

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

Exercise 1: Inventory Costing Method

The Quickie Grocery acquired the following bottles of Corporate-Cola soft drink:

Date	Jan. 2	Jan. 10	Jan. 12	Jan. 16	Jan. 25
Cost	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00

A January 31 inventory count revealed that bottles remained on the shelf.

How many bottles were sold in January? bottles sold

Specific Identification Method

The Quickie Grocery keeps track of each individual bottle. Suppose the Grocery knows that it sold the bottles acquired on Jan. 2, 12, and 16.

Date	Jan. 2	Jan. 10	Jan. 12	Jan. 16	Jan. 25	Total
Cost	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00	\$15.00
COGS						
Inventory						

What was the cost of goods sold for January? Cost of goods sold = \$.

What was the value of inventory on January 31? Inventory = \$.

First-in, First-out (FIFO) Method

Date	Jan. 2	Jan. 10	Jan. 12	Jan. 16	Jan. 25	Total
Cost	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00	\$15.00
COGS						
Inventory						

What was the cost of goods sold for January? Cost of goods sold = \$.

What was the value of inventory on January 31? Inventory = \$.

Last-in, First-out (LIFO) Method

Date	Jan. 2	Jan. 10	Jan. 12	Jan. 16	Jan. 25	Total
Cost	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00	\$15.00
COGS						
Inventory						

What was the cost of goods sold for January? Cost of goods sold = \$.

What was the value of inventory on January 31? Inventory = \$.

Average Cost Method

Date	Jan. 2	Jan. 10	Jan. 12	Jan. 16	Jan. 25	Total
Cost	\$1.00	\$2.00	\$3.00	\$4.00	\$5.00	\$15.00

$$\text{Average cost} = \frac{\text{Cost of Goods Available for Sale}}{\text{Number of Units Available for Sale}} = \frac{\$ \square\square.\square\square}{\square \text{ bottles available for Sale}}$$

$$= \$ \square.\square\square \text{ per bottle}$$

What was the cost of goods sold for January? Cost of goods sold = \$.

What was the value of inventory on January 31? Inventory = \$.

THE QUICKIE GROCERY	
Statement of Income (partial)	
For the year ended December 31, 2013	
Revenues:	
Sales revenue	XXX
_____	_____
Expenses:	
_____	_____
_____	_____

THE QUICKIE GROCERY	
Statement of Financial Position (Partial)	
As of December 31, 2013	
Assets:	Liabilities:
_____	_____

_____	Stockholders' Equity:

Complete the following table:

	Specific Identification	FIFO	LIFO	Average Cost
Cost of Goods Sold (EXP)				
Inventory (A)				

Exercise 2: Lower of Cost or Net Realizable Value (NRV)

Amanda Corporation is preparing its financial statements for the year ending December 31, 2013. Ending inventory information about the three major items stocked for regular sale follows:

Item	Quantity on Hand	Unit Cost of Inventory When Acquired (FIFO)	Net Realizable Value (NRV) at Year-End
AA	100	\$ 30	\$ 26
BB	150	80	80
CC	200	100	104

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	Unit Cost	NRV	Inventory at Cost	Inventory at NRV	Inventory at Lower of Cost or NRV
	[A]	[B]	[C]	[D] = [A] x [B]	[E] = [A] x [C]	Lower of [D] or [E]
AA	100	\$30	\$26			
BB	150	80	80			
CC	200	100	104			
Total						

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Date	Account Titles and Explanation	Debit	Credit
2013			

AMANDA CORPORATION	
Statement of Financial Position (Partial)	
As of December 31, 2013	
Assets:	Liabilities:
_____	_____
_____	_____
_____	Stockholders' Equity:
