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.