Accrual accounting concepts

Finance

Accrual Accounting Concepts Accrual Accounting Concepts BYP4 a) The items from the financialstatements which require adjusting entries for deferrals include (1) prepaid expenses and (2) accumulated depreciation.

b) By examining the consolidated income statement it could be indicated that accrual adjusting are made for (1) other income which includes the interest income, (2) provision for income taxes and (3) interest expense on bank loans and bonds.

c) For the year ending 2009, the depreciation expense of Tootsie was $17. 862mn as compared to $17. 036mn in 2008. In the balance sheet, the accumulated depreciation was reported as a deduction from the total cost of Property, Plant, and Equipment.

d) In the year ending 2009, the income taxed paid were $22. 364mn as reported in the cash flow statement of Tootsie. Moreover, the tax expense figure provided in the consolidated income statement was $10. 704mn.

BYP 4-3

(a) The author of the journal article performed a statistical method which involved recalculation of earnings per share after reviewing 489, 000 quarterly reports of 22, 000 companies. They recalculated EPS to 1/10 of a cent instead of keeping it in penny. By doing so they found out that the occurrence of the three digits including 2, 3, or 4 in this format was significantly low as compared to other digits which raised doubts as each of these digits should have appeared 10% of the time (Thurm, 2010).

(b) For an average company, the net income has to be overstated by $31, 000 to increase EPS by 1/10 of a cent.

(c) It has been indicated that adjustments are made to valuation of inventory or they are done in the form of assessment by the companies regarding the proportion of accounts receivables which they expect not to collect and therefore is recorded as bad debts. These are examples of ways in which companies can report higher earnings. It could therefore be stated that these adjustments are subjective to the assessment and consideration of factors by companies and those who are analyzing the accounts. However, if reasonable basis for justifying these estimates are made by companies then such steps are not considered illegal.

(d) When companies are required to prepare earnings restatement reports when their previous published financial statements are found to contain errors, omissions, or misstatements. From the article it could be indicated that the authors of the article through their methods found that those companies were informed to restate their earnings or were alleged for accounting violations which had low number of occurrence of digit 4 in the 1/10th place. Such companies could therefore be considered as the ones which are involved in rounding off their earnings figure.

(e) From the article it can be understood that the authors are of the view that even a single penny difference in the reported EPS can have impact on the stock price of companies. With a penny less in EPS the stock price is likely to be negatively move; whereas, if EPS is increased by a penny then the stock price is likely to move in the positive direction.

Reference List

Thurm, S. (2010). For Some Firms, a Case of Quadrophobia --- Study Suggests Companies Tweak Per-Share Earnings to Meet Expectations; 4 Is a Lonely Number. Wall Street Journal, B. 1.