Ending Account Balances

Accounting Cycle Part 2

Financial Accounting
(Information useful to investors and creditors.)

The primary tool for investors and creditors are the financial statements to be prepared in accordance with generally accepted accounting principles.

Businesses need an accounting system in place that is designed to generate information to be included in the financial statements.

Basic elements in an accounting system -

All of the transactions of a business must be:

- Identified
- Recorded
- Summarized

Create financial statements.

What kind of a balance, debit or credit, would you typically expect for an asset account at the end of a period?

Stephen's Sweet Shop
Trial Balance

	Debit	Credit
Cash	170	
Inventory	175	
Accounts Receivable	0	
Accounts Payable		0
Notes Payable		200
Capital Stock		100
Retained Earnings		0
Dividends	10	
Sales Revenues		375
Cost of Goods Sold	300	
Rent Expenses	20	
	675	675

Cash

	Debit	Credit
Beg. Balance	0	
	100	225
	200	10
	275	250
	100	20
		200
End. Balance		30

Liability

Notes Payable	210	
Cash		210

Notes Payable

Debit	Credit	
	0	Beg. Balance
	200	
210		
10		End. Balance

Receivable

Ending Account Balances

Solution: Common Account Balances

A. Indicate for the following accounts whether they would typically have a debt or credit balance at the end of an accounting period.

Cash
Accounts Receivable
Accounts Payable
Capital Stock
Retained Earnings
Sales Revenue
Cost of Goods Sold
Dividends

B. What would cause cash to have a credit balance?

C. If cash has a credit balance at the end of the period, is it really an asset?

D. Is it possible for retained earnings to have a debit balance? What would cause such a balance?

Solution: Common Account Balances

A.

	Typical End of Year Balance
Cash	**DR**
Accounts Receivable	**DR**
Accounts Payable	**CR**
Capital Stock	**CR**
Retained Earnings	**CR**
Sales Revenue	**CR**
Cost of Goods Sold	**DR**
Dividends	**DR**

B. If checks are written on cash checking account in excess of the account balance and the bank honors those checks, then a credit balance will result.

C. Such a credit balance is not really an asset. In fact, it is a liability because there is an obligation to the bank to deposit sufficient funds in the account to cover those checks.

Solution: Common Account Balances

D. Retained Earnings is the net result of revenues minus expenses, less dividends. If expenses exceed revenues from inception then there will be a negative or debit balance in retained earnings, which we would call retained losses, cumulative losses, or retained deficit.

Accrual Accounting

The Steps of an Accounting System Designed to Produce Financial Statements

1. Identify each business transaction.
2. Analyze each transaction to determine its effect on the financial position of the business (A=L+OE).
3. Record the transactions and their effect on financial position in a journal (computerized or hard copy record).
4. Summarize the effect of all transactions on each account by posting the journal entries to the general ledger.
5. Prepare a trial balance.
6. Journalize and post to the general ledger any necessary **adjusting entries** at the end of the period.

Accrual Basis Accounting

Accrual basis accounting deals with the timing of revenues and expenses and comprises the following two principles:

1. **Revenue Recognition Principle:** timing of revenues
   Revenues are to be recognized/recorded in the period in which they are ***earned***, not necessarily when cash is received.
2. **Matching Principle:** timing of expenses
   Expenses are to be recognized in the period in which those costs provide benefit to the business operations. In other words, expenses are to be matched against the revenues that they helped produce and not necessarily in the period in which cash is paid.

