WEYGANDT ACCOUNTING PRINCIPLES 9E CHAPTER 6 INVENTORIES

Number	SO	BT	Difficulty	Time (min.)
BE1	1	С	Simple	4–6
BE2	2	К	Simple	2–4
BE3	2	AP	Simple	4–6
BE4	2	AP	Simple	2–4
BE5	3	AP	Simple	2–4
BE6	3	AP	Moderate	6–8
BE7	4	AP	Simple	4–6
BE8	5	AN	Simple	4–6
BE9	6	AP	Simple	4–6
BE10	7	AP	Simple	8–10
BE11	8	AP	Simple	4–6
BE12	8	AP	Simple	4–6
DI1	1	AN	Simple	40.UN
DI2	2	AP	Simple	6-8
DI3	5	AP	Ste St	6–8
DI4	6	AP	Simple	4–6
EX1	1	ANO	Simple	4–6
EX2	enduie	AN	Simple	6–8
EX3	2,3	AL, EC	Moderate	6–8
EX4	2	AN, E	Simple	8–10
EX5	2	AP	Simple	6–8
EX6	2, 3	AP	Simple	8–10
EX7	2, 3	AP	Simple	8–10
EX8	2, 3	AP	Simple	6–8
EX9	4	AP	Simple	6–8
EX10	4	AP	Simple	4–6
EX11	5	AN	Simple	6–8
EX12	5	AN	Simple	10–12
EX13	6	AP	Simple	10–12
EX14	6	AP	Simple	8–10
EX15	7	AP	Simple	8–10
EX16	7	AP, E	Moderate	12–15

ANSWERS TO QUESTIONS

- 1. Agree. Effective inventory management is frequently the key to successful business operations. Management attempts to maintain sufficient quantities and types of goods to meet expected customer demand. It also seeks to avoid the cost of carrying inventories that are clearly in excess of anticipated sales.
- 2. Inventory items have two common characteristics: (1) they are owned by the company and (2) they are in a form ready for sale in the ordinary course of business.
- **3.** Taking a physical inventory involves actually counting, weighing or measuring each kind of inventory on hand. Retailers, such as a hardware store, generally have thousands of different items to count. This is normally done when the store is closed.
- **4.** (a) (1) The goods will be included in Reeves Company's inventory if the terms of sale are FOB destination.
 - (2) They will be included in Cox Company's inventory if the terms of sale are FOB shipping point.
 - (b) Reeves Company should include goods shipped to another company on consignment in its inventory. Goods held by Reeves Company on consignment should not be included in inventory.
- 5. Inventoriable costs are \$3,020 (invoice cost \$3,000 + freight charge 50 purchase discounts \$30). The amount paid to negotiate the purchase is a burner of that normally is not included in the cost of inventory because of the difficulty or a possible costs. Buying costs are expensed in the year incurred.
- 6. FOB shipping point means that ownership orgoods in transit passes to the buyer when the public carrier toppers the goods from the seller. FOB destination means that ownership of goods in transit nemains with the electronic the goods reach the buyer.
- 7. Actual physical flow may be impractical because many items are indistinguishable from one another. Actual physical flow may be inappropriate because management may be able to manipulate net income through specific identification of items sold.
- 8. The major advantage of the specific identification method is that it tracks the actual physical flow of the goods available for sale. The major disadvantage is that management could manipulate net income.
- **9.** No. Selection of an inventory costing method is a management decision. However, once a method has been chosen, it should be used consistently from one accounting period to another.
- **10.** (a) FIFO.
 - (b) Average-cost.
 - (c) LIFO.
- 11. Plato Company is using the FIFO method of inventory costing, and Cecil Company is using the LIFO method. Under FIFO, the latest goods purchased remain in inventory. Thus, the inventory on the balance sheet should be close to current costs. The reverse is true of the LIFO method. Plato Company will have the higher gross profit because cost of goods sold will include a higher proportion of goods purchased at earlier (lower) costs.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 6-1

- Ownership of the goods belongs to Smart. Thus, these goods should (a) be included in Smart's inventory.
- (b) The goods in transit should not be included in the inventory count because ownership by Smart does not occur until the goods reach the buyer.
- (c) The goods being held belong to the customer. They should not be included in Smart's inventory.
- (d) Ownership of these goods rests with the other company. Thus, these goods should not be included in the physical inventory.

