

15.514 SUMMER SESSION

SESSION 8,

MATCHING PRINCIPLE: PROPERTY, PLANT, AND EQUIPMENT

Objectives

1. Reinforce and extend your understanding of accounting for property, plant, and equipment.
2. Better appreciate how the usage and judgment challenges are contextual, depending especially on the business, the individuals making decisions, and the regulatory environment.

Game Plan & Class Pedagogy

Case discussion.

Reading Assignment

CP: *Depreciation at Delta and Pan Am (case)*.

Class Preparation Questions

Case preparation questions for Delta and Pan Am

1. Preparer's Perspective

Management makes three accounting decisions to meet the computation challenge associated with depreciation. They must determine the (a) holding period, (b) residual value, and (c) usage pattern they will use for financial reporting.

a.

Management will have private information about the related economic activity that will influence these accounting decisions. What business decision(s) require management to estimate the holding period, residual value, and usage? Are these business decisions made before, after, or concurrent with the accounting decisions? Who is likely to be involved in these decisions (marketing, operations, strategy and development, the chief financial officer, the chief executive officer, etc.) and what are their roles? Suppose you were asked to estimate the holding period, usage patterns, and residual values (as an employee of Pan Am or Delta) what types of information would you collect and from whom? How would you expect this information to differ for Delta and Pan Am in 1

b.

Management's accounting decisions can be influenced by users' conflicting demands for information. Suppose airlines disclose the same financial information to aircraft vendors, customers, current and potential future shareholders, and competitors. For what decisions would each of these stakeholders like to know management's private information about (their estimates of) residual values, usage patterns, and holding periods? Explain

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Optional Problems
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