Problem 5-1A (40 minutes)—Perpetual & Gross Method

July 1	**Merchandise Inventory**		**6,000**	
	Accounts Payable—Boden			**6,000**
	Purchased goods, terms 1/15, n/30.			
2	**Accounts Receivable—Creek**		**900**	
	Sales			**900**
	Sold goods, terms 2/10, n/60.			
2	**Cost of Goods Sold**		**500**	
	Merchandise Inventory			**500**
	Record cost of the July 2 sale.			
3	**Merchandise Inventory**		**125**	
	Cash			**125**
	Paid freight on incoming goods.			
8	**Cash**		**1,700**	
	Sales			**1,700**
	Sold goods for cash.			
8	**Cost of Goods Sold**		**1,300**	
	Merchandise Inventory			**1,300**
	Record cost of the July 8 sale.			
9	**Merchandise Inventory**		**2,200**	
	Accounts Payable—Leight			**2,200**
	Purchased goods, terms 2/15, n/60.			
11	**Accounts Payable—Leight**		**200**	
	Merchandise Inventory			**200**
	Returned goods for credit.			
12	**Cash**		**882**	
	Sales Discounts*		**18**	
	Accounts Receivable—Creek			**900**
	Received payment within discount period.			
	****$900 x 2%***			

Problem 5-1A *(Concluded)*

July 16	Accounts Payable—Boden	6,000	
	Merchandise Inventory*		60
	Cash		5,940
	Paid for goods within discount period.		
	**$6,000 x 1%*		
19	Accounts Receivable—Art	1,200	
	Sales		1,200
	Sold goods, terms 2/15, n/60.		
19	Cost of Goods Sold	800	
	Merchandise Inventory		800
	Record cost of July 19 sale.		
21	Sales Returns and Allowances	100	
	Accounts Receivable—Art		100
	Issued credit for allowance on goods sold.		
24	Accounts Payable—Leight	2,000	
	Merchandise Inventory*		40
	Cash		1,960
	Paid for goods within discount period.		
	**$2,000 x 2%*		
30	Cash	1,078	
	Sales Discounts*	22	
	Accounts Receivable—Art		1,100
	Received payment within discount period.		
	**($1,200 - $100) x 2%*		
31	Accounts Receivable—Creek	7,000	
	Sales		7,000
	Sold goods, terms 2/10, n/60.		
31	Cost of Goods Sold	4,800	
	Merchandise Inventory		4,800
	Record cost of July 31 sale.		

Problem 5-3A (40 minutes)

1. Net sales

Sales	$225,600
Less: Sales discounts	2,250
Sales returns and allowances	12,000
Net sales	$211,350

2. Cost of Merchandise purchased

Invoice cost of merchandise purchased	$ 92,000
Purchase discounts received	(2,000)
Purchase returns and allowances	(4,500)
Costs of transportation-in	4,600
Total cost of merchandise purchased	$ 90,100

Problem 5-3A *(Continued)*

3. Multiple-step income statement

VALLEY COMPANY Income Statement For Year Ended August 31, 2017		
Sales		$225,600
Less: Sales discounts	$ 2,250	
Sales returns and allowances	12,000	14,250
Net sales		211,350
Cost of goods sold *		74,500
Gross profit		136,850
Expenses		
Selling expenses		
Sales salaries expense	32,000	
Rent expense—Selling space	8,000	
Store supplies expense	1,500	
Advertising expense	13,000	
Total selling expenses		54,500
General and administrative expenses		
Office salaries expense	28,500	
Rent expense—Office space	3,600	
Office supplies expense	400	
Total general and administrative expenses		32,500
Total expenses		87,000
Net income		$ 49,850

*Cost of goods sold (alternative computation):	
Merchandise inventory, August 31, 2016	$ 25,400
Total cost of merchandise purchased (from part 2)	90,100
Merchandise available for sale	115,500
Merchandise inventory, August 31, 2017	41,000
Cost of goods sold	$ 74,500

Problem 5-3A *(Concluded)*

4. Single-step income statement

VALLEY COMPANY Income Statement For Year Ended August 31, 2017		
Net sales		$211,350
Expenses		
Cost of goods sold	$74,500	
Selling expenses	54,500	
General and administrative expenses	32,500	
Total expenses		161,500
Net income		$ 49,850

Problem 6-1A (40 minutes)

1. Compute cost of goods available for sale and units available for sale

Beginning inventory	100 units @ $50.00	$ 5,000
March 5	400 units @ $55.00	22,000
March 18	120 units @ $60.00	7,200
March 25	200 units @ $62.00	12,400
Units available	820 units	
Cost of goods available for sale		$46,600

2. Units in ending inventory

Units available (from part *1*)	820 units
Less: Units sold (420 + 160)	580 units
Ending Inventory (units)	240 units