Example: Inventory costing **$50,000** is purchased on **12/15/X1** with half paid in cash at the date of purchase and half to be paid on **1/1/X2**. The inventory is sold to a customer for **$90,000** on account on **12/31/X1**. Collection of the **$90,000** receivable takes place on **1/15/X2**. The recording of these transactions would be:

'X1

12/15/X1

Inventory	50,000	
Cash		25,000
Accounts Payable		25,000

12/31/X1

Accounts Receivable	90,000	
Sales Revenues		90,000
Cost of Goods Sold	50,000	
Inventory		50,000

'X2

1/1/X2

Accounts Payable	25,000	
Cash		25,000

1/15/X2

Cash	90,000	
Accounts Receivable		90,000

Income Statements:

	Accrual Basis	Cash Basis
20X1:		
Sales Revenues	$ 90,000	$ 0
Cost of (Inventory) Goods Sold	50,000	25,000
Profit (Loss) on Sale	$ 40,000	$ (25,000)
20X2:		
Sales Revenues	$ 0	$ 90,000
Cost of (Inventory) Goods Sold	0	25,000
Profit on Sale	$ 0	$ 65,000
Combined Profit for X1 and X2	$ 40,000	$ 40,000

Cash basis accounting is used for personal income taxation.

- Allowed by IRS
- Ability to pay concept

There are opportunities for income manipulation through cash basis accounting.

Why is accrual basis required for GAAP?

Accrual Accounting

The Steps of an Accounting System Designed to Produce Financial Statements

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'X1

12/15/X1

Inventory	50,000	
Cash		25,000
Accounts Payable		25,000

12/31/X1

Accounts Receivable	90,000	
Sales Revenues		90,000
Cost of Goods Sold	50,000	
Inventory		50,000

'X2

1/1/X2

Accounts Payable	25,000	
Cash		25,000

1/15/X2

Cash	90,000	
Accounts Receivable		90,000

Income Statements:

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Adjusting Journal Entries

Accrual Basis Accounting

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Adjusting Entries Required to Comply with Accrual Basis Accounting

1. Prepaid Expenses:

Example: Assuming a company pays an insurance premium of **$1,200** on **10/1/X1** for 12 months of coverage extending through **10/1/X2** the original journal entry would be:

10/1/X1:		
Prepaid Insurance Expense	1,200	
Cash		1,200

Adjusting entry required at year-end:

12/31/X1:		
Insurance Expense	300	
Prepaid Insurance Expense		300

What should be the balance in the Prepaid Insurance Expense account after the year-end adjusting entry?

Prepaid Insurance Expense

Debit		Credit	
10/1/X1	1,200	300	12/31/X1 Adjust
12/31/X1 Balance	900		

If the proper adjusting entry had not been made, then the following would have been over or understated?

1. Assets	OVER
2. Expenses	UNDER
3. Net Income	OVER
4. Retained Earnings	OVER
5. Owners' Equity	OVER

What principle of accounting requires the adjusting entry in this case?

Matching Principle

Example: Assuming a company pays property taxes of $3,600 on 3/1/X1 for the tax period (1 year) through 2/28/X2, the original journal entry would be:

3/1/X1:		
Prepaid Property Tax Expense	3,600	
Cash		3,600

Adjusting entry required at year-end:

12/31/X1:		
Property Tax Expense	3,000	
Prepaid Property Tax Expense		3,000

What should be the balance in the Prepaid Property Tax Expense account after the year-end adjusting entry?

Prepaid Property Tax Expense

Debit		Credit	
3/1/X1	3,600	3,000	12/31/X1 Adjust
12/31/X1 Balance 2 mo. x $300	600		

Problem: Adjusting Journal Entries

A) For the following transactions, prepare the original journal entry and any adjusting entries at **12/31/X1** required to comply with accrual basis accounting. (Assume payments for both transactions are properly recorded as "Prepaid Expenses.")

i. Rent amounting to **$2,400** (**$400**/per month) is prepaid on **8/1/X1** for the following six months' rental cost and properly accounted for as "Prepaid Rent Expense." (In this problem you are accounting from the perspective of the tenant.)

ii. A one year insurance premium totaling **$1,200** is prepaid on **11/1/X1** for insurance coverage through **11/1/X2**.

Problem: Adjusting Journal Entries

Additional questions:

B) Determine the correct balance of prepaid rent expense and prepaid insurance expense after adjustment of **12/31/X1**.

