

**Group 1**

King Toot's Music Store just fired Mick Stupp, its inventory control officer, because it found out that he apparently can't count. Upon reviewing its stock and inventory records, the business discovered that Mick miscounted the inventory twice, causing the business to prepare incorrect income statements during Periods 1 through 3 (the inaccurate income statements are shown in the table below). After scrutinizing its records, King Toot's discovered that Mick had overstated its Period 1 ending inventory by \$3,450 and had understated its Period 2 ending inventory by \$4,600. You have been hired to clean up the mess. Analyze the effects of these two errors, then answer the related questions. Write your responses on your answer sheet.

INCORRECT INCOME STATEMENTS	PERIOD 1	PERIOD 2	PERIOD 3
Net Sales	52,840	49,814	57,880
Beginning Merchandise Inventory	11,630	13,652	10,192
Net Purchases	35,720	31,841	34,670
Cost of Merchandise Available for Sale	47,350	45,493	44,862
Ending Merchandise Inventory	13,652	10,192	12,660
Cost of Merchandise Sold	33,698	35,301	32,202
Gross Profit on Sales	19,142	14,513	25,678
Expenses	11,324	9,950	18,500
Net Income (Net Loss)	7,818	4,563	7,178

- \*1. King Toot's Music Store uses a perpetual inventory system. (Write TRUE or FALSE on your answer sheet.)
2. What should the Cost of Merchandise Available for Sale be for Period 1?
3. What should the Gross Profit be for Period 1?
4. What should the Net Income be for Period 1?
5. What should the beginning inventory be for Period 2?
6. What should the Cost of Merchandise Sold be for Period 2?
7. What should the Gross Profit on Sales be for Period 2?
- \*8. Was the Net Income for Period 2 overstated or understated on the INCORRECT statement, and if so, by how much? (Write an amount AND O for overstated or U for understated. If the net income was correct as shown on the incorrect Period 2 statement, simply write C in your answer blank—no amount is needed.)
9. What should the beginning inventory be for Period 3?

**Group 5 continued**

59. Regardless of the method used, the total amount of depreciation expense that can be claimed on the treadmill will be the same for both methods. (Write TRUE or FALSE on your answer sheet.)
60. The treadmill's accumulated depreciation account is classified as a contra-asset. (Write TRUE or FALSE on your answer sheet.)
61. Accelerated depreciation methods more realistically represent the actual real-world decline in an asset's value during its life. (Write TRUE or FALSE on your answer sheet.)
- \*62. Assuming that Belly Acres used the straight-line method to depreciate the treadmill and that on January 3, 2020 it sold this piece of equipment for \$25,000, did the business realize a gain or a loss on the sale of the treadmill and in what amount? (Write an amount AND either Gain or Loss on your answer sheet.)
- \*63. Will the sale of the treadmill in Question #62 affect an expense account or a revenue account?
64. If Belly Acres uses the straight-line method to depreciate the treadmill, the last year in which it can record any depreciation on this asset will be 2023. (Write TRUE or FALSE on your answer sheet.)
65. If Belly Acres uses the declining-balance method to depreciate the treadmill, the last year in which it can record any depreciation on this asset will be 2023. (Write TRUE or FALSE on your answer sheet.)
- \*66. If Belly Acres uses the declining-balance method to depreciate the treadmill, how much depreciation expense will have accumulated on the asset by the end of 2019?
- \*67. If Belly Acres uses the declining-balance method to depreciate the treadmill and it sells the asset on January 3, 2022 for \$9,000, will the business realize a gain or a loss on the sale and how much? (Write an amount AND either Gain or Loss on your answer sheet.)