3a. FIFO perpetual

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance
Mar. 1			100 @ $50.00 = $5,000
Mar. 5	400 @ $55.00 = $22,000		100 @ $50.00 400 @ $55.00 = $27,000
Mar. 9		100 @ $50.00 = $ 5,000 320 @ $55.00 = $17,600	80 @ $55.00 = $ 4,400
Mar. 18	120 @ $60.00 = $ 7,200		80 @ $55.00 120 @ $60.00 = $11,600
Mar. 25	200 @ $62.00 = $ 12,400		80 @ $55.00 120 @ $60.00 200 @ $62.00 = $24,000
Mar. 29		80 @ $55.00 = $ 4,400 80 @ $60.00 = $ 4,800 $31,800	40 @ $60.00 200 @ $62.00 = $14,800

Problem 6-1A *(Continued)*

3b. LIFO perpetual

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance	
Mar. 1			100 @ $50.00	= $ 5,000
Mar. 5	400@ $55.00= $22,000		100 @ $50.00 400 @ $55.00	= $27,000
Mar. 9		400 @ $55.00 = $22,000 20 @ $50.00 = $ 1,000	80 @ $50.00	= $ 4,000
Mar. 18	120@ $60.00= $ 7,200		80 @ $50.00 120 @ $60.00	= $11,200
Mar. 25	200@ $62.00= $12,400		80 @ $50.00 120 @ $60.00 200 @ $62.00	= $23,600
Mar. 29		160 @ $62.00 = $ 9,920	80 @ $50.00 120 @ $60.00 40 @ $62.00	= $13,680
		$32,920		

3c. Weighted Average perpetual

Date	Goods Purchased	Cost of Goods Sold	Inventory Balance	
Mar. 1			100 @ $50.00	= $ 5,000
Mar. 5	400@ $55.00= $22,000		100 @ $50.00 400 @ $55.00 (avg. = $54.00)	= $27,000
Mar. 9		420 @ $54.00 = $22,680	80 @ $54.00 (avg. = $54.00)	= $ 4,320
Mar. 18	120@ $60.00= $ 7,200		80 @ $54.00 120 @ $60.00 (avg. = $57.60)	= $11,520
Mar. 25	200@ $62.00= $12,400		80 @ $54.00 120 @ $60.00 200 @ $62.00 (avg. = $59.80)	= $23,920
Mar. 29		160 @ $59.80 = $ 9,568	240 @ $59.80 (avg. = $59.80)	= $14,352
		$32,248		

Problem 6-1A *(Concluded)*

3d. Specific Identification

COST OF GOODS SOLD—	80 UNITS FROM BEGINNING INVENTORY
	340 UNITS FROM MARCH 5 PURCHASE
	40 UNITS FROM MARCH 18 PURCHASE
	120 UNITS FROM MARCH 25 PURCHASE

580 units sold in total

Specific Identification	Ending Inventory	Cost of Goods Sold
(80x$50) + (340x$55) + (40x$60) + (120x$62)		$32,540
$46,600 [Total Goods Available] - $32,540 [Cost of Goods Sold] ...	$14,060	

4.

	FIFO	LIFO	Weighted Average	Specific Identification
Sales*	$50,900	$50,900	$50,900	$50,900
Less: Cost of goods sold....	31,800	32,920	32,248	32,540
Gross profit	$ 19,100	$17,980	$ 18,652	$ 18,360

*Sales = (420 units x $85.00) + (160 units x $95.00) = $50,900

Problem 6-6A (35 minutes)

Part 1

(a)

Cost of goods sold	2016	2017	2018
Reported	$ 615,000	$ 957,000	$ 780,000
Adjustments: 12/31/2016 error	- 56,000	+ 56,000	
12/31/2017 error		+ 20,000	- 20,000
Corrected	$ 559,000	$1,033,000	$ 760,000

(b)

Net income	2016	2017	2018
Reported	$ 230,000	$ 285,000	$ 241,000
Adjustments: 12/31/2016 error	+ 56,000	- 56,000	
12/31/2017 error		- 20,000	+ 20,000
Corrected	$ 286,000	$ 209,000	$ 261,000

(c)

Total current assets	2016	2017	2018
Reported	$1,255,000	$1,365,000	$1,200,000
Adjustments: 12/31/2016 error	+ 56,000		
12/31/2017 error		- 20,000	
Corrected	$1,311,000	$1,345,000	$1,200,000

(d)

Equity	2016	2017	2018
Reported	$1,387,000	$1,530,000	$1,242,000
Adjustments: 12/31/2016 error	+ 56,000		
12/31/2017 error		- 20,000	
Corrected	$1,443,000	$1,510,000	$1,242,000

Part 2

Total net income for the combined three-year period ($756,000) is not affected by the errors. This is because these errors are "self-correcting"—that is, each overstatement (or understatement) of net income is offset by a matching understatement (or overstatement) in the following year.

Part 3

The understatement of inventory by $56,000 results in an overstatement of cost of goods sold by that same amount. The $56,000 overstatement of cost of goods sold results in an understatement of gross profit by the same amount. This understatement of gross profit carries through to an understatement of net income. Since the understated net income is closed to equity, the final equity figure is understated by the amount of the inventory understatement.