

impact of reclassifying supply chain-related depreciation expense to cost of sales



Background

During the second quarter of 2017, we reclassified supply chain-related depreciation expense to cost of sales whereas it was previously included in depreciation and amortization on our Consolidated Statements of Operations. We reclassified prior year amounts to reflect this change. This reclassification increased cost of sales with equal and offsetting decreases to depreciation and amortization. This reclassification had no impact on sales, EBIT, net earnings or earnings per share. The following is a summary of the impact of this change.

Quarterly	2017		2016				2015				2014			
	1Q	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q	
(dollars in millions) (unaudited)														
As previously reported														
Sales	\$ 16,017	\$ 20,690	\$ 16,441	\$ 16,169	\$ 16,196	\$ 21,626	\$ 17,613	\$ 17,427	\$ 17,119	\$ 21,751	\$ 17,254	\$ 16,957	\$ 16,657	
Cost of sales	11,134	15,116	11,471	11,102	11,185	15,594	12,440	12,051	11,911	15,563	12,171	11,798	11,748	
Gross margin	\$ 4,883	\$ 5,574	\$ 4,970	\$ 5,067	\$ 5,011	\$ 6,032	\$ 5,173	\$ 5,376	\$ 5,208	\$ 6,188	\$ 5,083	\$ 5,159	\$ 4,909	
Gross margin rate	30.5 %	26.9 %	30.2 %	31.3 %	30.9 %	27.9 %	29.4 %	30.9 %	30.4 %	28.5 %	29.5 %	30.4 %	29.5 %	
Depreciation and amortization	\$ 573	\$ 612	\$ 570	\$ 570	\$ 546	\$ 562	\$ 561	\$ 551	\$ 540	\$ 545	\$ 535	\$ 537	\$ 511	
Depreciation and amortization expense rate	3.6 %	3.0 %	3.5 %	3.5 %	3.4 %	2.6 %	3.2 %	3.2 %	3.2 %	2.5 %	3.1 %	3.2 %	3.1 %	
As revised														
Sales	\$ 16,017	\$ 20,690	\$ 16,441	\$ 16,169	\$ 16,196	\$ 21,626	\$ 17,613	\$ 17,427	\$ 17,119	\$ 21,751	\$ 17,254	\$ 16,957	\$ 16,657	
Cost of sales	11,199	15,188	11,536	11,172	11,250	15,658	12,504	12,110	11,970	15,622	12,232	11,853	11,800	
Gross margin	\$ 4,818	\$ 5,502	\$ 4,905	\$ 4,997	\$ 4,946	\$ 5,968	\$ 5,109	\$ 5,317	\$ 5,149	\$ 6,129	\$ 5,022	\$ 5,104	\$ 4,857	
Gross margin rate	30.1 %	26.6 %	29.8 %	30.9 %	30.5 %	27.6 %	29.0 %	30.5 %	30.1 %	28.2 %	29.1 %	30.1 %	29.2 %	
Depreciation and amortization (exclusive of depreciation included in cost of sales)	\$ 508	\$ 540	\$ 505	\$ 500	\$ 481	\$ 498	\$ 497	\$ 492	\$ 481	\$ 486	\$ 474	\$ 482	\$ 459	
Depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate	3.2 %	2.6 %	3.1 %	3.1 %	3.0 %	2.3 %	2.8 %	2.8 %	2.8 %	2.2 %	2.7 %	2.8 %	2.8 %	
Supply chain-related depreciation expense reclassified to cost of sales	\$ 65	\$ 73	\$ 66	\$ 70	\$ 65	\$ 64	\$ 64	\$ 59	\$ 59	\$ 59	\$ 61	\$ 55	\$ 52	
Gross margin and depreciation and amortization expense rate impact of reclassification	(0.4)%	(0.4)%	(0.4)%	(0.4)%	(0.4)%	(0.3)%	(0.4)%	(0.3)%	(0.3)%	(0.3)%	(0.4)%	(0.3)%	(0.3)%	

Note: Amounts may not foot due to rounding.

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Year-to-date													
(dollars in millions) (unaudited)	2016				2015				2014				2013
	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q	4Q	3Q	2Q	1Q	4Q
As previously reported													
Sales	\$ 69,495	\$ 48,805	\$ 32,364	\$ 16,196	\$ 73,785	\$ 52,159	\$ 34,546	\$ 17,119	\$ 72,618	\$ 50,868	\$ 33,614	\$ 16,657	\$ 71,279
Cost of sales	48,872	33,757	22,286	11,185	51,997	36,402	23,962	11,911	51,278	35,716	23,546	11,748	50,039
Gross margin	\$ 20,623	\$ 15,048	\$ 10,078	\$ 5,011	\$ 21,788	\$ 15,757	\$ 10,584	\$ 5,208	\$ 21,340	\$ 15,152	\$ 10,068	\$ 4,909	\$ 21,240
Gross margin rate	29.7 %	30.8 %	31.1 %	30.9 %	29.5 %	30.2 %	30.6 %	30.4 %	29.4 %	29.8 %	30.0 %	29.5 %	29.8 %
Depreciation and amortization	\$ 2,298	\$ 1,686	\$ 1,116	\$ 546	\$ 2,213	\$ 1,651	\$ 1,090	\$ 540	\$ 2,129	\$ 1,584	\$ 1,049	\$ 511	\$ 1,996
Depreciation and amortization expense rate	3.3 %	3.5 %	3.4 %	3.4 %	3.0 %	3.2 %	3.2 %	3.2 %	2.9 %	3.1 %	3.1 %	3.1 %	2.8 %
As revised													
Sales	\$ 69,495	\$ 48,805	\$ 32,364	\$ 16,196	\$ 73,785	\$ 52,159	\$ 34,546	\$ 17,119	\$ 72,618	\$ 50,868	\$ 33,614	\$ 16,657	\$ 71,279
Cost of sales	49,145	33,957	22,421	11,250	52,241	36,583	24,079	11,970	51,506	35,885	23,653	11,800	50,243
Gross margin	\$ 20,350	\$ 14,848	\$ 9,943	\$ 4,946	\$ 21,544	\$ 15,576	\$ 10,467	\$ 5,149	\$ 21,112	\$ 14,983	\$ 9,961	\$ 4,857	\$ 21,036
Gross margin rate	29.3 %	30.4 %	30.7 %	30.5 %	29.2 %	29.9 %	30.3 %	30.1 %	29.1 %	29.5 %	29.6 %	29.2 %	29.5 %
Depreciation and amortization (exclusive of depreciation included in cost of sales)	\$ 2,025	\$ 1,486	\$ 981	\$ 481	\$ 1,969	\$ 1,470	\$ 973	\$ 481	\$ 1,901	\$ 1,415	\$ 942	\$ 459	\$ 1,792
Depreciation and amortization (exclusive of depreciation included in cost of sales) expense rate	2.9 %	3.0 %	3.0 %	3.0 %	2.7 %	2.8 %	2.8 %	2.8 %	2.6 %	2.8 %	2.8 %	2.8 %	2.5 %
Supply chain-related depreciation expense reclassified to cost of sales	\$ 273	\$ 200	\$ 135	\$ 65	\$ 244	\$ 181	\$ 117	\$ 59	\$ 227	\$ 169	\$ 107	\$ 52	\$ 204
Gross margin and depreciation and amortization expense rate impact of reclassification	(0.4)%	(0.4)%	(0.4)%	(0.4)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%	(0.3)%

Note: Amounts may not foot due to rounding.

Last Updated: 11/15/2017