

# [Inventory](https://assignbuster.com/inventory-essay-samples/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Week Three Exercise Assignment Inventory Inventory. Inventory valuation methods: Basic computations. The January beginning inventory of the White Company consisted of 300 units costing $40 each. During the first quarter, the company purchased two batches of goods: 700 units at $44 on February 21 and 800 units at $50 on March 28. Sales during the first quarter were 1, 400 units at $75 per unit. The White Company uses a periodic inventory system.
Using the White Company data, fill in the chart that follows to compare the results obtained under the FIFO, LIFO, and weighted-average inventory methods.
FIFO Method: Units$$
Jan 1300@$4012000
Feb 21700@4430800
March 28800@5040000
Goods available for sale180082800
Less cost of sales: 300@4012000
700@4430800
400@5020000(62800)
Ending inventory400@50 20000
LIFO Method:
Goods available for sale82800
Less cost of sales: 800@5040000
600@4426400(66400)
Ending inventory16400
Ending inventory made up of:
100@444400
300@4012000
16400
Weighted average Method:
Goods available for sales1800@4682800
Less cost of sales1400@46(64400)
Ending inventory18400

FIFO
LIFO
Weighted average
Goods available for sale
$
$
$
Ending inventory, March 31
20000
16400
18400
Cost of goods sold
62800
66400
64400
2. Analysis of LIFO versus FIFO. Indicate whether LIFO or FIFO best describes each of the following:
a. Gives highest profits when prices fall-FIFO
b. Yields lowest income taxes when prices rise-LIFO.
c. Generates an ending inventory valuation that somewhat approximates replacement cost-FIFO.
d. Matches recent costs against current selling prices on the income state­ment-LIFO.
e. Comes closest to approximating the physical flow of goods of a fruit and vegetable dealer-FIFO.
f. Results in lowest cost of goods sold in inflationary periods-FIFO.
3. Inventory Errors. The income statements of Diamond Company for the years ended Decem­ber 31, 19X1, and 19X2 follow.
19X1
19X2
Net sales
Cost of goods sold
Beginning inventory
Add: Net purchases
$ 95, 000 380, 000
$440, 000
$109, 000 404, 000
$483, 000
Goods available for
sale
Less: Ending inventory
$475, 000 109, 000
$513, 000 127, 000
Cost of goods sold
366, 000
386, 000
Gross profit
Operating expenses
$ 74, 000 58, 000
$ 97, 000 67, 000
Net income
$ 16, 000
$ 30, 000
Diamond uses a periodic inventory system. A detailed review of the accounting records disclosed the following:
a. A review of 19X1 purchase invoices revealed that a clerk had incor­rectly recorded a $12, 600 purchase as $1, 260.
b. A $4, 800 purchase was made on December 30, 19X2, terms F. O. B. ship­ping point. The invoice was not recorded in 19X2 nor were the goods included in the 19X2 ending physical inventory count. Both the goods and invoice were received in early 19X3, with the invoice being re­corded at that time.
c. Goods costing $3, 000 were accidentally excluded from the 19X1 ending physical inventory count. These goods were sold during 19X2, and all aspects of the sale were properly recorded.
Instructions:
(a) Prepare corrected income statements for 19X1 and 19X2.
(b) Determine the impact of the preceding errors on the December 31, 19X2, owners equity balance.
(a) Corrected Income Statement:
Net purchases 19X1= 380000+ 12600-1260= 391340
Purchases 19X2= 404000+ 4800= 408800
Closing inventory 19X2= 127000+ 4800= 131800
Closing inventory 19X1= 109000+ 3000= 112000
Opening inventory 19X2= 109000+ 3000= 112000
19X1
19X2
Net sales
Cost of goods sold
Beginning inventory
Add: Net purchases
$ 95, 000
391340
$440, 000
$112, 000 408, 800
$483, 000
Goods available for
sale
Less: Ending inventory
$486, 340 112, 000
$520, 800 131, 800
Cost of goods sold
374, 340
389, 000
Gross profit
Operating expenses
$ 65, 660 58, 000
$ 94, 000 67, 000
Net income
$ 7, 660
$ 27, 000
(b) The above errors had an overall effect of overstating the balance of owner’s equity as at December 31, 19X2. In the first error, it is assumed that only the purchases journal was wrongly entered. The effect of understating cost is to an understatement of cost of goods sold, hence overstating the net income, which is part of owner’s equity.
The ownership of goods purchased on F. O. B terms revert to the buyer immediately the seller delivers them to the port of delivery. It is therefore assumed that the goods were already on transit by the end of business on December 31, 19X2. Therefore the exclusion of this transaction had no effect on the cost of goods sold since it was neither included as purchases nor closing inventory. It will only affect the value of inventory in the balance sheet with no effect and accounts payable or cash. There is no effect on owner’s equity.
Excluding $3, 000 from the closing inventory in 19X1 means that the cost of goods sold was understated with the ending result being an overstatement of net income, hence owner’s equity. Since the amount was not included in 19X2, it means that sales revenue was recognized on these goods with no corresponding cost.
4. Inventory valuation methods. Computations and concepts. Wave Riders Surf Board Company began business on January 1 of the current year. Purchases of surf boards were as follows:
Jan.
3
100 boards