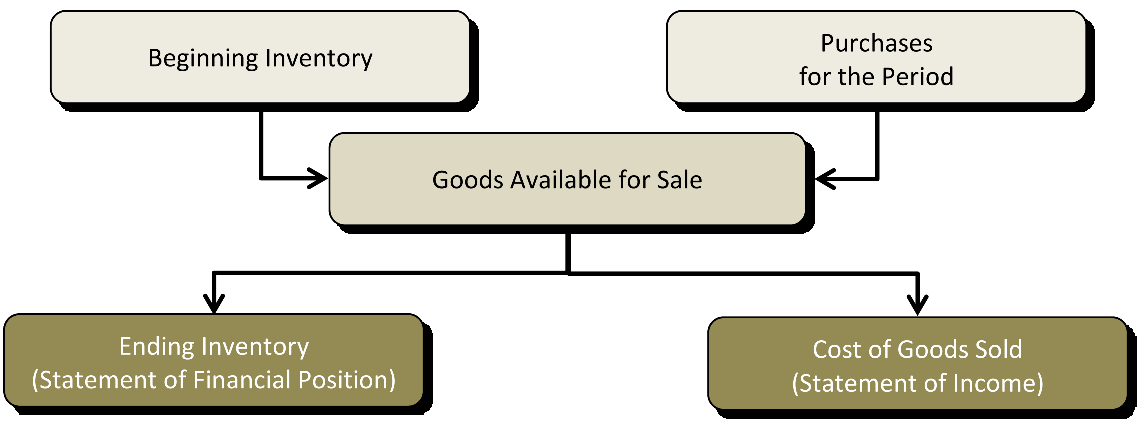
CHAPTER 7: REPORTING AN INTERPRETING COST OF GOODS SOLD AND INVENTORY

Exercise 1: The Cost of Goods Sold Equation

Beginning inventory	xx
+ Purchases	xx
Cost of goods available for sale	xx
- Ending inventory	(xx)
Cost of goods sold	**xx**



For each set of information, fill in the missing amounts.

	Set A	**Set B**	**Set C**	**Set D**	**Set E**
Beginning inventory	76,000	72,000	207,000	261,000	156,000
Purchases	104,000	272,000		450,000	393,000
Ending inventory	35,200		166,500	135,000	
Cost of goods sold		264,000	441,000		396,000

Exercise 2: Accounting for Inventory - Perpetual Inventory System

Following is the information of Hamm Manufacturing Corp. during March 2014:

March 1, Hamm had beginning inventory of 100 units at a unit cost of $80.
March 2, Hamm purchased 400 units at a unit cost of $80, on credit terms 3/10 n/30.
March 14, Hamm sold 200 units at a selling price of $190 per unit on account.
March 31, Hamm had ending inventory of 300 units at a unit cost of $80.

Prepare the required journal entries under perpetual inventory system.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

HAMM MANUFACTURING CORP.
Statement of Income (partial)
For the year ended March 31, 2014

Sales revenue
Cost of goods sold
Gross profit

HAMM MANUFACTURING CORP.
Statement of Financial Position (Partial)
As of March 31, 2014

Assets:

Liabilities:

Stockholders' Equity:

Exercise 3: Accounting for Inventory - Periodic Inventory System

Following is the information of Hamm Manufacturing Corp. during March 2014:

March 1, Hamm had beginning inventory of 100 units at a unit cost of $80.
March 2, Hamm purchased 400 units at a unit cost of $80, on credit terms 3/10 n/30.
March 14, Hamm sold 200 units at a selling price of $190 per unit on account.
March 31, Hamm had ending inventory of 300 units at a unit cost of $80.

Prepare the required journal entries under periodic inventory system.

GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit

HAMM MANUFACTURING CORP.
Statement of Income (partial)
For the year ended March 31, 2014

Sales revenue ________
Cost of goods sold ________
Gross profit ________

HAMM MANUFACTURING CORP.
Statement of Financial Position (Partial)
As of March 31, 2014

Assets:
____
____
____
____

Liabilities:
____

Stockholders' Equity:
____

Exercise 4: Determining Ending Inventory and Cost of Goods Sold - Perpetual Systems

Accounting records for Sunshine products indicate the following data for PH4 oil filters during 2014:

Jan 1	Beginning inventory	9	units	@	$3.00	$27.00
Feb 23	Purchase	12	units	@	$3.50	42.00
Apr 20	Purchase	20	units	@	$3.80	76.00
Oct 11	Purchase	17	units	@	$5.00	85.00
	Total	58	units			$230.00
Mar 16	Sold	13	units	@	$12.00	156.00
Nov 28	Sold	32	units	@	$13.00	416.00
	Total	45	units			$572.00

A physical count indicates 13 units in inventory at year-end.

