


Counterbalancing errors do not inclu

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In 2018, Skaggs Co. changed from FIFO to the average cost of registering its inventory. The following information shows the differences in Skaggs' revenues since the start of the business in 2013. Net income year FIFO Average value 2013 35,000 33,000 2014 63,000 67,000 2015 74,000 75,000 2016 79,000 78,000 2017 93,000 94,000 2018 87,500 89,000 9. (L.O. 1) If Skaggs presents comparative reporting for 2016, 2017 and 2018, it should: A. Change the start of the non-growth profit balance on January 1, 2013, showing a decrease of \$2,000. B. Change the start of non-folding profit balances on January 1, 2014, showing a decrease of \$2,000. C. Change the start of non-growth profit balances as of January 1, 2015, showing an increase of \$2,000. D. Change the start of non-growth profit balances as of January 1, 2016, showing an increase of \$3,000.9 (D) If a company changes accounting principles, it must change the top balance of non-waste profit for the earliest year presented. As Skaggs presents comparative reporting for 2016, 2017 and 2018, it should change the start of the non-accounting profit balance as of January 1, 2016. The cumulative effect of previous years is calculated as follows: Net profit Year FIFO Average difference in value 2013 \$35,000 \$33,000 \$2,000 2014 63,000 67,000 0 4000 2015 74,000 75,000 1000 Total as of the beginning of 2016 \$3,000 Despite all efforts, sometimes the error is made on the financial report and must be corrected. Explain why previously published financial statements will have an error and how to correct it.

Key Points These errors are most often caused by mathematical errors, errors in the application of generally accepted accounting principles, or through oversight of the facts that exist in the preparation of financial statements. In order to correct the error correctly, it is necessary to retrospectively return the financial statements for the previous period. A counterweight error occurs when an error is made that cancels out another error. It doesn't matter if the books are closed or still open; you need to correct the log entry. Key conditions of bias: Anything that acts as a counterweight; compensatory equivalent. cumulative: Incorporating all data to date retrospectively; in retrospect. Despite your best efforts, sometimes a mistake is made in financial statements. Most often, the error is to recognize, measure, submit, or disclose a product in financial statements. These errors are usually caused by mathematical errors, errors in the application of generally accepted accounting principles or oversight of facts that exist in the preparation of financial statements. Please note that fixing an error is a fix for an error in a previously issued financial statement; it's not an accounting change. How to fix a bug In order to correct a mistake, you need to retrospectively conduct retrospective financial statements for the previous to restore financial liabilities, the company must: Reflect the cumulative effect of the error on the periods preceding those presented in the bearing amounts of assets and liabilities at the beginning of the first period submitted; and to compensate for the discovery of non-waste profit for that period; and adjust the financial statements for each previous period submitted to reflect the correction of the error. If the financial statements are submitted only for one period, then reflect the adjustment in the starting balance of non-soluble profits. Counterbalance and non-balance errors The counterbalance error occurred when a mistake is made that cancels out another error. An example of a counterweight error are the costs charged from X year that should have been charged in year Y. The result is Year X has inflated costs and under-reported profits and Year Y has an understated account and an overpriced profit. However, when the earnings for the year are preserved, it is right, because the two previous mistakes have canceled each other. Although the impact of the error has been corrected within two years, the annual net profit for the X-year and year Y has still been miscalculated. Accounting for the counterweight error is done by determining if the books for the current year are closed or not. If the books are closed this year, you don't need to sign in if you're already off the counterindug. If the error is not balanced, the record should be made for non-disclosure of income. If the books are not closed for the current year, the company is in the second year, and the error is not yet balanced, then it is necessary to adjust the current period and adjust the beginning of non-spending profits. If you don't balance the error, the record is necessary to adjust the start of the non-exposed profit and to adjust the current period. Keep in mind, financial statements should be re-run no matter what. Non-balance errors are errors that will not be automatically compensated in the next reporting period. It doesn't matter whether the books are closed or still open, a correction of the log entry is necessary. Balance sheet: If an error is found in the financial statements for the previous year, a correction should be made and the financial indicators reissued. Accounting changes, errors and derivative content tables Changes in Accounting When preparing financial statements, management makes many estimates based on their best judgments. When more information is available later, estimates may change. For example, a company can estimate that a new machine will have a lifespan of 10 years. However, after six years, information on new technologies may suggest that the machine will only be useful for another two years (a total of eight). This is an example of the need to change the accounting assessment. Changes in accounting assessments may occur as a result of changes in the following: Uncollected receivables (interest, Warranty. Useful lives of intangible assets. Actuarial assumptions used in pension and other post-retirement benefits (estimated figure, long-term expected return rate, wage increase rate, expected mortality rates for retirees, increase in medical expenses, etc.). The rules related to changes in accounting assessments are: nothing from the past needs to be changed (i.e. no retroactive changes are required). This change should be reflected in current and future financial statements. Example: Williams purchased the car on January 1, 2002, for \$100,000. His supposed lifespan was set at 10 years, with zero rescue value. On January 1, 2006, the company revised its valuation. Now he expects the machine to be useful for another three years. If a company uses direct depreciation, what is the depreciation amount each year? Amortization based on initial estimates is \$10,000 per year (\$100,000/10). Thus, depreciation for the first four years (2002-2005) is \$10,000 per year. As of January 1, 2006, the accumulated depreciation is \$40,000 (\$10,000 x 4). Thus, the value of the book (the amount left for depreciation) as of January 1, 2006, is \$60,000 (\$100,000-\$40,000). As of 1 January 2006, the revised remaining life is three years. Thus, depreciation from 2006 (to 2008) is \$20,000 per year (\$60,000/3). Table changes in content in the principle of accounting Change of accounting principle involves a change from one generally accepted principle of accounting to another. Below are examples of changes in accounting principles: changing the inventory method from LIFO to FIFO. Change the depreciation method from the straight line method to the double balance reduction method. Changing the way long-term construction contracts are accounted for from a percentage of the completion method to the completed contract method. The rules for changing the accounting principle are as follows: the financial statements for previous periods do not change. The cumulative effect of changing the accounting principle (excluding taxes) is included in the income report for the period in which the changes are made. This is shown after emergency items and up to net income. Income before emergency items and net income on income statement is calculated on the basis of pro-forma (as if the new principle was used in previous periods) for previous years and is displayed in the statement of income for all periods submitted. Example: On January 1, 2002, Spencer purchased equipment worth \$100,000. His estimated lifespan is five years; The company uses a direct depreciation line method. On January 1, 2004, the company decided to rework the double-reduced balance sheet. Ignoring the effects of income tax as will the change be reported in the income declaration? Direct depreciation schedule: Direct line depreciation is \$20,000 per year (\$100,000/5). The method of direct line of accumulated depreciation after two two \$40,000 (\$20,000 x 2). The direct line method of book value after two years is \$60,000 (\$100,000-\$40,000). Double Balance Reduction (DDB) depreciation schedule: Direct line rate each year is 20% (1/5). Thus, the DDB rate is 40%. Year Start book value DDB Bet DDB Depreciation Accumulated depreciation End book value 2002 \$100,000 0.40 \$40,000 \$40,000 \$60,000 20 03 60,000 0.40 24,000 64,000 36,000 Excess depreciation as a result of the DDB method, as of the end of 2003 (or January 1, 2004) is \$24,000 (\$64,000-\$40,000). If the company had used the DDB method throughout, the depreciation in previous years would have been \$24,000 higher. This means that the net income reported in previous years would have been \$24,000 lower, resulting in a non-average profit of \$24,000 lower. In addition, if the company had used the DDB method throughout, the accumulated depreciation would have been \$24,000 higher. Thus, the non-accounting profit account should be reduced and the accumulated depreciation account should be increased. This is achieved through the following log entries: Account debit credit cumulative effect of changes in accounting principle of \$24,000 Accumulated depreciation of 24,000 Cumulative effect included in the income report and reduces net income, thereby reducing the non-regular income of the account. The loan on the accumulated depreciation account increases its balance sheet. If the change comes from the DDB method to the direct line method, the opposite effect occurs. The cumulative effect account would be credited, thereby increasing net income and non-accounting earnings. The accumulated depreciation account would be

