1. Lower-of-cost-or-market.

At 12/31/10, the end of Jenner Company's first year of business, inventory was $4,100

and $2,800 at cost and at market, respectively.

Following is data relative to the 12/31/11 inventory of Jenner:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Original |  | Net | Net Realizable | Appropriate |
|  | Cost | Replacement | Realizable | Value Less | Inventory |
| Item | Per Unit | Cost | Value | Normal Profit | Value |
| A | $.65 | $.45 |  |  |  |
| B | .45 | .40 |  |  |  |
| C | .70 | .75 |  |  |  |
| D | .75 | .65 |  |  |  |
| E | .90 | .85 |  |  |  |

Selling price is $1.00/unit for all items. Disposal costs amount to 10% of selling price and a "normal" profit is 30% of selling price. There are 1,000 units of *each item* in the 12/31/11 inventory.

**Instructions**

(a) Prepare the entry at 12/31/10 necessary to implement the lower-of-cost-or-market

procedure assuming Jenner uses a contra account for its balance sheet.

(b) Complete the last three columns in the 12/31/11 schedule above based upon the

lower-of-cost-or-market rules.

(c Prepare the entry(ies) necessary at 12/31/11 based on the data above.

(d) How are inventory losses disclosed on the income statement?

2. Retail inventory method.

When you undertook the preparation of the financial statements for Telfer Company at January 31, 2011, the following data were available:

|  |  |  |
| --- | --- | --- |
|  | At Cost | At Retail |
| Inventory, February 1, 2010 Markdowns | $70,800 | $ 98,500 35,000 |
| Markups |  | 63,000 |
| Markdown cancellations |  | 20,000 |
| Markup cancellations |  | 10,000 |
| Purchases | 219,500 | 294,000 |
| Sales |  | 345,000 |
| Purchases returns and allowances | 4,300 | 5,500 |
| Sales returns and allowances |  | 10,000 |

**Instructions**

Compute the ending inventory at cost as of January 31, 2011, using the retail method which approximates lower of cost or market. Your solution should be in good form with amounts clearly labeled