CONCEPT: INVENTORY ERRORS

● Inventory errors correct themselves after ________ years. If it is the first year, there is an overstatement/understatement.

Inventory Error	Period 1		Period 2	
	Cost of Goods Sold	Gross Profit and Net Income	Cost of Goods Sold	Gross Profit and Net Income
Period 1				
Ending inventory overstated	Understated	Overstated	Overstated	Understated
Period 1				
Ending inventory understated	Overstated	Understated	Understated	Overstated

EXAMPLE: On January 1, Year 1, a company had a balance in Inventory of $50,000. During the year, purchases of $75,000 were made. On December 31, Year 1, an error in the inventory count caused a final balance in Inventory of $35,000, when the correct amount would have been $30,000. During Year 2, the company purchased $60,000 of Inventory and the year-end physical count found the correct balance of $40,000.

	Correct	Incorrect
Y1 COGS		
Y1 Ending Inventory		
Y2 COGS		
Y2 Ending Inventory		
Total COGS from Both Years		

PRACTICE: A company had an ending inventory that was overstated by $5,000 due to a miscount during the year-end inventory count. The amounts reflected in the end of the period balance sheet are:

	Assets	**Equity**
a.	Overstated	Overstated
b.	Correct	Correct
c.	Understated	Understated
d.	Overstated	Correct

PRACTICE: A company had a beginning inventory that was understated by $4,000 because the ending inventory in the previous period was understated by $4,000. The amounts reflected in the current end of period balance sheet are:

	Assets	**Equity**
a.	Overstated	Overstated
b.	Correct	Correct
c.	Understated	Understated
d.	Overstated	Correct