

Financial accounting essay sample

[Business](#), [Company](#)



Q: Explain the difference between a product and period expense?

The world of accounting categorizes the costs into two categories, Product Costs and Period Costs.

Product Cost: Also referred to as Inventoriable Costs, these costs are associated with the manufacturing activity and includes, direct labor, direct materials and all the other manufacturing overheads such as factory expenses, indirect manufacturing expenses, etc.

Period Costs: These costs are not associated with the manufacturing of the product and thus, cannot be assigned to the total product costs. The primary period costs includes, selling and administration expenses, interest expenses, etc.

Q: Discuss the matching concept as it relates to accounting for revenues and inventory.

As for revenue, the matching principal concept requires that the revenues and the related expenses should be recognized only during the same period.

For Instance, if the firm has sold a product in December on which the commission to the agent will be paid in January, as per the matching concept principal, the commission expenses should be reported in the income statement in the month of December only.

As for inventory also, any expenses related with the inventory should be recognized when it is sold not when it is purchased for reselling.

Q: Why is revenue recognition a significant issue? How do we determine when revenues are recorded for accounting purposes?

Revenue recognition is the cornerstone principal of the accounting world under the concept of accrual accounting which states that revenue should only be recognized when earned and not when the cash is received. For Instance, if the firm sold the product in December, it should record the related revenue figures in the same month, not when the amount is received. On the other hand, if the firm receives cash before selling the product, the amount shall be recorded as unearned revenue.

Part 2:

Clearly identify the companies, the time period, and include the link to the financial statements you are analyzing in your report.

Company A: Apple Inc.

Company B: Samsung Electronics Co Ltd.

Time Period: 2012 and 2013

Links to Income Statement:

Apple Inc: [http://financials.morningstar.com/income-statement/is.html? t=AAPL&ion= usa&culture= en-US](http://financials.morningstar.com/income-statement/is.html?t=AAPL&ion=usa&culture=en-US)

Samsung Electronics: <http://investing.businessweek.com/research/stocks/financials/financials.asp? ticker= 005930: KS&dataset= incomeStatement&period= A&cy= US%20Dollar>

Q: What accounting conventions do the two companies follow, US GAAP or IFRS?

Apple Inc. follows GAAP Accounting Standards while Samsung Electronics follows IFRS Accounting Standards.

Q: Locate the income statement for the past two years for both companies. Prepare a table comparing five items or more from each statement

Apple Inc.

Analysis:

Referring to the table above, we found that over a year, the revenue figures of the company has increased by a hefty amount, however, the gross profit margin of the company has fallen by \$4358 Million which indicates towards higher proportion of Cost of Goods Sold. Similarly, the net income of the company has also suffered a hit and has fallen by \$4696 million while the operating expenses and interest expenses have witnessed a surge of \$1884 Million and \$136 Million, respectively.

Overall the trend indicates that the company has been unsuccessful in controlling its expenses and has thus suffered a lower profit margin this year.

Samsung Electronics Ltd.

Analysis

Referring to the above table, we found that over a year, the financial performance of the company has been very encouraging with significant increase in the revenue numbers and the net income figures along with decreased interest expenses.

This indicates that the company has been performing relatively well in comparison to Apple Inc.

Q: Is it easy to discern trends or compare the information from year to year and between the two companies? Please, comments on both aspects and show some examples.

Yes, using the tool of horizontal analysis and the vertical analysis of the financial statements, we can have inter-company comparison and can also ascertain the overall trend in the financial performance of the company over the years. In addition, we can also use ratio analysis for the same purpose. For Instance, while liquidity ratios indicate the ability of the company to honor their short-term obligations, profitability ratios indicate which company has higher profit margins.

Works Cited

Apple Inc- Income Statement. (n. d.). Retrieved December 31, 2014, from Morningstar: <http://financials.morningstar.com/income-statement/is.html?t=AAPL&ion=usa&culture=en-US>

Samsung Electronics- Income Statement. (n. d.). Retrieved December 31, 2014, from Businessweek: <http://investing.businessweek.com/research/stocks/financials/financials.asp?ticker=005930:KS&dataset=incomeStatement&period=A&cy=US%20Dollar>