

Handout 3

Alpha, Inc., made errors and/or omissions during the current year as described below. Indicate the effect of these errors and omissions on total assets, total liabilities, and net income for the year using the following code: O = overstated, U = understated, N = no effect. Alpha has a year ending December 31.

		Total Assets	Total Liabilities	Net Income
	Error or Omission			
	Example: Failed to record a cash sale.	U	N	U
1	The purchase of equipment for cash is recorded as a debit to Equipment and a credit to Accounts Payable.			
2	Cash received from a customer in payment of its existing account is recorded as if the receipt were for a current period sale.			
3	Recorded a credit sale as a debit to Cash and credit to Sales.			
4	The receipt of money from a bank loan is recorded as a debit to Cash and a credit to Sales.			
5	Failed to record depreciation at the end of the current period.			
6	Failed to record AJE: Salaries are paid every Friday for a 5-day work week. The normal weekly payroll is \$40,000. The year end falls on a Tuesday this year.			
7	Failed to record AJE: Examining the Rent Expense account, the controller finds that it includes a \$4,800 advance payment for 3 months' rent. The payment was made on November 1.			
8	Failed to record AJE: There is \$500 of office supplies left in the storeroom. At the beginning of the year, there were no office supplies. During the year, \$3,500 of office supplies was purchased.			
9	Failed to record AJE: The company received an order in May with a \$13,000 advance payment, which was credited to Unearned Revenue. In November, the last of the order was shipped to the customer.			
10	Failed to record AJE: The company has a \$20,000, 9-month, 12% note payable outstanding at the end of the year. The note was issued on October 1. The interest is to be paid when the note is paid.			