C) What principle of accounting required the **12/31/X1** adjusting entries in this case?

D) If the proper **12/31/X2** adjusting entries had not been made, then the following would have been over or understated:

Assets
Expenses
Net Income
Retained Earnings
Owner Equity
Liabilities

Adjusting Journal Entries

Solution: Adjusting Journal Entries

A)i. **8/1/X1** Original Entry:

Prepaid Rent Expense	2,400	
Cash		2,400

12/31/X1 Adjusting Entry:

Rent Expense	2,000	
Prepaid Rent Expense		2,000

A)ii. **11/1/X1** Original Entry:

Prepaid Insurance Expense	1,200	
Cash		1,200

12/31/X1 Adjusting Entry:

Insurance Expense	200	
Prepaid Insurance Expense		200

Solution: Adjusting Journal Entries

B. Prepaid Rent Expense
@ **12/31/X1** = **$400**

Prepaid Rent Expense

8/1/X1	2,400		
		2,000	12/31/X1 Adjust
Balance	400		

or

1 month future benefit = 1 x $400 = $400

Prepaid Insurance Expense
@ **12/31/X1** = **$1,000**

Prepaid Insurance Expense

11/1/X1	1,200		
		200	12/31/X1
Balance	1,000		

or

10 months of future benefit = 10 x $100/month = $1,000

Solution: Adjusting Journal Entries

C. Matching Principle

D.

	Over or Understated
Assets	Over
Expenses	Under
Net Income	Over
Retained Earnings	Over
Owners' Equity	Over
Liabilities	No effect

Unearned Revenues:

Example: Assuming a company receives **$3,000** of cash in advance on **12/1/X1** from a client for consulting services to be provided by the company equally over the next three months, the original entry would be:

12/1/X1:

Cash	3,000	
Unearned Fee Revenues		3,000

Adjusting entry required at year-end:

12/31/X1:

Unearned Fee Revenues	1,000	
Fee Revenues		1,000

What should be the balance in the Unearned Fee Revenue account following the proper year-end adjusting entry?

Unearned Fee Revenues

		3,000	12/1/X1
12/31/X1 Adjust	1,000		
		2,000	12/31/X1 Balance (2 mo. × $1,000)

If the proper adjusting entry had not been made at year-end, then the following would have been under or overstated?

1. Liabilities	OVER
2. Revenues	UNDER
3. Net Income	UNDER
4. Retained Earnings	UNDER
5. Owners' Equity	UNDER

A = **L** + **OE**

No change $\uparrow$ $\downarrow$

What principle of accounting requires the adjusting entry in this case?

Revenue Recognition

12/1/X1:

Cash	3,000	
Unearned Fee Revenues		3,000

Adjusting entry required at year-end:

12/31/X1:

Unearned Fee Revenues	1,000	
Fee Revenues		1,000

Adjusting Journal Entries

Example: Assuming a company receives $3,000 of cash in advance on 8/1/X1 from a tenant for six months rent through 1/31/X2, the original entry would be:

8/1/X1:

Cash	3,000	
Unearned Rent Revenue		3,000

Adjusting entry required at year-end?

12/31/X1:

Unearned Rent Revenue	2,500	
Rent Revenue		2,500

What should be the balance in the Unearned Rent Revenue account following the proper year-end adjusting entry?

Unearned Rent Revenue

		3,000	12/1/X1
12/31/X1 Adjust	2,500		
		500	12/31/X1 Balance

Problem: Adjusting Journal Entry - Unearned Revenue

A. Prepare the original journal entries and the required 12/31/X1 adjusting entries for the transactions described in the previous problem as noted below from the perspective of the landlord and the insurance company, respectively. Assume the original entries were properly recorded as "unearned revenue".

i. Rent amounting to $2,400 ($400/per month) is received in advance on 8/1/X1 for the following six months' rent.

ii. A one year insurance premium totaling $1,200 is received in advance on 11/1/X1 for insurance coverage provided through 11/1/X2.