Assume the company uses ***a perpetual inventory system***, determine the cost of goods sold and the cost of the ending inventor, based on each of the following methods of inventory valuation.

a) FIFO

Cost of goods sold = $.

Cost of the ending inventory = $.

Date	Purchases			Cost of Goods Sold			Inventory		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Jan 1									
Feb 23									
Mar 16									
Apr 20									
Oct 11									
Nov 28									
					Total				

Jan 1	Beginning inventory	9	units	@	$3.00	$27.00
Feb 23	Purchase	12	units	@	$3.50	42.00
Apr 20	Purchase	20	units	@	$3.80	76.00
Oct 11	Purchase	17	units	@	$5.00	85.00
	Total	58	units			$230.00
Mar 16	Sold	13	units	@	$12.00	156.00
Nov 28	Sold	32	units	@	$13.00	416.00
	Total	45	units			$572.00

b) Weighted Average Cost

Cost of goods sold = $☐☐☐.☐☐

Cost of the ending inventory = $☐☐☐.☐☐

Date	Purchases			Cost of Goods Sold			Inventory		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Jan 1									
Feb 23									
Mar 16									
Apr 20									
Oct 11									
Nov 28									
					Total				

Exercise 5: Determining Ending Inventory and Cost of Goods Sold - Periodic Systems

Accounting records for Sunshine products indicate the following data for PH4 oil filters during 2014:

Jan 1	Beginning inventory	9	units	@	$3.00	$27.00
Feb 23	Purchase	12	units	@	$3.50	42.00
Apr 20	Purchase	20	units	@	$3.80	76.00
Oct 11	Purchase	17	units	@	$5.00	85.00
	Total	58	units			$230.00
Mar 16	Sold	13	units	@	$12.00	156.00
Nov 28	Sold	32	units	@	$13.00	416.00
	Total	45	units			$572.00

A physical count indicates 13 units in inventory at year-end.

Assume the company uses ***a periodic inventory system***, determine the cost of the ending inventory and the cost of goods sold, based on each of the following methods of inventory valuation.

a) FIFO

Cost of goods sold = $.

Cost of the ending inventory = $.

b) Weighted Average Cost

Cost of goods sold = $.

Cost of the ending inventory = $.

Jan 1	Beginning inventory	9	units	@	$3.00	$27.00
Feb 23	Purchase	12	units	@	$3.50	42.00
Apr 20	Purchase	20	units	@	$3.80	76.00
Oct 11	Purchase	17	units	@	$5.00	85.00
	Total	58	units			$230.00
Mar 16	Sold	13	units	@	$12.00	156.00
Nov 28	Sold	32	units	@	$13.00	416.00
	Total	45	units			$572.00

Exercise 6: Valuation of Inventory: Lower of Cost or Net Realizable Value (NRV)

Amanda Corporation is preparing its financial statements for the year ending December 31, 2014. Ending inventory information about the three major items stocked for regular sale follows:

Item	Quantity on Hand	Cost Per Unit of Inventory When Acquired (FIFO)	Net Realizable Value (NRV) Per Unit at Year-End
AA	100	$ 30	$ 32
BB	150	80	80
CC	200	100	96

Compute the valuation that should be used for the ending inventory using the Lower of Cost or NRV rule applied on an item-by-item basis.

Item	Quantity	Cost Per Unit	Inventory at Cost	NRV Per Unit	Inventory at NRV	LCNRV Using Individual-Item Basis
	[A]	[B]	[A] x [B]	[C]	[A] x [C]	
AA	100	$30		$32		
BB	150	80		80		
CC	200	100		96		
Total						

a) Assume the LCNRV rule is applied on the basis of **TOTAL INVENTORY**, prepare an adjusting journal entry to record the write-down of inventory valuation.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

AMANDA CORPORATION

Statement of Financial Position (Partial)

As of December 31, 2014

Assets:	Liabilities:
	Stockholders' Equity:

b) Assume the LCNRV rule is applied on the basis of **INDIVIDUAL ITEMS**, prepare an adjusting journal entry to record the write-down of inventory valuation.

GENERAL JOURNAL				
Date		**Account Titles and Explanation**	**Debit**	**Credit**

AMANDA CORPORATION

Statement of Financial Position (Partial)

As of December 31, 2014

Assets:	Liabilities:
	Stockholders' Equity: