Ex. 7–13

a.

	Balance Sheet
Merchandise inventory	$9,400 ($325,000 – $315,600) understated
Current assets	$9,400 ($325,000 – $315,600) understated
Total assets	$9,400 ($325,000 – $315,600) understated
Owner's equity	$9,400 ($325,000 – $315,600) understated

b.

	Income Statement
Cost of merchandise sold	$9,400 ($325,000 – $315,600) overstated
Gross profit	$9,400 ($325,000 – $315,600) understated
Net income	$9,400 ($325,000 – $315,600) understated

Ex. 7–14

a.

	Balance Sheet
Merchandise inventory	$7,550 ($195,750 – $188,200) overstated
Current assets	$7,550 ($195,750 – $188,200) overstated
Total assets	$7,550 ($195,750 – $188,200) overstated
Owner's equity	$7,550 ($195,750 – $188,200) overstated

b.

	Income Statement
Cost of merchandise sold	$7,550 ($195,750 – $188,200) understated
Gross profit	$7,550 ($195,750 – $188,200) overstated
Net income	$7,550 ($195,750 – $188,200) overstated

Ex. 7–15

When an error is discovered affecting the prior period, it should be corrected. In this case, the merchandise inventory account should be debited and the owner's capital account credited for $11,900.

Failure to correct the error for 2009 and purposely misstating the inventory and the cost of merchandise sold in 2010 would cause the income statements for the two years to not be comparable. The balance sheet at the end of 2010 would be correct, however, since the 2009 inventory error reverses itself in 2010.