Additional questions:

B. What principle of accounting requires the adjusting entries in these cases?

Problem: Adjusting Journal Entry - Unearned Revenue

C. If the proper 12/31/X1 adjusting entries had not been made, then the following would be over or understated for the landlord and insurance company:

Assets
Revenues
Net Income
Retained Earnings
Owner's Equitvy
Liabilities

Solution: Adjusting Journal Entry - Unearned Revenue

A. Prepare the original journal entries and the required 12/31/X1 adjusting entries for the transactions described in the previous problem from the perspective of the landlord and the insurance company, respectively. Assume the original entries were properly recorded as "unearned revenue".

i. Rent amounting to $2,400 ($400/per month) is received in advance on 8/1/X1 for the following six months' rental cost.

8/1/X1 Original Entry:

Cash	2,400	
Unearned Rent Revenue		2,400

12/31/X1 Adjusting Entry:

Unearned Rent Revenue	2,000	
Rent Revenue		2,000

Solution: Adjusting Journal Entry - Unearned Revenue

A. Prepare the original journal entries and the required 12/31/X1 adjusting entries for the transactions described in the previous problem from the perspective of the landlord and the insurance company, respectively. Assume the original entries were properly recorded as "unearned revenue".

ii. A one year insurance premium totaling $1,200 is prepaid on 11/1/X1 for insurance coverage through 11/1/X2.

11/1/X1 Original Entry:

Cash	1,200	
Unearned Premium Revenue		1,200

12/31/X1 Adjusting Entry:

Unearned Premium Revenue	200	
Premium Revenue		200

Solution: Adjusting Journal Entry - Unearned Revenue

B. What principle of accounting requires the adjusting entries in these cases? **Revenue Recognition Principle**

C. If the proper 12/31/X1 adjusting entries had not been made, then the following would be over or understated for the landlord and insurance company:

	Over or Understated
Assets	**No effect**
Revenues	**Under**
Net Income	**Under**
Retained Earnings	**Under**
Owners' Equity	**Under**
Liabilities	**Over**

Adjusting Journal Entries

Unpaid and Unrecorded Expenses:

Example: A company has employees work for the full month of 12/X1 but pays the $10,000 wage payroll for December on 1/15/X2. Assuming that at 12/31/X1 these wages have not been recorded in the company's books or records, what adjusting entry should be made on 12/31/X1?

Adjusting Entry at 12/31/X1:

Wage Expense	**10,000**	
Wage Payable		**10,000**

If the proper adjusting entry had not been made, then the following would have been over or understated?

1. Liabilities UNDER
2. Expenses UNDER
3. Net Income OVER
4. Retained Earnings OVER
5. Owners' Equity OVER

Uncollected and Unrecorded Revenues:

Example: A company has earned $500 of interest on a loan as of the end of the year X1. What adjusting entry should be made as of 12/31/X1 assuming the interest is unrecorded and collection is expected in X2?

Adjusting entry at 12/31/X1:

Interest Receivable	**500**	
Interest Income (Revenue)		**500**

What principle of accounting requires this adjusting entry at the end of the year?

Revenue Recognition

If the company failed to make this adjustment at the end of the year, then net income would be over or understated?

Understate Revenues = Understate Net Income

Problem: Adjusting Journal Entries - Unrecorded Expenses and Revenues

Given the following two fact circumstances:

A. Prepare the proper adjusting entries at **12/31/X1** for i. and ii. below to comply with accrual basis accounting.

i. Utility costs for any month are paid on the 15th of the following month. December's utilities amounted to **$10,000** and were unpaid and unrecorded as of **12/31/X1**.

ii. Consulting services were provided to a customer in December. At **12/31/X1** these consulting fees amounting to **$2,000** had not been received from the customer or recorded in the books.

