FINANCIAL REPORTING AND ANALYSIS

Financial Reporting Problem: PepsiCo, Inc.

**BYP1-1**

The actual financial statements of PepsiCo, as presented in the company's 2008 Annual Report, are contained in Appendix A.

**Instructions**

Refer to PepsiCo's financial statements and answer the following questions.

(a) What were PepsiCo's total assets at December 27, 2008? At December 29, 2007?
(b) How much cash (and cash equivalents) did PepsiCo have on December 27, 2008?
(c) What amount of accounts payable did PepsiCo report on December 27, 2008? On December 29, 2007?
(d) What were PepsiCo's net sales in 2006? In 2007? In 2008?
(e) What is the amount of the change in PepsiCo's net income from 2007 to 2008?

Comparative Analysis Problem: PepsiCo, Inc. vs. The Coca-Cola Company

**BYP1-2**

PepsiCo's financial statements are presented in Appendix A. The Coca-Cola Company's financial statements are presented in Appendix B.

**Instructions**

Refer to the financial statements and answer the following questions.

(a) Based on the information contained in these financial statements, determine the following for each company.

1. Total assets at December 27, 2008, for PepsiCo, and for Coca-Cola at December 31, 2008.
2. Accounts (notes) receivable, net at December 27, 2008, for PepsiCo and at December 31, 2008, for Coca-Cola.
(b) What conclusions concerning the two companies can be drawn from these data?

Exploring the Web

**BYP1-3**

This exercise will familiarize you with skill requirements, job descriptions, and salaries for accounting careers.

Instructions

Go to the site shown above. Answer the following questions.

(a) What are the three broad areas of accounting (from “Skills and Talents Required”)?
(b) List eight skills required in accounting.
(c) How do the three accounting areas differ in terms of these eight required skills?
(d) Explain one of the key job functions in accounting.
(e) Based on the *Smart Money* survey, what is the salary range for a junior staff accountant with Deloitte & Touche?

CRITICAL THINKING

Decision Making Across the Organization

**BYP1-4**

Mary and Jack Gray, local golf stars, opened the Chip-Shot Driving Range Company on March 1, 2011. They invested $25,000 cash and received common stock in exchange for their investment. A caddy shack was constructed for cash at a cost of $8,000, and $800 was spent on golf balls and golf clubs. The Grays leased five acres of land at a cost of $1,000 per month and paid the first month’s rent. During the first month, advertising costs totaled $750, of which $150 was unpaid at March 31, and $400 was paid to members of the highschool golf team for retrieving golf balls. All revenues from customers were deposited in the company’s bank account. On March 15, Mary and Jack received a dividend of $1,000. A $100 utility bill was received on March 31 but was not paid. On March 31, the balance in the company’s bank account was $18,900.

Mary and Jack thought they had a pretty good first month of operations. But, their estimates of profitability ranged from a loss of $6,100 to net income of $2,450.

Instructions

With the class divided into groups, answer the following.

(a) How could the Grays have concluded that the business operated at a loss of $6,100? Was this a valid basis on which to determine net income?
(b) How could the Grays have concluded that the business operated at a net income of $2,450? (*Hint: Prepare a balance sheet at March 31.*) Was this a valid basis on which to determine net income?
(c) Without preparing an income statement, determine the actual net income for March.
(d) What was the revenue earned in March?

Communication Activity

**BYP1-5**

Lynn Benedict, the bookkeeper for New York Company, has been trying to get the balance sheet to balance. The company's balance sheet is shown below.

**NEW YORK COMPANY**

**Balance Sheet**

For the Month Ended December 31, 2011

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>Don Wenger, Capital $26,000</td>
</tr>
<tr>
<td>Cash</td>
<td>Accounts receivable (6,000)</td>
</tr>
<tr>
<td></td>
<td>$25,500</td>
</tr>
<tr>
<td></td>
<td>9,000</td>
</tr>
</tbody>
</table>
Supplies 2,000  Don Wenger, Drawing (2,000)
Accounts payable (8,000) Notes payable 10,500
$28,500 $28,500

**Instructions**

Explain to Lynn Benedict in a memo why the original balance sheet is incorrect, and what should be done to correct it.

**Ethics Case**

**BYP1-6**

After numerous campus interviews, Steve Baden, a senior at Great Northern College, received two office interview invitations from the Baltimore offices of two large firms. Both firms offered to cover his out-of-pocket expenses (travel, hotel, and meals). He scheduled the interviews for both firms on the same day, one in the morning and one in the afternoon. At the conclusion of each interview, he submitted to both firms his total out-of-pocket expenses for the trip to Baltimore: mileage $112 (280 miles at $0.40), hotel $130, meals $36, parking and tolls $18, for a total of $296. He believes this approach is appropriate. If he had made two trips, his cost would have been two times $296. He is also certain that neither firm knew he had visited the other on that same trip. Within ten days Steve received two checks in the mail, each in the amount of $296.

**Instructions**

(a) Who are the stakeholders (affected parties) in this situation?
(b) What are the ethical issues in this case?
(c) What would you do in this situation?

**“All About You” Activity**

**BYP1-7**

As discussed in the “All About You” feature in this chapter, some people are tempted to make their finances look worse to get financial aid. Companies sometimes also manage their financial numbers in order to accomplish certain goals. Earnings management is the planned timing of revenues, expenses, gains, and losses to smooth out bumps in net income. In managing earnings, companies’ actions vary from being within the range of ethical activity, to being both unethical and illegal attempts to mislead investors and creditors.

**Instructions**

Provide responses for each of the following questions.

(a) Discuss whether you think each of the following actions (adapted from www.finaid.org/ fafsa/maximize.phtml) to increase the chances of receiving financial aid is ethical.

i. Spend down the student's assets and income first, before spending parents' assets and income.
ii. Accelerate necessary expenses to reduce available cash. For example, if you need a new car, buy it before applying for financial aid.
iii. State that a truly financially dependent child is independent.
iv. Have a parent take an unpaid leave of absence for long enough to get below the “threshold” level of income.
(b) What are some reasons why a company might want to overstate its earnings?
(c) What are some reasons why a company might want to understate its earnings?
(d) Under what circumstances might an otherwise ethical person decide to illegally overstate or understate earnings?
FASB Codification Activity

**BYP1-8**
The FASB has developed the Financial Accounting Standards Board Accounting Standards Codification (or more simply “the Codification”). The FASB's primary goal in developing the Codification is to provide in one place all the authoritative literature related to a particular topic. To provide easy access to the Codification, the FASB also developed the Financial Accounting Standards Board Codification Research System (CRS). CRS is an online, real-time database that provides easy access to the Codification. The Codification and the related CRS provide a topically organized structure, subdivided into topic, subtopics, sections, and paragraphs, using a numerical index system. This online system may be accessed at [http://asc.fasb.org](http://asc.fasb.org).

You may find this system useful in your present and future studies, and so we have provided an opportunity to use this online system as part of the *Broadening Your Perspective* section.

**Instructions**

Register for access to the FASB Codification. You will need to enter an email address and provide a password. Familiarize yourself with the resources that are accessible at the FASB Codification Homepage.

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