GAAP and the company's own numbers: reading adjusted results

Name: _____ Class: _____ Date: _____

Earnings releases often show two kinds of number: GAAP numbers, which follow one rulebook for every company, and the company's own adjusted measures. In this lesson you will find what each adjusted number leaves out.

What to do

1. Read the cards below with a partner.
2. In Part C of your worksheet, fill in the table for each company.
3. In Part D, rewrite each sentence so the GAAP number comes first.
4. The exit ticket is on page 2 of your worksheet.

Part A. Warm-up

1. A1. Your test score is 78. Without the question you skipped, it would be 85. Which score goes on your report card, and why?

_____

_____

Part B. Words

Write each definition in your own words.

1. GAAP

_____

2. Reconciliation

_____

Part C. Four pairs

Use the cards. Write the GAAP number first.

C1. Lyft. GAAP: _____ Own measure: _____ Gap: _____ Leaves out: _____

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C2. Chipotle. GAAP: _____ Own measure: _____ Gap: _____ Leaves out: _____

C3. Coca-Cola. GAAP: _____ Own measure: _____ Gap: _____ Leaves out: _____

C4. Which company's own measure was below its GAAP number? _____

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Part D. GAAP first

Rewrite each sentence. Put the GAAP number first and label the company's own measure.

1. D1. "Lyft made $204 million in Q3."

2. D2. "Chipotle's restaurants made a 23% margin."

3. D3. "Lyft took in $5.6 billion."

Exit ticket

1. What does GAAP stand for?

2. True or false? An adjusted number is always higher than the GAAP number.

3. What table in an earnings release shows how a company gets from GAAP to its own measure?

4. Name one thing to check whenever you see an adjusted number.

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Word bank

GAAP	Generally Accepted Accounting Principles: the US accounting rules for financial statements.
Non-GAAP (adjusted) measure	A number the company defines itself, leaving out or adding back items it chooses.
Reconciliation	A table that shows, line by line, how the company gets from the GAAP number to its own measure.
EBITDA	Earnings before interest, taxes, depreciation and amortization.
Earnings per share (EPS)	Net income divided by the number of shares. Diluted EPS also counts shares that stock options and similar awards could add.
Margin	A profit number as a share of revenue, written as a percentage. Operating margin uses operating income, the profit from running the business.
Stock-based compensation	Pay given to employees in shares instead of cash. It is a real cost under GAAP.

Sentence starters

- Under GAAP, ____ reported ____ in Q__ FY____.
- Its own measure, ____, was ____. It leaves out ____.
- The gap between the two was ____.

student page

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