Session 2A: Post class test solutions

1. Navistar has the highest COGS, relative to revenue, and Google has the lowest. They reflect
   (a) Differences in business models. Navistar manufactures the equipment that it sells, Nordstrom marks up goods that its gets from others and Google's services cost little to produce.
   (b) Differences in accounting: Navistar's manufacturing business generates much higher depreciation charges which are part of COGS.

	Navistar	*Nordstrom*	*Google*
Total Revenue	$9,585.00	$ 15,524.00	161,857.0
Cost of Goods Sold	$7,904.00	$ 9,932.00	71,896.0
COGS as % of Revenues	82.46%	63.98%	44.42%

2. Most of the operating expenses at Navistar are from COGS, whereas Nordstrom and Google have a higher percent from SG&A expenses. If you assume that COGS are more likely to be variable and SG&A to be fixed, this becomes a rough proxy for economies of scale, with Nordstrom and Google benefiting more from scaling up.

	Navistar	*Nordstrom*	*Google*
Cost Of Goods Sold	$ 7,904.00	$ 9,932.00	71,896.0
Selling General & Admin Exp.	$ 742.00	$ 4,776.00	27,461.0
Total Operating Expenses	$ 8,646.00	$ 14,708.00	$ 99,357.00
SG&A as % of Operating Exp	8.58%	32.47%	27.64%

3. Navistar's financing revenues and expenses reflect the presence of a captive financing division of the company, which finances the sales of Navistar equipment.
4. **d. Taxes on taxable income in tax books, based upon tax code.** If taxes were computed on the taxable income in the income statement, the taxes would be more reflective of the statutory tax rates, but they are not.
5. Currency gains and losses reflect the effect of movements in the US dollar against other currencies. The reason it can play out as a profit for some companies and a loss for others comes from the fact that it can affect both revenues and expenses. For companies that derive their revenues from outside the US, while their costs are in US dollars, a stronger dollar will cause losses, since foreign currency revenues will be devalued, after the currency adjustment. For companies that have costs in other currencies but revenues in US dollars, a stronger dollar will cause profits, since foreign currency costs will be lowered, after the currency adjustment.