

**ACC 304: Intermediate Accounting I****Assignment: Week One****Financial Reporting Exercises****Exercise #1**

Omar Morena has recently completed his first year of studying accounting. His instructor for next semester has indicated that the primary focus will be the area of financial accounting.

**Instructions**

- (a) Differentiate between financial accounting and managerial accounting.
- (b) One part of financial accounting involves the preparation of financial statements. What are the financial statements most frequently provided?
- (c) What is the difference between financial statements and financial reporting?

**Exercise #2**

Presented below are the assumptions, principles, and constraint used in this chapter.

- |  |                                       |
|--|---------------------------------------|
| 1. Economic entity assumption              | 6. Measurement principle (fair value) |
| 2. Going concern assumption                | 7. Expense recognition principle      |
| 3. Monetary unit assumption                | 8. Full disclosure principle          |
| 4. Periodicity assumption                  | 9. Cost constraint                    |
| 5. Measurement principle (historical cost) | 10. Revenue recognition principle     |

**Instructions:**

Identify by number the accounting assumption, principle, or constraint that describes each situation below. Do not use a number more than once.

- (a) Allocates expenses to revenues in the proper period.
- (b) Indicates that fair value changes subsequent to purchase are not recorded in the accounts. (Do not use revenue recognition principle.)
- (c) Ensures that all relevant financial information is reported.
- (d) Rationale why plant assets are not reported at liquidation value. (Do not use historical cost principle.)
- (e) Indicates that personal and business record keeping should be separately maintained.

- (f) Separates financial information into time periods for reporting purposes.
- (g) Assumes that the dollar is the “measuring stick” used to report on financial performance.

### **Exercise #3**

The financial statements of P&G are presented in Appendix B of the textbook. The company’s complete annual report, including the notes to the financial statements, is available online.

Instructions:

Refer to P&G’s financial statements and the accompanying notes to answer the following questions.

- (a) Using the notes to the consolidated financial statements, determine P&G’s revenue recognition policies. Discuss the impact of trade promotions on P&G’s financial statements.
- (b) Give two examples of where historical cost information is reported in P&G’s financial statements and related notes. Give two examples of the use of fair value information reported in either the financial statements or related notes.
- (c) How can we determine that the accounting principles used by P&G are prepared on a basis consistent with those of last year?
- (d) What is P&G’s accounting policy related to advertising? What accounting principle does P&G follow regarding accounting for advertising? Where are advertising expenses reported in the financial statements?