

15.514 Summer 2003
SESSION 2
PRINCIPLES OF ACCRUAL ACCOUNTING

Objectives

1. Understand how accrual accounting differs from a cash basis
2. Develop a mental model for classifying types of accounting accruals
3. Understand how accruals affect the financial statement
4. Become familiar with the basic bookkeeping model that illustrates how record keeping impacts the financials
5. Understand the accounting cycle: (a) recording events during the accounting period, (b) end-of-period adjustments, (c) closing entries, (d) financial statement preparation.

Reading Assignment

Pratt: Chapters 3 & 4

Class Preparation Questions

1. How do the Income Statement and the Balance Sheet relate to one another?
2. What does a firm's ending balance of Retained Earnings represent? In Figure 4-11 on p. 117 of Pratt, why does Net Income appear on both the Income Statement AND the Statement of Retained Earnings? Why does Ending Retained Earnings Balance not equal Ending Cash Balance on the Balance Sheet?
3. How do you determine what fiscal period a firm is using? Why would companies use something other than calendar year as a fiscal period?
4. From a financial reporting perspective, what's the difference between consistency and uniformity? Why do U.S. accounting principles require the former but not the latter?
5. What is the difference between capitalizing and expensing a cost?
6. How is recognizing depreciation for PP&E an example of the Matching Principle?
7. Pratt E4-19 (we will do this in class)

Graded Assignment

None.

Optional Problems

P3-9, ID3-4, E4-5, E4-16, P4-14