ARGOSY UNIVERSITY Classroom

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Unit 3: Module 3 - M3 Assignment 2 Discussion

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Assignment 2: Discussion—Ethical Issues

Review the Ethical Issue: Dobbs Wholesale Antiques in chapter 5 (Page 317). By **Saturday, March 7, 2015**, address the following in your initial post:

1. Under Dobbs FOB policy, when should the company record a sale?
2. Do you approve or disapprove of Dobbs's manner of deciding when to ship goods to customers and record the sales revenue? If you approve, give your reason. If you disapprove, identify a better way to decide when to ship goods. Is there an accounting rule against Dobbs's practice?

By the end of the week, provide substantive responses to at least two other students' initial posts.

Discussion Grading Criteria	**Maximum Points**
Initial Discussion Response	16
Discussion Participation	16
Writing Craftsmanship and Ethical Scholarship	8
Total:	40

Click here to view the rubric for this assignment.

Use the Respond link to post responses and materials that pertain to this assignment. Use the Respond link beneath any e

PARTY-TIME T-SHIRTS
Income Statement
Year Ended December 31, 2011

Net sales revenue	$350,000
Cost of goods sold	210,000
Gross margin	140,000
Operating expenses:	
Selling expense	40,000
General expense	25,000
Net income	$ 75,000

Hildebrand and Nordhaus are considering how to expand the business. They each propose a way to increase profits to $100,000 during 2012.

a. Hildebrand believes they should advertise more heavily. He believes additional advertising costing $20,000 will increase net sales by 30% and leave general expense unchanged.

b. Nordhaus proposes selling higher-margin merchandise, such as party dresses. An importer can supply a minimum of 1,000 dresses for $40 each; Party-Time can mark these dresses up 100% and sell them for $80. Nordhaus realizes they will have to advertise the new merchandise, and this advertising will cost $5,000. Party-Time can expect to sell only 80% of these dresses during the coming year.

Requirement

1. Help Hildebrand and Nordhaus determine which plan to pursue. Prepare a single-step income statement for 2012 to show the expected net income under each plan.

Ethical Issue

Dobbs Wholesale Antiques makes all sales under terms of FOB shipping point. The company usually receives orders for sales approximately one week before shipping inventory to customers. For orders received late in December, Kathy Dobbs, the owner, decides when to ship the goods. If profits are already at an acceptable level, Dobbs delays shipment until January. If profits for the current year are lagging behind expectations, Dobbs ships the goods during December.

Requirements

1. Under Dobbs FOB policy, when should the company record a sale?
2. Do you approve or disapprove of Dobbs' manner of deciding when to ship goods to customers and record the sales revenue? If you approve, give your reason. If you disapprove, identify a better way to decide when to ship goods. (There is no accounting rule against Dobbs' practice.)

Financial Statement Case

This case uses both the income statement (statement of operations) and the balance sheet of **Amazon.com** in Appendix A at the end of the book. It will help you understand the closing process of a business.

Requirement

1. Journalize **Amazon.com's** closing entries for the revenues and expenses of 2007. Show all amounts in millions as in the **Amazon** financial statements. You may be unfamiliar with certain revenues and expenses, but treat each item on the income statement as either a revenue or an expense. For example, Net sales is the first revenue, and Interest income is also a revenue. The last revenue is Cumulative Effect of Change in Accounting Principle. A loss is like an expense. In your closing entries ignore all subtotals such as Gross Profit, Total Operating Expenses, and Net Loss.

Team Project

With a small team of classmates, visit one or more merchandising businesses in your area. Interview a responsible official of the company to learn about its inventory policies and accounting system. Obtain answers to the following questions, write a report, and be prepared to make a presentation to the class if your instructor so directs.

Requirements

1. What merchandise inventory does the business sell?
2. From whom does the business buy its inventory? Is the relationship with the supplier new or longstanding?
3. What are the FOB terms on inventory purchases? Who pays the freight, the buyer or the seller? Is freight a significant amount? What percentage of total inventory cost is the freight?
4. What are the credit terms on inventory purchases—2/10, n/30, or other? Does the business pay early to get purchase discounts? If so, why? If not, why not?
5. How does the business actually pay its suppliers? Does it mail a check or pay electronically? What is the actual payment procedure?
6. Which type of inventory accounting system does the business use—perpetual or periodic? Is this system computerized?
7. How often does the business take a physical count of its inventory? When during the year is the count taken? Describe the count procedures followed by the company.
8. Does the manager use the gross profit percentage and the rate of inventory turnover to evaluate the business? If not, show the manager how to use these ratios in decision making.
9. Ask any other questions your group considers appropriate.

Quick Check Answers

1\. *d* 2. *a* 3. *c* 4. *c* 5. *b* 6. *b* 7. *c* 8. *d* 9. *a* 10. *c*

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