The items that should be included in invertor to the costs are: (a) Freight-in (b) Purchase Returns (C) Purch llowance 10 of 7

- (c) Purchas
- (d) Purchase Discounts

BRIEF EXERCISE 6-3

- (a) The ending inventory under FIFO consists of 200 units at \$8 + 160 units at \$7 for a total allocation of \$2,720 or (\$1,600 + \$1,120).
- The ending inventory under LIFO consists of 300 units at \$6 + 60 units (b) at \$7 for a total allocation of \$2,220 or (\$1,800 + \$420).

SOLUTIONS TO EXERCISES

EXERCISE 6-1

Endin	g inventory—physical count	\$297,000
1.	No effect—title passes to purchaser upon shipment	
•	when terms are FOB shipping point	0
2.	No effect—title does not transfer to Lima until	0
2	Goods are received	0
э.	were shipped	22 000
4	Add to inventory. Title remains with Lima until	22,000
	purchaser receives goods	35.000
5.	The goods did not arrive prior to year-end. The goods.	
_	therefore, cannot be included in the inventory	(44,000)
Corre	ct inventory	\$310,000
		UK
EXER		
Endin	g inventory—as reported	\$740,000
1.	Subtract from inventory: The good setong to 7	. ,
	Superior Corporation, Sna Ger is merely holding	
	them as a consigned.	(250,000)
2.	No effect the does not a Co Strawser until	
-	goods are received (Jan. 3)	0
3.	Subtract from inventory: Office supplies should	
	be carried in a separate account. They are not	(17.000)
Л	Add to inventory. The goods belong to Strowcor	(17,000)
4.	until they are shinned (lan 1)	30 000
5	Add to inventory: District Sales ordered goods	30,000
0.	with a cost of \$8.000. Strawser should record the	
	corresponding sales revenue of \$10,000. Strawser's	
	decision to ship extra "unordered" goods does not	
	constitute a sale. The manager's statement that District	
	could ship the goods back indicates that Strawser knows	
	this over-shipment is not a legitimate sale. The manager	
	acted unethically in an attempt to improve Strawser's	
	reported income by over-shipping	52,000

*EXERCISE 6-17 (Continued)

	ľ	Moving-Average	e Cost		
		Cost o	f	_ .	
Purchases		Goods S	old	Balanc	e
				(26 @ \$97)	\$2,522
		(12 @ \$97)	\$1,164	(14 @ \$97)	\$1,358
(45 @ \$102)	\$4,590	· · ·		(59 @ \$100.81)	^a \$5,948
		(50 @ \$100.81)	\$5.041*	(⁹ @ \$100.81)	\$ 907
(20 @ \$104)	\$2.080			(29 @ \$103.00)	^b \$2.987
(50 @ \$105)	\$5.250			(79 @ \$104.27)	°\$8.237
()	+-,	(59 @ \$104.27)	\$6,152*	(20 @ \$104.27)	\$2,085
ded 8 ÷ 59 = \$100.8 7 ÷ 29 = \$103.0 7 ÷ 79 = \$104.2 Ending Invento Ending Invento FIFO yields th and perpetual LIFO yields th and perpetual versus perpetu	81 90 27 ry FIFO ry LIFO ne same invento fierent e ual inver	Pe \$2 \$1 endin Di Vento v system. ending i Ventor tory system.	eriodic 2,100 940 C orv. value y. values	PerOt 52,10 \$2,01 under both the when using the	o 7 e periodic e periodic
	Purchases (45 @ \$102) (20 @ \$104) (50 @ \$105) ded 8 ÷ 59 = \$100.8 7 ÷ 29 = \$103.0 7 ÷ 79 = \$104.2 Ending Invento Ending Invento FIFO yields thand perpetual IFO yields thand perpetual IFO yields thand perpetual	Purchases (45 @ \$102) \$4,590 (20 @ \$104) \$2,080 (50 @ \$105) \$5,250 ded 8 ÷ 59 = \$100.81 7 ÷ 29 = \$103.00 7 ÷ 79 = \$104.27 Ending Inventory FIFO Ending Inventory LIFO FIFO yields the same and perpetual inventory IFO yields the same and perpetual inventory IFO yields the same and perpetual inventory	Moving-AveragePurchasesCost of Goods S $(45 @ $102) $4,590$ $(45 @ $102) $4,590$ $(50 @ $100.81)$ $(50 @ $100.81)$ $(50 @ $100.81)$ $(59 @ $104.27)$ ded $8 \div 59 = 100.81 $7 \div 29 = 103.00 $7 \div 79 = 104.27 Ending Inventory FIFO Ending Inventory LIFOEnding Inventory FIFO Ending Inventory LIFOEnding Inventory LIFOEnding Inventory LIFO Ending Inventory LIFOEnding Inventory System.IFO yields the same ending System end perpetual inventory system.IFO yields the same ending System and perpetual inventory system.	Moving-Average CostPurchasesCost of Goods Sold $(45 @ $102) $4,590$ $(45 @ $102) $4,590$ $(50 @ $104) $2,080$ $(50 @ $105) $5,250$ $(12 @ $97) $1,164$ $(50 @ $100.81) $5,041*$ $(50 @ $100.81) $5,041*$ $(59 @ $104.27) $6,152*$ ded $8 \div 59 = 100.81 $7 \div 79 = 104.27 $\underbrace{Periodic}{$2,100}$ \$1,940 $\underbrace{$1,940}{$1,940} \underbrace{$2,100}{$1,940} \underbrace{$1,940}{$1,940} \underbrace{$1,940}{$2,100} \underbrace{$1,940}{$1,940} $	Moving-Average CostPurchasesCost of Goods SoldBalance (26 @ \$97) $(45 @ $102) $4,590$ $(20 @ $104) $2,080$ $(50 @ $100.81) $5,041*$ $(14 @ $97)$ $(59 @ $100.81)$ $(29 @ $100.81)$ $(29 @ $100.81)$ $(29 @ $100.81)$ $(29 @ $104.27)$ $(59 @ $104.27)$ $(59 @ $104.27) $6,152*$ $(20 @ $104.27)$ $(20 @ $104.27)$ ded $8 \div 59 = 100.81 $7 \div 29 = 103.00 $7 \div 79 = 104.27 Periodic $$2,100$ $$1,9401 © 5a @ $2,100$ $$2,011$ Ending Inventory FIFO Ending Inventory LIFOPeriodic $$2,100$ $$1,9401 © 5a @ $2,100$ $$2,011$ FIFO yields the same enging inventory values when using the and perpetual inventory system.JFO yields the same enging inventory values when using the and perpetual inventory system.JFO yields the same enging inventory values when using the versus perpetual inventory system.

*EXERCISE 6-18

(a)	Sales		\$800,000
	Cost of goods sold		
	Inventory, November 1	\$100,000	
	Cost of goods purchased	500,000	
	Cost of goods available for sale	600,000	
	Inventory, December 31	120,000	
	Cost of goods sold		480,000
	Gross profit		\$320,000

Gross profit rate \$320,000/\$800,000 = <u>40%</u>

PROBLEM 6-3A

(a)		COST	OF GOO	DS AVAIL	S AVAILABLE FOR SALE			
	Date	Explanation		Unit	Units Unit Cos		Total Cost	
	1/1	Beginning	inning Inventory		00	\$8	\$ 3,200	
	2/20	Purchase		60	00	9	5,400	
	5/5	Purchase		50	00	10	5,000	
	8/12	Purchase		30	00	11	3,300	
	12/8	Purchase		20	<u>)0</u>	12	2,400	
		Total		<u>2,00</u>	<u>)0</u>		<u>\$19,300</u>	
(b)				FIFO				
. ,	(1)	Ending Inve	ntory		(2)	Cost of C	Goods Sold	
			Unit	Total	Cost	of goods		
	Date	Units	Cost	Cost	availa	able for sale	\$19,300	
	12/8	200	\$12	\$2,400	Less	Ending	k	
	8/12	300	11	3,300	inver	itory	5,700	
		<u>500</u>		<u>\$5,700</u>	Cost	of graces so	old <u>\$13,600</u>	
				N	ote	500		
	Bro	of of Cost of	Good	ann		f 72		
	<u>F10</u>				40	-		
	Dato	orey	Cost		-			
	1/1	400	¢ 0	¢ 2 200				
	1/1 2/20	400	φο	φ 3,200 5 400				
	2/20 5/5	500	9 10	5,400				
	5/5	<u> </u>	10	\$13,000				
		1,300		+15,000				

