Acc 422 e8-5, e8-14, e7-2, e7-8, assignment

Acc 422 – Week 2 Solutions – Individual Assignments EXERCISE 8-5 (15–20 minutes) (a)Inventory December 31, 2007 (unadjusted)$234, 890 Transaction 213, 420 Transaction 3-0- Transaction 4-0- Transaction 58, 540 Transaction 6(10, 438) Transaction 7(10, 520) Transaction 8 1, 500 Inventory December 31, 2007 (adjusted)$237, 392 (b)Transaction 3 Sales12, 800 Accounts Receivable12, 800 (To reverse sale entry in 2007) Transaction 4 Purchases (Inventory)15, 630 Accounts Payable15, 630 (To record purchase of merchandise in 2007) Transaction 8 Sales Returns and Allowances2, 600 Accounts Receivable2, 600

EXERCISE 8-14 (20–25 minutes) (a)(1)LIFO600 @ $6. 00 =$3, 600 100 @ $6. 08 = 608 $4, 208 (2)Average cost Total cost=$33, 655*= $6. 35 average cost per unit Total units5, 300 700 @ $6. 35 = $4, 445 EXERCISE 8-14 (Continued) *UnitsPriceTotal Cost$6. 00=$ 3, 600 1, $6. 08= 9, 120$6. 40= 5, 120 1, $6. 50= 7, 800$6. 60= 4, 620$6. 79= 3, 395 5, 300$33, 655 (b)(1)FIFO500 @ $6. 79 =$3, 395 200 @ $6. 60 = 1, 320 $4, 715 (2)LIFO100 @ $6. 00 =$ 600 100 @ $6. 08 = 608 500 @ $6. 79 = 3, 395 $4, 603 (c)Total merchandise available for sale$33, 655 Less inventory (FIFO) 4, 715

Cost of goods sold$28, 940 (d)FIFO. 13. The first-in, first-out method approximates the specific identification method when the physical flow of goods is on a FIFO basis. When the goods are subject to spoilage or deterioration, FIFO is parti-cularly appropriate. In comparison to the specific identification method, an attractive aspect of FIFO is the elimination of the danger of artificial determination of income by the selection of advantageously priced items to be sold. The basic assumption is that costs should be charged in the order in which they are incurred.

As a result, the inventories are stated at the latest costs. Where the inventory is consumed and valued in the FIFO manner, there is no accounting recognition of unrealized gain or loss. A criticism of the FIFO method is that it maximizes the effects of price fluctuations upon reported income because current revenue is matched with the oldest costs which are probably least similar to current replacement costs. On the other hand, this method produces a balance sheet value for the asset close to current replacement costs.

It is claimed that FIFO is deceptive when used in a period of rising prices because the reported income is not fully available since a part of it must be used to replace inventory at higher cost. The results achieved by the weighted average method resemble those of the specific identification method where items are chosen at random or there is a rapid inventory turnover. Compared with the specific identification method, the weighted average method has the advantage that the goods need not be individually identified; therefore accounting is not so costly and the method can be applied to fungible goods.

The weighted average method is also appropriate when there is no marked trend in price changes. In opposition, it is argued that the method is illogical. Since it assumes that all sales are made proportionally from all purchases and that inventories will always include units from the first purchases, it is argued that the method is illogical because it is contrary to the chronological flow of goods. In addition, in periods of price changes there is a lag between current costs and costs assigned to income or to the valuation of inventories.

If it is assumed that actual cost is the appropriate method of valuing inventories, last-in, first-out is not theoretically correct. In general, LIFO is directly adverse to the specific identification method because the goods are not valued in accordance with their usual physical flow. An exception is the application of LIFO to piled coal or ores which are more or less consumed in a LIFO manner. Proponents argue that LIFO provides a better matching of current costs and revenues.

During periods of sharp price movements, LIFO has a stabilizing effect upon reported income figures because it eliminates paper income and losses on inventory and smooths the impact of income taxes. LIFO opponents object to the method principally because the inventory valuation reported in the balance sheet could be seriously misleading. The profit figures can be artificially influenced by management through contracting or expanding inventory quantities. Temporary involuntary depletion of LIFO inventories would distort current income by the previously unrecog-nized price gains or losses applicable to the inventory reduction.

EXERCISE 7-2 (10–15 minutes) 1. Cash balance of $925, 000. Only the checking account balance should be reported as cash. The certificates of deposit of $1, 400, 000 should be reported as a temporary investment, the cash advance to subsidiary of $980, 000 should be reported as a receivable, and the utility deposit of $180 should be identified as a receivable from the gas company. 2. Cash balance is $584, 650 computed as follows: Checking account balance$600, 000 Overdraft(17, 000) Petty cash300 Coin and currency 1, 350 $584, 650 Cash held in a bond sinking fund is restricted.

Assuming that the bonds are noncurrent, the restricted cash is also reported as noncurrent. EXERCISE 7-2 (Continued) 3. Cash balance is $599, 800 computed as follows: Checking account balance$590, 000 Certified check from customer 9, 800 $599, 800 The postdated check of $11, 000 should be reported as a receivable. Cash restricted due to compensating balance should be described in a note indicating the type of arrangement and amount. Postage stamps on hand are reported as part of office supplies inventory or prepaid expenses. . Cash balance is $85, 000 computed as follows: Checking account balance$37, 000 Money market mutual fund 48, 000 $85, 000 The NSF check received from customer should be reported as a receivable. 5. Cash balance is $700, 900 computed as follows: Checking account balance$700, 000 Cash advance received from customer 900 $700, 900 Cash restricted for future plant expansion of $500, 000 should be reported as a noncurrent asset. Short-term Treasury bills of $180, 000 should be reported as a temporary investment.

Cash advance received from customer of $900 should also be reported as a liability; cash advance of $7, 000 to company executive should be reported as a receivable; refundable deposit of $26, 000 paid to federal government should be reported as a receivable. EXERCISE 7-8 (15–20 minutes) (a)Allowance for Doubtful Accounts6, 000 Accounts Receivable6, 000 (b)Accounts Receivable$800, 000 Less: Allowance for Doubtful Accounts 40, 000 Net realizable value$760, 000 (c)Accounts Receivable$794, 000 Less: Allowance for Doubtful Accounts 34, 000 Net realizable value$760, 000