Additional questions:

B. What specific accounting principles require the entries for i. and ii., respectively.

C. A failure to make the necessary entry for ii. above would cause net income to be over or understated?

Solution: Adjusting Journal Entries - Unrecorded Expenses and Revenues

A)i.

Utilities Expense	**10,000**	
Utilities Payable		**10,000**

ii.

Consulting Fees Receivable	**2,000**	
Consulting Fee Revenue		**2,000**

B. Matching Principle and Revenue Recognition Principle, respectively.

C. Understated.

Closing Entries

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3. Record the transactions and their effect on financial position in a journal (computerized or hard copy record).
4. Summarize the effect of all transactions on each account by posting the journal entries to the general ledger.
5. Prepare a trial balance.
6. Journalize and post to the general ledger any necessary adjusting entries at the end of the period.
7. Prepare the financial statements.
8. Journalize and post closing entries.

Real vs. Nominal Accounts

Real Accounts: All accounts which appear on a balance sheet (assets, liabilities, capital stock, and retained earnings) are referred to as real accounts, meaning that the balance of the account is a cumulative running balance reflecting all transactions affecting that account since the inception of the business.

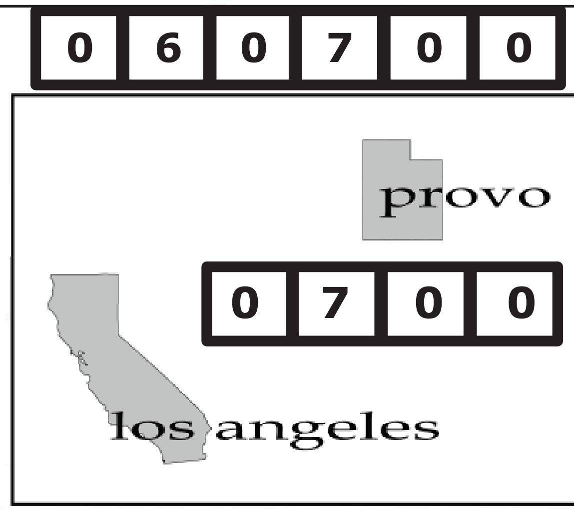
Cash

1/1/X4	**0**	
'X4 Transactions	**102,000**	**100,000**
12/31/X4	**2,000**	
'X5 Transactions	**130,000**	**126,000**
12/31/X5	**6,000**	
'X6 Transactions	**151,000**	**153,000**
12/31/X6	**4,000**	

Income Statement Accounts

Sales Revenues

	0	**1/1/X4**
	550,000	**'X4** Transactions
	550,000	**12/31/X4**
	650,000	**'X5** Transactions
	1,200,000	**12/31/X5**
	700,000	**'X6** Transactions
	1,900,000	**12/31/X6**



Sales Revenues

		0	**1/1/X4**
		550,000	**'X4** Transactions
		550,000	**12/31/X4**
Closing Entry	**550,000**		
		0	**1/1/X5**
		650,000	**'X5** Transactions
		650,000	**12/31/X5**
Closing Entry	**650,000**		
		0	**1/1/X6**

Closing Entry at 12/31/X5:

Sales Revenues	**650,000**	
Retained Earnings		**650,000**

Nominal Account: All income statement accounts (revenues and expenses) and even the dividends account does not maintain a cumulative running balance from inception, but instead accumulates amounts period by period (usually year by year) and, as a result, are referred to as nominal rather than real accounts.

Nominal accounts are closed at the end of an accounting period and their amounts are transferred to Retained Earnings.

Closing Entries

Closing entries are made at the end of an accounting period to accomplish two objectives:

1. All revenue, expense, and dividend accounts must be reset to zero to start the next accounting period.

2. The Retained Earnings account must be updated to include the amount of net income (revenues - expenses) less dividends for the current year.

Example: Given the following trial balance at 12/31/X2 after adjusting entries at the end of the year, prepare the necessary closing entries before the start of the next accounting period:

Ending Adjusted Balances From General Ledger

	Debits	Credits
Cash	10,000	
Accounts Receivable	15,000	
Buildings	40,000	
Accounts Payable		17,000
Notes Payable		23,000
Capital Stock		5,000
Retained Earnings at 12/31/X1		10,000
Dividends	5,000	
Sales Revenues		80,000
Cost of Goods Sold	50,000	
Wage Expense	15,000	
	135,000	135,000

CLOSING ENTRIES

Sales Revenues

Debit	Credit
	xxx 80,000
CE 80,000	
	0

Cost of Goods Sold

Debit	Credit
xxx 50,000	
	50,000 CE
0	

Wage Expense

Debit	Credit
xxx 15,000	
	15,000 CE
0	

Dividends

Debit	Credit
xxx 5,000	
	5,000 CE
0	

Account	Debit	Credit
Sales Revenues	80,000	
Retained Earnings		80,000
Retained Earnings	50,000	
Cost of Goods Sold		50,000
Retained Earnings	15,000	
Wage Expense		15,000
Retained Earnings	5,000	
Dividends		5,000

Retained Earnings

Debit	Credit
	10,000 12/31/X1
	80,000 CE
CE 50,000	
CE 15,000	
CE 5,000	
	20,000 12/31/X2

Alternative approach to closing entries:

Account	Debit	Credit
Sales Revenues	80,000	
Cost of Goods Sold		50,000
Wage Expense		15,000
Retained Earnings		15,000
Retained Earnings	5,000	
Dividends		5,000

Retained Earnings

Debit	Credit
	10,000 1/1/X2
	15,000 Net Income
Dividends 5,000	
	20,000 12/31/X2

Statement of Retained Earnings:

Retained Earnings, 1/1/X2	$10,000
Add: Net Income for 'X2	15,000
Less: Dividends for 'X2	(5,000)
Retained Earnings, 12/31/X2	$20,000

Problem: Closing Entries

East Coast Company's first year of operations is in the year 20X1. The company's trial balance as of August 31, 20X2 and 20X1, are shown as follows:

East Coast Company

Trial Balance August 31, 20X2 and 20X1

	20X2 Debits	20X2 Credits	20X1 Debits	20X1 Credits
Cash	33,400		12,500	
Accounts Receivable	6,400		7,500	
Inventory	2,800		8,600	
Accounts Payable		1,900		
Land			14,800	
Capital Stock		36,600		36,600
Dividends	500		500	
Retained Earnings (Balances at beginning of years)		6,800		-0-
Sales Revenue		21,200		33,500
Cost of Goods Sold	12,000		16,400	
Office Expense	1,400		1,400	
Salaries Expense	10,000		8,400	
Totals	66,500	66,500	70,100	70,100

Required: A. Prepare the journal entries to close the books as of August 31, 20X1.
B. In 20X2, the company suffered a net loss, which reduced Retained Earnings. Prepare closing entries as of August 31, 20X2. How much was the loss? Can a company pay dividends even in a year in which there was no profit?

Answer: Closing Entries

A.

Account	Debit	Credit
Sales Revenues	33,500	
Retained Earnings		33,500
Retained Earnings	16,400	
Cost of Goods Sold		16,400
Retained Earnings	1,400	
Office Expense		1,400
Retained Earnings	8,400	
Salaries Expense		8,400
Retained Earnings	500	
Dividends		500

Retained Earnings

Debit	Credit
	0 Beginning Balance
	33,500
16,400	
1,400	
8,400	
500	
	6,800 8/31/X1 Balance

Closing Entries

Answer: Closing Entries

Alternative Approach:

Sales Revenues	33,500	
Cost of Goods Sold		16,400
Office Expense		1,400
Salaries Expense		8,400
Retained Earnings		7,300
Retained Earnings	500	
Dividends		500

Retained Earnings

	0 Beginning Balance
	7,300
500	
	6,800 8/31/X1 Balance

Answer: Closing Entries

B.