Cos	t of Goo	ods Available fo	r Sale						
Date)	Explanation			Units	<u> </u>	Jnit Co	st	Total Cost
Octo	ober 1	Beginning Inve	entory		60		\$25		\$1,500
	9	Purchase	-		120		26		3,120
	17	Purchase			70		27		1,890
	25	Purchase			80		28		2,240
		Total			<u>330</u>				<u>\$8,750</u>
<u>Endi</u>	ng Inven	tory in Units:					Sales F	Revenue	<u>)</u>
Unite	s availabl	e for sale		330				Unit	
Sale	s (100 + 6	60 + 110)		<u>270</u>	Date		<u>Units</u>	Price	Total Sales
Unite	s remaini	ng in ending inver	ntory	<u>60</u>	Octobe	r 11	100	\$35	\$ 3,500
						22	60	40	2,400
						29	<u>110</u> 270	40	<u>4,400</u> \$10,300
							210	JK	<u>\$10,300</u>
						e.	CON		
(a)			• 1	ate	25a'				
(1)	<u>LIFO</u>		n N		s 72				
(:)	En alia 着	IN TON	ົດ້	1 C			f C		J
(1)			C J				01 G000	us solo	<u>1</u>
Ugi		00 @ 19 3 19	550		for col	n goo	ous av	allable	¢0 750
		•				End		optor	φ 0,750
					Less:		ing inv	entory	<u>1,500</u>
					Costo	or goo	ous so	Ia	<u>\$7,230</u>
(iii)	Gross	<u>Profit</u>			(iv) <u>G</u>	ross	Profit	Rate	
	Sales	revenue	\$10,	300	Gross	s pro	fit_\$	<u>3,05</u> 0	
	Cost c	of goods sold	7,	<u>250</u>	Net	sales	s <u></u> \$	610,300	= 23.0 %
	Gross	profit	\$ 3 ,	<u>050</u>					

*PROBLEM 6-8A (Continued)

(2) <u>FIFO</u>

(-)				
	Date	Purchases	Cost of Goods Solo	Balance
	January 1			(150 @ \$17) \$2,550
				(150 @ \$17) <u>}</u> \$4,650
	January 2	(100 @ \$21) \$2,100		(100 @ \$21) 5 \$4,000
	January 6		(150 @ \$17) \$2,55	0 (100 @ \$21) \$2,100
	January 9		(–10 @ \$17) (\$ 17	0) (10@\$17)
	January 9	(75@\$24)\$1,800		(100 @ \$21) \$ \$4,070
				(75 @ \$24) ♥ (10 @ \$17)
				$(10 \otimes 51)$ $(100 \otimes 521)$ $(100 \otimes 521)$
	January 10	(-15 @ \$24)(\$ 360)		$(100 @ $21) \int $3,710$
	January 10		, (10 @ \$17) ((60 @ \$21) 1
			(40 @ \$21) \$ \$1,010	$\begin{array}{c} 0 \\ (60 @ \$24) \end{array} \right\} \ \$2,700$
	January 23	(100 @ \$28) \$2,800		(60 @ \$21) ₁
				(60 @ \$24) \$5,500
				(100 @ \$28)
	January 30		(60 @ \$21) } \$2.46	0 ((⁰ (² (³ 2 ⁴) (³ (³ () (³ (³ (³ () (³ (
			(50 @ \$24) J	
	(i) Cost of profit = \$1	f goods sold = \$3, 13,350 - 60810 = \$	50 (ii) Ending in tr	ntory = \$3,040. (iii) Gross
(3)	Moving-Ave	ige	29	
	Date	Purchases	Cost of goods sold	Balance
	January 1			(150 @ \$17) \$2,550
	January 2	(100 @ \$21) \$2,100		(250 @ \$18.60) ^a \$4,650
	January 6		(150 @ \$18.60) \$2,790) (100 @ \$18.60) \$1,860
	January 9		(–10 @ \$18.60) (\$ 186	5) (110 @ \$18.60) \$2,046
	January 9	(75@\$24)\$1,800		(185 @ \$20.789) ^b \$3,846
	January 10	(–15 @ \$24) (\$ 360)	/	(170 @ \$20.506)° \$3,486
	January 10		(50@\$20.506)\$1,025	5 (120 @ \$20.506) \$2,461
	January 23	(100 @ \$28) \$2,800	(110 @ \$00 014) \$0 001	(220 @ \$23.914) \$5,261
	January 30		(110 @ \$23.914) <u>\$2,631</u> <u>\$6,260</u>	_ (110 @ \$23.914) \$2,630]
^a \$4, ^b \$3,	650 ÷ 250 = \$18 846 ÷ 185 = \$20	8.60 0.789	°\$3,486 ÷ 170 = \$20.506 ^d \$5,261 ÷ 220 = \$23.914	

(i) Cost of goods sold = 6,260. (ii) Ending inventory = 2,630. (iii) Gross profit = 13,350 - 6,260 = 7,090.