written off, thereby reducing its balance sheet. Table Content Influence Taxes If taxes are considered, accounting is substantially similar, but debit or credit to account is a cumulative effect not net of taxes. The balance relates to the impact of taxes, and the deferred tax asset or account of liability is written off or credited as needed. (In some cases, a debit or credit for income tax receivables or payables, if necessary). In Spencer's example, let's assume that a company has always used the DDB method for tax purposes. Please note that the company used a direct line method for financial reporting prior to switching to the DDB method in 2004. (The accounting method used to calculate income tax should not be the same as the method used for financial reporting.) In addition, let's assume that Spencer continues to use the DDB method for after-change tax purposes for direct-to-DDB financial reporting purposes. Because DDB depreciation is \$24,000 higher than direct-line depreciation, depreciation for tax purposes is higher than for financial reporting purposes. That is, taxable income in the past was lower than financial income. This, in queue means that future taxable income will be higher. That's why The company must set deferred tax liabilities of \$7,200 (\$24,000 x 0.30). Once a company decides to change the method from direct line to DDB, deferred tax liabilities no longer apply. Thus, the deferred tax liability account is eliminated with a \$7,200 debit. As before, the accumulated depreciation account is credited with a \$24,000 difference in depreciation arising from the switch. Plug number is a debit on account of the cumulative effect. Thus, the entry in the journal is as follows: The debit credit account Deferred Tax Liabilities \$7200 Cumulative Effect change in accounting principle 16,800 Accumulated depreciation 24,000 Table Contents Change the LIFO Method Suppose the company changed its inventory method from FIFO to LIFO during 2002. This change is due to the beginning of the inventory for the period (as of 1 January 2002). This is because it is extremely difficult to determine changes in the LIFO layers for the previous year or dollar pools. Thus, the start of the LIFO inventory as of 1 January 2002 is expected to be the same as the completion of FIFO inventory as of 31 December 2001. Thus, if the company changes the LIFO method, no cumulative adjustment of the effect is required. This is stated in footnotes to financial statements. The table of content prior to the Restatement period of several specific GAAP situations requires a retroactive regimen for accounting changes. In such cases, the financial statements for previous periods should be reviewed using a new accounting principle. Specific changes include: Switch from LIFO to another inventory accounting method. Changing or changing the full value method used in extractive industries. Changing the way long-term construction contracts are accounted for. Changes made during the initial public offering. Change from fair value method to equity method for investment. Example: Dallas started operations in 2000 and used the LIFO method to account for inventory. In 2002, the company changed LIFO to FIFO for both financial reporting and tax purposes. The following table contains relevant details: Year LIFO IncomeDo Paying Tax FIFO IncomeDo Tax Difference 2000 \$50,000 \$60,000 \$10,000 2001 70,000 82,000 12,000 2002 80,000 95,000 15,000 assuming a tax rate of 30%, prepare the necessary entry in the journal to change the method. Since both previous and new methods have been used for both financial and tax purposes, this change has no deferred tax implications. However, additional taxes may be paid (or receivables) due to a change in the method used for tax purposes. In this case, net profit under the new method previous years are higher by \$22,000 (\$10,000 in 2000 and \$12,000 in 2001). Thus, the income tax to be paid (due to the operations of previous years) is higher under the new method at \$6,600 (30% of \$22,000). In addition, the cost of the final inventory inventory As of December 31, 2001, the use of FIFO will be higher than the corresponding value using LIFO at the same \$22,000. (Note: The company started with the beginning of the zero inventory, and the purchase value is the same for both methods. To account for the higher cost of FIFO inventory, the inventory bill must be charged at \$22,000. To fix the higher tax to be paid, the income tax bill must be credited at \$6,600. The connected number represents an increase in non-disposable profits, which represents an increase in net after-tax income for previous periods and, as a result, an increase in non-disposable income. (Note that the increase occurs at the beginning of the non-accounting profit account balance, as explained later.) Thus, the entry in the journal in 2002 to account for the change is as follows: The account debit credit inventory \$22,000 income tax paid 6600 Unspugable earnings 15,400 Income Reports for 2000 and 2001 should be reintroduced, assuming that the FIFO method was used. Net income for 2000 and 2001 will be higher by \$7,000 and \$8,400, respectively (after tax as a consequence of the change). This means that the end of the balance on the non-waste profit for 2000 will be higher by \$7,000. Since non-spending profit is a permanent expense, its balance sheet ending for 2001 (i.e., the beginning of the 2002 Balance Untold Profit) will be higher by \$15,400 (\$7,000 and \$8,400). (Note: Pro-forma information is not required with a retroactive approach, as the financial statements for previous years are over-coordinated directly.) The error-accounting table arises for a variety of reasons, including: calculation