At December 31, 2010, Dwight Corporation reported current assets of $390,000 and current liabilities of $200,000. The following items may have been recorded incorrectly. Dwight uses the periodic method.

1. Goods purchased costing $22,000 were shipped f.o.b. shipping point by a supplier on December 28. Dwight received and recorded the invoice on December 29, 2010, but the goods were not included in Dwight's physical count of inventory because they were not received until January 4, 2011.
2. Goods purchased costing $20,000 were shipped f.o.b. destination by a supplier on December 26. Dwight received and recorded the invoice on December 31, but the goods were not included in Dwight's 2010 physical count of inventory because they were not received until January 2, 2011.
3. Goods held on consignment from Kishi Company were included in Dwight's December 31, 2010, physical count of inventory at $13,000.
4. Freight-in of $3,000 was debited to advertising expense on December 28, 2010.

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| **(a)** | Compute the current ratio based on Dwight's balance sheet. ***(Round answer to 2 decimal places, e.g. 5.10.)*** |

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| --- | --- |
| Current ratio | : 1 |

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| **(b)** | Recompute the current ratio after corrections are made. ***(Round answer to 2 decimal places, e.g. 5.10.)*** |

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| Current ratio | : 1 |

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| **(c)** | By what amount will income (before taxes) be adjusted up or down as a result of the corrections? |
|   |   |
|   | $ |

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| The following independent situations relate to inventory accounting. Answer each of the questions below about inventories.

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| Kim Co. purchased goods with a list price of $175,000, subject to trade discounts of 20% and 10%, with no cash discounts allowable. How much should Kim Co. record as the cost of these goods? $

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| Keillor Company's inventory of $1,100,000 at December 31, 2010, was based on a physical count of goods priced at cost and before any year-end adjustments relating to the following items. 1. Goods shipped from a vendor f.o.b. shipping point on December 24, 2010, at an invoice cost of $69,000 to Keillor Company were received on January 4, 2011.
2. The physical count included $29,000 of goods billed to Sakic Corp. f.o.b. shipping point on December 31, 2010. The carrier picked up these goods on January 3, 2011.

What amount should Keillor report as inventory on its balance sheet? $

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| Zimmerman Corp. had 1,500 units of part M.O. on hand May 1, 2010, costing $21 each. Purchases of part M.O. during May were as follows.

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | Units | Unit Cost |
|   | May 9 | 2,000 | $22.00 |
|   |       17 | 3,500 |   23.00 |
|   |       26 | 1,000 |   24.00 |

A physical count on May 31, 2010, shows 2,000 units of part M.O. on hand. Using the FIFO method, what is the cost of part M.O. inventory at May 31, 2010? Using the LIFO method, what is the inventory cost? Using the average cost method, what is the inventory cost?

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| --- | --- |
| FIFO inventory cost | $ |
| LIFO inventory cost | $ |
| Average cost | $ |

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| Ashbrook Company adopted the dollar-value LIFO method on January 1, 2010 (using internal price indexes and multiple pools). The following data are available for inventory pool A for the 2 years following adoption of LIFO.

|  |  |  |  |
| --- | --- | --- | --- |
|   | Inventory | At Base-Year Cost | At Current-Year Cost |
|   | 1/1/10 | $200,000 | $200,000 |
|   | 12/31/10 |   240,000 |   264,000 |
|   | 12/31/11 |   256,000 |   286,720 |

Computing an internal price index and using the dollar-value LIFO method, at what amount should the inventory be reported at December 31, 2011?

|  |  |
| --- | --- |
| Price index (12/31/10) |    |
| Price index (12/31/11) |    |
| Dollar-value LIFO inventory (12/31/10) | $ |
| Dollar-value LIFO inventory (12/31/11) | $ |

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| Donovan Inc., a retail store chain, had the following information in its general ledger for the year 2010.

|  |  |  |
| --- | --- | --- |
|   | Merchandise purchased for resale | $909,400 |
|   | Interest on notes payable to vendors | 8,700 |
|   | Purchase returns | 16,500 |
|   | Freight-in | 22,000 |
|   | Freight-out | 17,100 |
|   | Cash discounts on purchases | 6,800 |

What is Donovan's inventoriable cost for 2010? $ |

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Dover Company began operations in 2010 and determined its ending inventory at cost and at lower of cost or market at December 31, 2010, and December 31, 2011. This information is presented below.

|  |  |  |  |
| --- | --- | --- | --- |
|   |   | Cost | Lower-of-Cost-or-Market |
|   | 12/31/10 | $346,000 |   | $322,000 |   |
|   | 12/31/11 | 410,000 |   | 390,000 |   |

|  |  |
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| **(a)** | Prepare the journal entries required at December 31, 2010, and December 31, 2011, assuming that the inventory is recorded at market, and a perpetual inventory system (direct method) is used. |

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|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Description/Account** | **Debit** | **Credit** |
| 12/31/10 |  |   |   |
|   |         |   |  |
| 12/31/11 |  |  |   |
|   |          |   |  |

|  |  |
| --- | --- |
| **(b)** | Prepare journal entries required at December 31, 2010, and December 31, 2011, assuming that the inventory is recorded at cost and an allowance account is adjusted at each year-end under a perpetual system. |

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| --- | --- | --- | --- |
| **Date** | **Description/Account** | **Debit** | **Credit** |
| 12/31/10 |  |  |   |
|   |         |   |  |
| 12/31/11 |  |  |   |
|   |          |   |  |

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| --- | --- |
| **(c)** | Which of the two methods above provides the higher net income in each year? |
|   |   |
|   |  |