

- Revenue Recognition

- Income statements

- reports the revenues and expenses of the firm for a period of time

- revenue
 - expense
 - gains and loss
 - $\text{revenues} - \text{expense} = \text{net income}$

- Presentation Format

- Gross Profit : the amount that remains once the cost of a product or service is subtracted from revenue
| revenue - cost of product
 - Operating Profit : Subtracting operating expenses, such as selling, general and administrative expenses, from gross profit
| Gross Profit - operating expenses
 - Net Income : Subtracting interest expense and income taxes from operating profit
| Operating profit - interest expense / income taxes

- Revenue Recognition

- liability : the unearned revenue
 - If payment for the goods is received **prior** to the transfer of the good, a **liability, unearned revenue**, is created when the **cash is received**
 - A five-step process for recognizing revenue :
 - Identify the contract(s) with a customer.
 - Identify the **separate or distinct performance obligations** in the contract.
 - Determine the transaction price.
 - Allocate the transaction **price** to the **performance obligations** in the contract.
 - Recognize revenue when (or as) the entity satisfies a performance obligation
 - Performance obligation
 - a promise to deliver a distinct good or service
 - Transaction Price
 - the amount a firm expects to receive from a customer in exchange for transferring a good or service

- Expense Recognition

- depreciation
 - straight-line depreciation

- $\frac{\text{cost} - \text{residual value}}{\text{useful life}}$
 - accelerated depreciaton
 - Double-Declining balance method (DDB)
 - $\frac{2(\text{asset cost} - \text{accumulated depreciation})}{\text{useful life}}$
 - amortization
 - Amortization expense of intangible assets with limited lives is similar to depreciation
- Inventory
 - FIFO : the first item purchased is the first item sold
FIFO is appropriate for inventory that **has a limited shelf life**
 - LIFO : the last item purchased is the first item sold
LIFO is appropriate for inventory that **does not deteriorate with age**
 - LIFO inventory accounting **is not permitted under IFRS**