Interim Reporting

Interim Reporting is for less than one year
- The SEC requires quarterly reporting
  - There is no need to audit quarterly reports

Problems with Interim Reporting
- Reporting earnings when expenses do not occur evenly
- 2 Approaches
  - Interim period as a discrete accounting period
  - Integral portion of longer period
- APB 28 requires interim reporting to be integral
Revenues are accounted for in the same manner as annual

Inventory and Cost of Goods Sold
- LIFO liquidation is when units sold > units added
  - If company expects to replace inventory at the year end:
    - JE Cost of Goods sold: xxx
      - Inventory: xxx
      - Excess of replacement cost: xxx
      - Over historical cost: xxx
  - Lower of Cost or Market is when FMV < Cost
    - Inventory is written down
    - If market value will recover, carry it at cost at interim
- Standard Costing: variances are expected to be absorbed by end
  - Therefore, variances are not reflected in interim financials

Other costs and expenses
- If not directly matched with revenues, charge to income

Extraordinary Items
- Are unusual in nature, infrequent in occurrence, material in amount
  - Materiality: compare to year
    - If not material to whole year but to interim, disclose sep.
- Contingencies are not disclosed in interim reporting until resolved

Income Taxes
- Compute at estimated annual effective tax rate
  - Anticipates tax credits, foreign tax rates, and tax planning
- Special items (DEA) are individually computed and recognized
  - Calculated at margin: difference in income involving item and income excluding item

Cumulative Effect of Accounting Changes
- A change in principle: must recalculate previous year’s income
  - Include cumulative effect in year of change
  - If change occurs in 1st period, entire effect is included in income of 1st interim period
  - Other than 1st, there is no cumulative effect