errors (such as inventory errors). Classification (e.g. incorporating goods into the wrong categories, such as classifying current liability as non-criminal liability). Omission of accrual or deferral (e.g. non-payment of warranty expenses). Using the non-GAAP accounting principle. Different types of errors have different consequences: errors that affect only the balance. For example, long-term receivables may be included in current receivables. For such errors, which are usually detected and corrected during the period in which this occurs, you do not need to correct log entries. However, if such an error is not found before the subsequent period, the previous period's financial statements must be corrected by reclassifying the item. Errors that affect only income statements. For example, a sales fee may be included in the wages of the This error does not affect net income, so if it is found in the following period, no correction of log entries is required. However, financial statements for previous periods should be and presented using the correct classification. Mistakes that affect both income statements and balance sheets. Some of these errors are balanced. That is, the error, underestimating the element for one period, automatically overstates it in the next period, but no further consequences after the end of the second period arises. An example would be an error in stock counting at the end of one year, but the correct amount in previous and subsequent years. Other errors do not balance over two periods. Examples include (1) the capitalization and depreciation of an item that must be used in a single period, and (2) the incorrect expenditure of the purchase of a machine, which should be capitalized and depreciated in future periods. The content counterweight table assumes that Olson, which uses the periodic system for inventory, made a mistake in counting the final inventory by the number of December 31, 2001. This error resulted in a \$600 cadastral shortfall on December 31, 2001. The calculation of stocks at the end of 2000 and 2002 was correct. (Income taxes are ignored in this example.) In this case, the understatement of the inventory as of December 31, 2001 results in an overestimation of the value of the goods sold for the year ended December 31, 2001, by \$600. (Explanation: Suppose the start of inventory zero and purchase \$10,000. If the correct completion amount of inventory is \$2,000, the value of the goods sold is \$8,000. However, if the completion of the inventory is considered only \$1,400, the value of the goods sold is calculated at \$8,600.) This, in turn, results in a \$600 decrease in net profit for the year ended December 31, 2001. However, since the inventory as of December 31, 2001 is also the beginning of the 2002 inventory, this error also reduces the value of the goods sold and inflates net profit for the year ended December 31, 2002 by \$600. Thus, at the end of 2002, these two errors overturned or balanced each other. The completion of inventory and non-soluble earnings reports as of 31 December 2002 is correct. If a counterweight error is found next year (in this case during 2002), an adjustment will be made to the non-income account and other affected account. In this example (if an error is found sometime before the end of 2002), the correcting of the log entry is as follows. An understatement error at the end of 2001 resulted in an underbalancing of the inventory account. Fixing this requires increasing your inventory account with a debit. As the inventory for 2001 was undervalued, the net profit for 2001 was undervalued. Thus, the beginning of the balance of non-folding profits is also understated. Fixing this requires an increase in non-open profit accounts through credit. Debit Credit Inventory Account \$ A non-cash profit of 600 However, if a counterweight error is detected only after the next year (i.e., sometime in 2003 in the example), no correcting of the log entry is required. Other Others Counterweight errors include: Wrong record sales for the year made at the end of one year in the second year. If a \$3,000 sale was to be registered at the end of 2003, but was registered in January 2004 and was opened in 2004, The Correction of the Journal entry is as follows: The account of debit credit sales \$2000 Unshitable profit 2000 Debit sales changes the wrong increase in sales of 2004, and credit for non-simple profits increases its first balance in 2004. If the bug was not detected in 2004, but later, a correction of the log entry is not required. Incorrect inventory purchases next year. The logic of fixing this error is the same as it is for fixing sales that were incorrectly posted in the wrong year. If such an error of \$1,200 related to the end of 2003 is discovered in 2004, the correcting entry in the journal is as follows: The account of debit credit sales of \$1,200 Unspacit profit 1200 failure to record accrued expenses or income. Uncertain expenses or unconcerted income. Table derivatives from Content A is a financial instrument that draws its value from changes in its price or any other function (such as interest rate) of some other assets or financial instruments. There are many types of derivatives and they can be used to protect against different types of risk. Some of the common types of derivatives are swaps, futures and options. A swap is a contract under which two parties agree to