

Roll Call manufactures a unique keychain with a built-in radio frequency identification chip. This device is issued to students at State University, and a host computer tracks student attendance at each class by automatically monitoring the whereabouts of the keychains.

Roll Call's ending inventory at December 31, 20X3 was \$1,670,000. However, this value was transposed and entered into the accounting system at \$1,760,000. As a result, ending inventory was overstated and cost of goods sold was understated by \$90,000. This error was discovered in March of 20X4, when the CFO was preparing a presentation for potential investors.

The 20X3 books have long-since been closed, and financial reports were already released. The CFO proposed to correct the error by debiting Cost of Goods Sold and crediting Inventory for \$90,000. Net income for 20X3 was \$900,000, and 20X4 should be at about the same level.

- (a) What is the appropriate journal entry to correct the error? You may assume the firm uses a periodic inventory system, and the balance of the Inventory account is shown as \$1,760,000.
- (b) In the CFO presentation to potential investors, how much should be reported as 20X3 net income? How much should be reported as inventory on hand at December 31, 20X3?
- (c) Is the amount of the error material? If you are an accountant for Roll Call and instructed by the CFO to record the erroneous entry, what should you do?