Inventory flow assumptions

Gamekeeper uses a perpetual inventory system. On January 10, 2001, the company had 90 units of a particular product on hand, with a total cost of $2,430. The per-unit costs were:

Date	Purchase Quantity	Unit Cost	Total Cost
Ending inventory, 2000	30	$25	$ 750
Jan. 1	60	28	1,680
Total on hand	90		$2,430

On January 10, 2001, Gamekeeper sold *60* units of this product.

Using the three flow assumptions listed below, compute (1) the cost of goods sold, and (2) the cost of the inventory of this product on hand *after* this sale. Show your computations.

a *Average cost:*

(1) Cost of goods sold $__________

(2) Inventory remaining after sale $__________

b *LIFO:*

(1) Cost of goods sold $__________

(2) Inventory remaining after sale $__________

c *FIFO:*

(1) Cost of goods sold $__________

(2) Inventory remaining after sale $__________

Calculations:

2 **Lower-of-cost-or-market**

Aqua Filter sells a single product. At December 31, the company's perpetual inventory records indicate 3,500 units on hand with a total cost (FIFO basis) of $175,000. The replacement cost of this product at this date is $45 per unit.

Prepare journal entries to record (a) the write-down of the inventory to the lower-of-cost-or-market value at December 31, and (b) the cash sale of 100 units on January 4 at a retail price of $60 per unit.

Date	General Journal		
19__			
a			
Dec. 31			

Calculations:

3 **Periodic inventory systems**

Fashion World uses a periodic inventory system. The beginning inventory of a particular product, and the purchases during the current year, were as follows:

Jan. 1	Beginning inventory	400	units @	$ 9.00	= $ 3,600
Feb. 15	Purchase	1,000	units @	$ 9.50	= 9,500
June 30	Purchase	1,400	units @	$10.00	= 14,000
Nov. 25	Purchase	1,200	units @	$10.25	= 12,300
Total available for sale in year		4,000	units		$39,400

At December 31, the ending inventory of this product consisted of *1,500* units.

Determine the cost of the year-end inventory and the cost of goods sold for this product under each of the following methods of inventory valuation:

		Inventory at Dec. 31	Cost of Goods Sold
a	Average cost	$______________	$______________
b	First-in, first-out	$______________	$______________
c	Last-in, first-out	$______________	$______________

Calculations:

4 **Gross profit method**

The Blue Cactus is a furniture company that uses a periodic inventory system. On February 8, 2001, a fire destroyed all the furniture on display in the company's main showroom. Fortunately, $130,000 of the company's inventory was located in a separate warehouse and was not damaged by the fire.

Blue Cactus now is attempting to determine the cost of the merchandise destroyed in the fire from the following information:

Net sales during 2001, through February 8	$575,000
Ending inventory, December 31, *2000*	185,000
Purchases in 2001 through February 8	325,000
Historical rate of gross profit	40%

Compute the following (show computations):

a The cost of goods *available for sale* through February 8, 2001.

$________________

b The *cost of goods sold* in 2001 through February 8.

$________________

c The estimated *total inventory* on hand on February 8, prior to the fire.

$________________

d The *cost of the inventory lost* in the fire.

$________________

5 **Retail method**

Creative Images uses the retail method to estimate ending inventory in its monthly financial statements. The following information is available for the month ended May 31:

	Cost	Retail
Sales		$500,000
Inventory, May 1	$380,500	$600,000
Net purchases	159,500	300,000
Goods available for sale	$540,000	$900,000

Using the retail method:

a Determine the cost ratio that should be used in estimating the inventory at May31.

________________%

b Estimate the cost of the inventory at May 31. $________________

c Estimate the cost of goods sold for **May** $________________

6. On 1 September 20X1, Lawrence Grange Company issued a note to Xandau Corporation for $200,000 to settle an account. The note provides for a one year term with interest at the rate of (% payable to Xandau at maturity. The interest rate is specifically stated in the note.

a. What is the amount that Xandau will receive at maturity on 1 September 20X2?

b. What is the interest income that Xandau must recognize in the year 20X1?

c. Show Xandau's adjusting entry a the end of year 20X1.

d. Show Xandau's entry to record receipt of the note proceeds when it comes due at maturity.

7. Why is control an important issue in accounting. Give three examples of specific accounting controls and the purpose of each.

8. You are to complete the May 31 bank reconciliation for Laclede Towne Center using the following information:

a. Outstanding checks:
   No. 975......... $1,360
   No. 991......... 200
   No. 1073........ 1,200

b. Check no. 1018 (for Repair Expense) was written for $328 but erroneously recorded in Laclede's records as $238. Difference.. 90

c. Deposit in transit........ $2,370

d. Note collected by bank as Laclede's agent (no interest)............. 6,400

e. NSF check of M.T. Pott 840

f. Bank service charge........ 30

LACLEDE TOWNE CENTER
Bank Reconciliation
May 31, 19__

Balance per bank statement, May 31.............. $21,130
Add:

$

Less:

Adjusted balance.............................. $

Balance per depositor's records, May 31......... $15,300
Add:

$

Less:

Adjusted balance (as above).................... $

Give in general journal form the entry or entries necessary to correct Laclede Towne's records as of May 31. (Explanations may be omitted; one compound journal entry is acceptable.)

19__	GENERAL JOURNAL	Debit	Credit
May 31			