15.514 SUMMER SESSION

SESSION 7
THE MATCHING PRINCIPLE AND LONG-LIVED ASSETS

Concepts & Objectives
1. Understand more applications of the matching principle
    a. Allocating historical costs to future revenues
    b. Accruing expenses related to outstanding obligations
2. Understand the concept of "Depreciation" and the assumptions used to calculate depreciation.
3. Continue to learn how to reverse engineer related accounting entries from financial statement information.
4. Begin to understand and appreciate the Statement of Cash Flows.

Reading Assignment
Pratt: Chapter 9, Chapter 4 (pp. 118 - 130)
Intel: "Property, plant, and equipment," and, "Advertising," page 26.
CP: *Understanding the Statement of Cash Flows*

Class Preparation Questions
1.   Explain how depreciating PP&E is an example of the matching principle.
2.   When a long-lived asset is sold, how is the gain or loss (if any) determined? Why would a gain or loss arise? How would it affect the Income Statement and Statement of Cash Flows?
3.   How is the Accumulated Depreciation account similar to other asset accounts you have seen in the past?
4.   What was the value of Intel's gross PP&E and accumulated depreciation at the end of 2001? What is Intel's depreciation expense for 2001? How much PP&E did Intel purchase in 2001?
5.   Pratt: E9-10 (straight-line only), E9-15 (parts a. and c. only, use the BSE instead of journal entries)

Optional Questions
E9-5, E9-18, BE9-3, ID9-7