exchange payments in the future based on the price or value of an item. In exchange for interest, the two companies agree to exchange interest payments related to this loan amount for a certain period in the future. Typically, one party pays interest on a fixed interest rate and the other pays interest based on a rate that changes over time. A futures contract allows a company to buy a certain amount of goods (e.g. corn, wheat, coffee or oil) at a certain price on a specified date in the future. The option gives the owner the right, but not the duty, to sell or buy the item at a certain price at any time up to a certain period in the future. The call option gives the owner the right to buy; The put option gives the owner the right to sell. Companies seeking to protect themselves from future price changes use futures and options. That is, they use these derivatives to hedge against future risks (hedging refers to actions taken to reduce risk). The company does not actually need to purchase a specified item when executing a futures contract or option. The parties to the contract simply exchange the necessary payment. Example: Suppose X entered into a futures contract with Y to buy a product in the future for \$50. The actual price for the contract is in this case, X will pay Y The Difference (\$10) and the contract is considered to be completed. Content accounting table for Sample contracts: On September 1, 2002, Texas Bakery entered into a futures contract to buy 20,000 pounds of sugar at a price of \$0.50 per pound on January 1, 2003. The price of sugar was \$0.50 per pound on September 1, 2002, but was \$0.53 per pound on December 31, 2002, and as of January 1, 2003. The contract was duly completed. Prepare the necessary entries in the journal on: 1) September 1, 2002. 2) December 31, 2002. 3) January 1, 2003. 1. Entry is not required on 1 September 2002, as the fair value of the future is zero on that date. 2. On December 31, 2002, the price changed to \$0.53 per pound. Since this is higher than the contract price at which Texas Bakery contracted to buy (\$0.50 per pound), as of December 31, 2002, Texas Bakery expects to receive a payment of \$600 (\$0.53 - \$0.50 x 20,000). As this amount is expected to offset any change in the price of the item to be purchased in January 2003, the return on the futures contract is not recognized during 2002 and is deferred until 2003. The entry in the Journal on December 31 is as follows: Account debit credit futures contract (asset) \$600 Other comprehensive income 600 Credit for other comprehensive income means that the expected increase is temporarily reported as an increase in equity without including it in the earnings report. 3. On January 1, 2003, when the price is \$0.53 per pound, the contract is fulfilled. The log entries are as follows: To buy 20,000 pounds of sugar at \$0.53 per pound: Sugar Account Of The Inventory of \$10,600 Cash 10600 To Settle Futures Contract: Account Of Debit Credit Cash... 600 Futures Contract (Asset) 600 To recognize the profit on the contract (by moving the benefits of temporary holding in other comprehensive income in the earnings report): Account debit credit Other comprehensive income \$600 Profit on futures contract 6 00 Table Of Content Options Example: October 1, 2002 Boston Cookies entered into an option to buy 10,000 pounds of sugar at a price of \$0.50 per pound on January 1, 2003. The price of sugar was \$0.50 per pound on September 1, 2002, but was \$0.53 per pound on December 31, 2002, and as of January 1, 2003. Boston Cookies paid \$100 to buy the option, and the contract was duly completed. Prepare the necessary entries in the journal on October 1, 2002. 2) December 31, 2002. 3) January 1, 2003. 1. Since \$100 in cash was paid to purchase the option on October 1, 2002, the entry in the magazine is as follows: Sugar Call Option Debit Credit Account (asset) \$100 Cash 100 2. On December 31, 2002, the price was \$0.53 per pound. Because this is above the contract price at which Texas Bakery is required to purchase (\$0.50 per pound), as of December 31, 2002, the call option is valuable. At this price, Boston Cookies expects to receive \$300 (\$0.53 - \$0.50 x 10,000) from the option settlement Thus, the value of the option on December 31, 2002 is \$300. Because the option is currently on the books at \$100, \$200 \$200 the value of the asset must be recorded. The entry in the magazine on December 31 is this: The debit account Credit Sugar Call Option (asset) \$200 Other comprehensive income 200 Debit increases the Sugar Call Option account from \$100 to \$300. A credit for other comprehensive incomes means that the expected increase is temporarily reported as an increase in equity without including it in the 2002 earnings report. 3. The contract is up for the year 1 January 2003. The magazine entries are as follows: To buy 10,000 pounds of sugar at \$0.53 per pound: Account debit Credit Sugar Inventory \$5300 Cash 5300 To settle call option: Cash debit credits account \$300 Sugar Call Option (asset) 300 To recognize the profit under the contract (by moving the profits from the temporary holding in other comprehensive income in income statement) : Account debit credit Other comprehensive income \$200 Profit on call Option 200 Table contents Glossary Table Content Content counterbalancing errors do not include

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