

What is the Periodicity Principle?

Worksheet

The periodicity principle assumes a business's indefinite life can be split into distinct reporting periods, allowing financial statements to be prepared and compared at regular intervals such as monthly, quarterly, or annually.

Questions

1. The periodicity principle allows companies to:

- A) Report only when the business closes
- B) Divide operations into artificial reporting periods
- C) Ignore time when preparing statements
- D) Report whenever convenient

2. Another name for the periodicity principle is:

- A) Going concern assumption
- B) Time period assumption
- C) Monetary unit assumption
- D) Economic entity assumption

3. A company allocates \$360,000 of annual rent evenly across the year. How much is reported per quarter?

- A) \$360,000
- B) \$120,000
- C) \$90,000
- D) \$30,000

4. The periodicity principle works closely with which other principle?

- A) Cost principle
- B) Matching principle
- C) Conservatism principle
- D) Full disclosure principle

5. A company earns \$1,200,000 in annual revenue, spread evenly throughout the year. How much revenue should be reported in Q2 alone under the periodicity principle?

6. A magazine publisher collects a \$600,000 annual subscription upfront in January but delivers issues monthly. How much revenue is recognized in March?

7. A company reports a \$2,400,000 annual depreciation expense using quarterly statements. How much is reported each quarter?

8. Define: What is the periodicity principle?

9. Define: Another name for the periodicity principle?

10. Define: Why do companies need the periodicity principle?

Answer Key

1. B) Divide operations into artificial reporting periods - It lets an ongoing business be measured in regular, comparable chunks of time.
2. B) Time period assumption - Periodicity is also called the time period assumption.
3. C) $\$90,000 - 360,000 \frac{3}{12} = \$90,000$ per quarter.
4. B) Matching principle - Periodicity defines the time periods; the matching principle decides which expenses belong in each one.
5. Quarterly period = 3 months Periodic allocation = $1,200,000 \frac{3}{12}$ Q2 revenue = $\$300,000$
6. Monthly allocation = $600,000 \frac{1}{12} = \$50,000$ March is one month of the annual period March revenue recognized = $\$50,000$ (periodicity spreads it across the year, not all in January)
7. Quarterly period = 3 months Periodic allocation = $2,400,000 \frac{3}{12}$ Each quarter reports $\$600,000$ of depreciation
8. The assumption that a company's life can be divided into artificial, equal reporting periods.
9. The time period assumption.
10. Investors and creditors need regular, comparable reports, not just a final report when the business ends.

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