*PROBLEM 6-9A (Continued)

(3)						LIFO					
	Date	Ρι	irchases	6		Cost Goods S	of Sold	Balance			
	May 1 4	(7 @ \$1	50) \$	1,050	(4 @	\$150)	\$600	(7 @ (3 @	2 \$150) 2 \$150)		\$1,050 \$ 450
	8	(8 @ \$1	70) \$	1,360	ι -	,,		(3 @ (8 @	2 \$150) 2 \$170)	}	\$1,810
	12				(5 @	\$170)	\$850	(3 @ (3 @	\$150) \$170)	}	\$ 960
	15	(6 @ \$ 1	85) \$	1,110				(3 @ (3 @ (6 @	<pre> 2 \$150) 2 \$170) 2 \$185) </pre>	}	\$2,070
	20				(3 @	\$185)	\$555	(3 @ (3 @ (3 @	<pre> 2 \$150) 2 \$170) 2 \$185) </pre>	}	\$1,515
	25				(3 @ (1 @	\$185) \$170)	} \$725	(3 @	2,5150) 2,5170)	}	\$ 790
(b)	(1) Th (2) Th	e highe e lowes	st endir t ending ۲0	ng inve g inve	entor t D	is \$790	s under ander t	the F he Ll	IFO me FO me	ethoo thod	d.
F	prev	161.	Pag	ye '	*						

*PROBLEM 6-11A

(a)	Spo Go	orting oods	Jewelry and Cosmetics		
	Cost	Retail	Cost	Retail	
Beginning inventory	\$ 47,360	\$ 74,000	\$ 39,440	\$ 62,000	
Purchases	675,000	1,066,000	741,000	1,158,000	
Purchase returns	(26,000)	(40,000)	(12,000)	(20,000)	
Purchase discounts	(12,360)		(2,440)		
Freight-in	9,000		14,000		
Goods available for sale	\$693,000	1,100,000	\$780,000	1,200,000	
Net sales		(1,000,000)		(1,160,000)	
Ending inventory at retail		<u>\$ 100,000</u>		<u>\$ 40,000</u>	

Cost-to-retail ratio: Sporting Goods—\$693,000 ÷ \$1,100,000 = 63%. Jewelry and Cosmetics—\$780,000 ÷ \$1,200,900 = 65%. Estimated ending inventor a Cost \$100,001 X68% = \$63,400 - Oorting Goods. \$100,001 X68% = \$63,400 - Oorting Goods. \$100,000 X 65% (26,000 - Jewelry and Cosmetics.

(b) Sporting Goods—\$95,000 X 60% = \$57,000. Jewelry and Cosmetics—\$44,000 X 64% = \$28,160.

PROBLEM 6-5B

(a) Cost of Goods Available for Sale

Date	Explanation	Units	Unit Cost	Total Cost
June 1	Beginning Inventory	40	\$40	\$ 1,600
June 4	Purchase	135	44	5,940
June 18	Purchase	55	46	2,530
June 18	Purchase return	(10)	46	(460)
June 28	Purchase	30	50	1,500
	Total	<u>250</u>		<u>\$11,110</u>

Ending Inventory in Units:			Sales	s Revenue	<u>e</u>
Units available for sale	250			Unit	
Sales (110 – 15 + 65)	160	Date	Units	Price	Total Sales
Units remaining in ending inventory	90	June 10	110	\$70	\$ 7,700
		11	(15)	70	(1,050)
		25	65	75	4875
			160	C	0 <u>11,525</u>
			02	le.v	
		-10	1620		
(1) <u>LIFO</u>		A NU		9	

(1) <u>LIFO</u>	m Not	12		
(i) <u>Ending Inventory</u> June 1 40 @ \$48 4 50 44	1 6 \$1,600 2,20 0	(ii) Cost of goods or sale	Goods Sold available	\$11,110
90	<u>\$3,800</u>	Less: Ending Cost of goods	inventory sold	<u>3,800</u> \$ 7,310
(iii) <u>Gross Profit</u> Sales revenue	\$11,525	(iv) <u>Gross P</u> Gross profit	rofit Rate \$ 4,215	20.00/
Cost of goods sold Gross profit	<u>7,310</u> <u>\$4,215</u>	Net sales	\$11,525 =	30.0%

The following responses are based on the 2007 annual report:

- (a) \$1,322,000,000, as of July 28, 2007.
- (b) \$1,322,000,000 \$1,371,000,000 = \$49,000,000 decrease.
- (c) 64.9 percent (\$858 ÷ \$1,322).
- (d) Lower of cost or market using standard cost, which approximates FIFO.

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