CH 8 - Additional Recommended Problems Inventory Errors

1) The income statements for Sherman Corp. for a two-year period shows the following:

	<u>2010</u>	<u>2011</u>
Revenues	\$2,000,000	\$2,400,000
<u>COGS</u>	<u>1,400,000</u>	1,630,000
Gross Profit	600,000	770,000
<u>Expenses</u>	<u>450,000</u>	500,000
Net Income	\$150,000	\$270,000

An audit revealed the following information:

- 1. 2010 ending inventory was overstated by \$20,000.
- 2. During 2011, purchases amounting to \$10,000 were not recorded. They were included in the physical count at year-end.

Required: Determine the correct amounts for each of the following:

- a. 2010 Gross Profit: \$ 0 20,000 b. 2011 Net Income 2011 2010 BI 120,000 OK OKtp 10,000 OK GAS 110,000 GAS 120,000 . -EI C065 1 10,000 C0G5 NI A 20,000 \$ 10,000 NI
- 2) ABC Company, which uses the periodic inventory method, has discovered the following inventory errors:

The 2009 year-end inventory was understated by \$10,000.

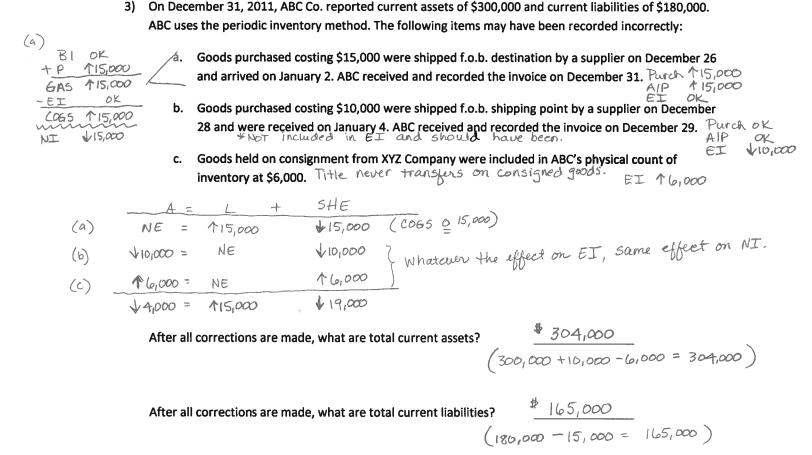
The 2010 year-end inventory was overstated by \$13,000.

The 2011 year-end inventory was overstated by \$15,000.

How would these errors affect net income for 2010 and 2011? Ignore income tax considerations. Use O for overstated, U for understated and NE for no effect. Be sure to state the amount.

	2010 <u>D 23</u>	000	2011 _ (2,000	
Error	NI 2009	NI 2010	NI S	A= L +	SHE
) EI ('09) U 10,000	\$10,000	110,000	}	('09) \$ 10,000 =	1 10,000 Beg RE(10) \$10,000 TNI (10) \$23,000
a) EI (10) 013,000	NE	13,000	\$13,000	(10) 113,000=	113,000 END RE 113,000
3) EI (111) 015,000	NE	NE	115,000	(11) 15,000=	115,000 (+NI(11) 12,000
015,000	1,10,000	123,000	12,000 }		ENDRE 115,000

* Whatever the effect on EI, it will have the same effect on NI that same year; It will reverse in the NEXT yr.



4) Baker Company follows a calendar-year end. Its financial statements for the years 2011 and 2010 contained errors as follows. Answer the following questions by indicating O for Overstated; U for understated; or NE for No Effect. If there is an effect, state the dollar amount.

	2011	2010
Ending Inventory	\$7,000 Understated	\$12,000 Understated

a. Determine the effect on 2011 Net Income

A. 15,000

U 19,000

b. Indicate the effect on 2011 Ending Retained Earnings:

By what amount is Net Income overstated/understated?

B. ↓7,000

- 5) On December 27, 2011, ABC sold merchandise on account with a selling price of \$6,000 to XYZ Company. The terms of the sale were FOB destination. The goods, which had cost \$4,000, were shipped on December 27, 2011 and were received by XYZ on January 3, 2012. ABC uses a periodic inventory system. ABC recorded the sale on December 27, 2011 and excluded the merchandise from the ending inventory. Determine the effect of the above transaction on the financial statements for ABC for the year ended December 31, 2011:
 - a. Total Assets are understated by \$4,000.
 - **b.** Stockholder's Equity is overstated by \$2,000.
 - c. Liabilities are understated by \$4,000.
 - d. Net Income is overstated by \$6,000.

A = L + 5HEA /R 1 6,000 Rev

[1 nut \$\frac{1}{4,000}\$ (14,000) CO65

Assets 12,000 = 12,000 NI \$\frac{1}{5}\$ RE.

*Based on FOB Destination,
Don't record sale or take out
of inut. Until Goods arrive

@ buyers destination.

81 OK +ρ OK GAS OK -ΕΙ ΨΑ,000