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?