cost of revenue has not grown as quickly, to 178.4% of base year 2014 cost of revenue. Therefore, gross profit in 2017 is 251% of base year 2014 gross profit.

Both technology and content and selling, general and administrative expenses have grown, but at a rate slower than gross profit. Because operating income was very small in 2014, operating income has grown to nearly 2,307% of 2014 base-year operating income.

Interest expense increased greatly from 2014 to 2015 but has been declining since this time. Because net income from continuing operations was negative and small in 2014, we see a sign reversal and large percentage increases from 2015 to 2017.
