Financial accounting essay sample

Business

ASSIGN BUSTER

There are three main parts to this case that requires you to prepare and submit a three to five page paper. Please make sure this paper is well organized and covers all of the items below. Part I.

* Why is revenue recognition a significant issue? How do we determine when revenues are recorded for accounting purposes? * Explain the difference between a product and period expense. * Discuss the matching concept as it relates to accounting for revenues and inventory.

Part II. Refer to the latest annual financial statements for the two following companies: Apple: http://investor. apple. com/ and Philips: http://www. philips. com/about/investor/index. html. Generally, this information is found in the Investor Relations area of the website. Clearly identify the companies, the time period, and include the link to the financial statements you are analyzing in your report.

* What accounting conventions do the two companies follow US GAAP or IFRS? * Locate the income statement for the past two years for both companies. Prepare a table comparing five items or more from each statement. * Comment on the changes from one year to another. Is the company doing better or worse? Did revenues and expenses increase or decrease? * 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.

Modular Case Assignment Expectations:

The submission should be 3 to 5 pages and need to include answers to all

the questions listed above. Show computations, discuss the results and include references in APA format.

For this case assignment, I needed to discuss why is revenue recognition a significant issues and how do we determine when revenues are recorded for accounting purposes. Also to be able explain the difference between a product and period expense. Also I will discuss the matching concept as it relates to accounting for revenues and inventory. Lastly, analyze the latest annual financial statements for the following companies: Apple and Phillips. First thing I would like to deliberate is, why is revenue recognition a significant issues and how do we determine when revenues are recorded for accounting purposes. Determining and reporting revenues are among the most critical concerns in financial reporting. Without a doubt, the timing of revenue recognition has significant impact both the top and bottom lines of the income statement as well as the balance sheet. Such timing can have effects on share prices as stockholders differentiate the actual results with analysts' predictions. Additionally, the classification and acknowledgement of certain elements related to revenue activities can affect the clarification of financial statements.

Revenue recognition becomes a major concern as companies attempt to meet market expectations. Many corporations conclude last-minute deals to reach their revenue targets and sustain revenue development. Revenue should be reported when it is earned, or in cash accounting, when the cash payment is made. This helps to determine the accounting period or the period of time in which revenue and expenses must be recorded. Universal

rules in the revenue recognition principle are the revenues are reported as soon as the goods or services being offered in exchange for payment have been finalized. For most businesses, recognition of revenue is based on when the revenue has been realized, that is, when a price has been agreed with the purchaser and the seller has completed all obligations. Few businesses rely on collection or receipt of payment. For some companies, revenue recognition is range over time as in the installment or time-of-completion system. All costs directly connected with given revenue must be coordinated with that revenue. Some expenses are not linked with specific revenue items but with a given time period. The next topic I would like to elaborate is the difference between a product and period expense.

Product costs or variable costs are all such costs that form part of the inventory. The product cost is the cost of all the different components which make up the product. This may either be the purchase price if the components are bought from outside suppliers, or the combined cost of materials and manufacturing processes if the component is made in-house. Period costs or fixed costs are all such costs that are not incurred in connection to the production. Period expenses are those which occur during a period of time and cannot be easily associated with products or the production process. Period expenses are those for selling and administrative functions – as opposed to manufacturing functions. Examples of period expenses include rent, interest, taxes, sales salaries, etc. Rent on a factory, for instance is constant for a period regardless of how many units were produced in that factory. The next thing I would like to discuss the matching concept as it relates to accounting for revenues and inventory.

The matching principle in accounting in general is when you match expenses incurred with the revenue in the same period. When you sell merchandise from the Merchandise Inventory account, you are generating revenue but are also giving up some merchandise you had to create that revenue. Thus the matching principle dictates that you match the cost of the inventory sold in the form of Cost of Goods Sold against the Revenue in the form of Sales. Accountants call their attempt to match revenues against the appropriate expenses as the matching concept. Once the Revenues are recognized, the next step is to allocate it among the different accounting periods if required and this is achieved with the help of the accrual concept which related the expenses to the Revenues for a given accounting period. It means that after the Revenues have been determined or measured for a given accounting period, the expenses incurred to earn that Revenue must be deducted to calculate the Net Income.

The term matching, then, refers to a close correlation that exists between certain expenses and revenues recognized as a result of sustaining these costs. Lastly, I would like to explore the income statement on both companies Apple and Phillips for the past two years. First I would to discuss Apple income statement. GAAP or Generally Accepted Accounting Principles are the guidelines for financial accounting in the United States. Apple started selling the iPhone and the Apple TV in 2007, two products it wanted to provide free softwareupdates for over their usual life spans (24 months). Because of this, the GAAP requires that Apple use subscription-based accounting for these two products; which means that almost all revenue and cost of goods are deferred over the life of the product; again 24 months.

Because of this, Apple's numbers can look weaker than they actually are. On the other hand Philips adopted US GAAP as its primary accounting standard back in 2002. To meet Dutch legal requirements the Company reconciles from US GAAP into Dutch GAAP and provides this additional information in the annual report. Philips is the leading company in health and well-being. It is well positioned in highly attractive and geographies to capitalize on global trend. Attached below is the income statement of Apple and Philips, shows the profit or loss of the company during the specific accounting period.

The consolidated statement of income shows on both companies the periods of two years. Over the years with the acquisitions that were done, in 2011 the Apple Company had a net profit of $25, 922, 000 and 54 % increase from 2010. The income statement is important in Apple's case because inventors will use the information to see whether the company is in a strong position for growth and how well they are financially. The statement of cash flow is used by a company when making a business decision. The cash flow shows the revenues the company is generating and the total expenses incurring during the specific accounting period.

It was the other way around for Philips Company; the net profit was negative 1291 decreased tremendously from the chart showing below. Both management reviews the information provided in the financial statements with a combination of development, vertical, and ratio analysis. The data is compared annually to show the percentage increase in the individual amounts, and the data is reviewed as a percentage of revenues in determining if costs of earning revenues are constant or changing as the

amount of revenue is adjusted. The expenses as a percentage of revenues all increased during the year causing the restaurant level profit to be equal to the profit of the previous year that indicates no growth in operating activity although the business is growing.

References:

Summary Apple Income Statement. Business Finance. Retrieved Sep 3, 2012 from the World Wide Web: http://investor. apple. com/ Summary Philips Income

Statement. Business finance. Retrieved Sep 7, 2012 from the World Wide Web: http://www. philips. com/about/investor/index. html http://www. accountingcoach. com/online-accounting-course/financial-accounting. html