Sales Revenues	21,200	
Retained Earnings		21,200
Retained Earnings	12,000	
Cost of Goods Sold		12,000
Retained Earnings	1,400	
Office Expense		1,400
Retained Earnings	10,000	
Salaries Expense		10,000
Retained Earnings	500	
Dividends		500

Retained Earnings

	6,800	9/1/X1
	21,200	
500		
12,000		
1,400		
10,000		
500		
	4,100	8/31/X2

Answer: Closing Entries

Alternative Approach:

Retained Earnings	2,200	
Sales Revenues	21,200	
Cost of Goods Sold		12,000
Office Expense		1,400
Salaries Expense		10,000
Retained Earnings	500	
Dividends		500

Retained Earnings

	6,800	9/1/X1
2,200		
500		
	4,100	8/31/X2

Questions:

- The **20X2** loss was **$2,200**.
- A company may pay dividends in a year of losses only if and to the extent there are retained earnings from prior years.

Account Analysis

Account Analysis

Understanding the transactions that affect various accounts

Example:

Accounts Receivable

Beg. Balance	10,000		
A.	50,000		
		45,000	B.
End. Balance	15,000		

A. Sales made on account:

Accounts Receivable	50,000	
Sales Revenue		50,000

B. Cash Collections on Accounts Receivable:

Cash	45,000	
Accounts Receivable		45,000

Example:

Given the following information:

Beginning balance of office supplies	$2,000
Ending balance of office supplies	$2,500
Office supplies purchased during the period	$4,000

Calculate office supplies expense for the period.

Office Supplies

Beg. Balance	2,000		
A.	4,000		
		3,500	B.
End. Balance	2,500		

A. Purchased office supplies:

Office Supplies	4,000	
Cash (A/P)		4,000

B. Office supplies used up:

Office Supplies Expense	3,500	
Office Supplies		3,500

Account Analysis

Example:

Given the following information:

Beg. balance of accounts payable	$ 25,000
End. balance of accounts payable	23,000
Cash payments on accounts payable made during the period	40,000

Determine the amount of inventory purchases made on account during the period.

Accounts Payable

		25,000	Beg. Balance
Payments on accounts payable A.	40,000	38,000	B. Purchases of inventory on Account
		23,000	End. Balance

A. Payments on Accounts Payable

Accounts Payable	40,000	
Cash		40,000

B. Inventory Purchases on Account:

Inventory	38,000	
Accounts Payable		38,000

Problem: Account Analysis - Prepaid Insurance

Determine the amount of insurance expense in **20X3** if all insurance premiums are prepaid and given the following information:

Prepaid Insurance, **1/1/X3**	**$1,500**
Prepaid Insurance, **12/31/X3**	**$1,700**
Premium payments in **20X3**	**$2,000**

Account Analysis

Answer: Account Analysis - Prepaid Insurance

Prepaid Insurance

1/1/X3	1,500		
A.	2,000		
		1,800	B.
12/31/X3	1,700		

A. Prepaid Insurance	2,000	
Cash		2,000

B. Ins. Expense	1,800	
Prepaid Ins.		1,800

Insurance expense in **20X3** = **$1,800**

Problem: Account Analysis - Inventory

Determine the total amount of inventory purchases for **20X3** given the following information:

Inventory at **1/1/X3**	**$25,000**
Inventory at **12/31/X3**	**$23,000**
Cost of Goods Sold for **20X3**	**$100,000**

Account Analysis

Answer: Account Analysis - Inventory

Inventory			
1/1/X3	25,000		
A.	98,000		
		100,000	B.
12/31/X3	23,000		

A. Inventory	98,000		B. Cost of Goods Sold	100,000	
Cash (A/P)		98,000	Inventory		100,000

Inventory Purchases in 20X3 = $98,000