# Case study: adventurous computer games, inc.

Business

Capitalizing the depreciation expense, and then re-capitalizing the cost to the inventory, accomplishes the same purpose. However, it would make more sense to depreciate equipment using the activity-based method, and not have to re-capitalize the depreciation expense (only to re-expense it later). Part 2. Estimating what the Final Financial Reports for Tacoma Games for 2003 will Show If all costs incurred after technological feasibility is established are capitalized, the total capitalized amount Mould be $837, 532.

This is done by multiply the original percentage of allocation for costs, and then multiplying that by the costs incurred after technological feasibility as been established. The chart below shows a break-down of the capitalization of individual costs. Ere total amount of the costs which should be matched with Revenues for 2003 is $71 , 129. This is done by taking the capitalization amount shown above (217, 520), dividing it by the 200, 000 unit estimate, and multiplying it by the units that were sold in 2003.

The calculation is shown below. Arms accounting policy will improve the preliminary financial statements drastically.

Net income will be substantially higher; rather than expensing everything right away, En are matching the expenses with revenues. This better represents the earnings of the company. Additionally, the balance sheet will be show a higher amount of assets due to the capitalization of expenses. This will increase asset-to-debt ratios and improve the attractiveness of the company to investors.

If it can be reasonably claimed that technological feasibility was established one quarter earlier, I believe we should make this claim.

If we establish technological feasibility earlier, we will be able to capitalize more costs. If we capitalize more costs, our net income will increase and our balance sheet will show more assets. Overall, this would make the company much more attractive. If we were to establish technological feasibility one period later, the opposite effect would happen; net income would decrease, and the balance sheet would show less assets.

If either method of establish technological feasibility is acceptable, recognizing it earlier rather than later would prove to be more beneficial. As far as the Statement of Cash Flows is concerned, there will not be much off change.

The Statement of Cash Flows will show all of the same inflows and outflows, and will have the same beginning and ending balances of cash. However, the adjustments will be different. For example, a lesser amount of depreciation will be added back to cash, yet more cash will be shown as going to inventory (because depreciation was capitalized).

While the adjustments on the Statement of Cash Flows Nail be different, the net amounts of inflows and outflows will be exactly the same – cash is cash. The ending balance of cash will be the same. Accounting policies will not affect the cash balances off company.

Part 3. Overall Evaluation and Conclusions live the greatest thing that will be gained from capitalizing expenditures will be that internal managers, company executives, investors, and creditors will be able to better see how much money the company is making on its software.

Expensing all costs upfront before revenues are earned will make the software company appear as though they are losing money in the first couple years. This isn’t necessarily the case; the company is simply investing in its product. Additionally, once the company starts selling, there will be almost no expenses once the software starts selling – which will cake the company look like it is making more money than it actually is (all its costs Nerve upfront).

By capitalizing the costs, expenses will be better matched with revenues. The net income recognized at the end of the year will be a better representation of the company’s performance and earnings. Additionally, net income Nail be more stable (rather than showing years of significant earnings and years of significant losses). This information will be more valuable to management and Investors because they will have a better idea of the financial status of the company.