ACCT2003 Principles of Accounting I
Assignment 3 – Suggested Answers

Question 1

Part A

1) FIFO

Date	Purchases			Cost of goods sold			Inventory Balance		
	Units	Unit cost	Total	Units	Unit cost	Total	Units	Unit cost	Total
10/1							150	$12	$1,800
10/7	240	$10	$2,400				150	$12	$1,800
							240	$10	$2,400
							390		$4,200
10/8				150	$12	$1,800			
				50	$10	$500			
						$2,300	190	$10	$1,900
10/14	100	$18	$1,800				190	$10	$1,900
							100	$18	$1,800
							290		3,700
10/20	60	$20	$1,200				190	$10	$1,900
							100	$18	$1,800
							60	$20	$1,200
							350		$4,900
10/25				190	$10	$1,900			
				100	$18	$1,800			
				10	$20	$200			
						$3,900	50	$20	$1,000
Totals						$6,200			$1,000

Weight Average

Date	Purchases			Cost of goods sold			Inventory Balance		
	Units	Unit cost	Total	Units	Unit cost	Total	Units	Unit cost	Total
10/1							150	$12	$1,800
10/7	240	$10	$2,400				150	$12	$1,800
							240	$10	$2,400
							390		$4,200
							$4,200/390 = $10.769		
10/8				200	$10.769	$2,154	190	$10.769	$2,046

Date	Units	Cost	Total	Units	Cost	Total	Units	Cost	Total
10/14	100	$18	$1,800				190	$10.769	$2,046
							100	$18	$1,800
							290		$3,846
							$3,846/290 = $13.262		
10/20	60	$20	$1,200				290	$13.262	$3,846
							60	$20	$1,200
							350		$5,046
							$5,046/350 = $14.417		
10/25				300	$14.417	$4,325	50	$14.417	$721
Totals						$6,479			$721

2)

		Dr.	Cr.
Oct. 7	Merchandise inventory	2,400	
	Accounts payable		2,400
Oct. 8	Accounts receivable	6,000	
	Sales		6,000
	Cost of goods sold	2,154	
	Merchandise inventory		2,154

Part B

- Under FIFO method, the earliest units purchased are charged to Cost of Goods Sold (COGS) first, whilst the most recent units purchased remain in merchandise inventory.
- However, under Weight Average method, the cost of all units purchased are averaged together.
- When inventory costs are increasing, FIFO method will result in higher ending inventory balance, as under FIFO method, the most recent units (with higher purchase prices) remain in merchandise inventory.
- COGS = opening inventory balance + net purchases for the period – ending inventory balance, and gross profit = sales – COGS. When inventory costs are increasing, ending inventory balance would be higher under FIFO method, compared with Weight Average method. As such, FIFO method will yield lower COGS and thus higher gross profit.

Question 2

Part A
1)

Topper Company Bank Reconciliation August 31				
Bank statement balance	$19,229	Book balance		$17,200
Add:		**Add:**		
Deposit in transit	1,125	Collect a note	740	
Error on cancelled check	500	Error on check #3345	90	830
	20,854			18,030
Deduct:		**Deduct:**		
Outstanding checks	2,904	NSF check	$60	
		Service charge	20	80
Adjusted bank balance	$17,950	Adjusted book balance		$17,950

2)

Aug. 31	Cash	740	
	Note receivable		740
Aug. 31	Cash	90	
	Accounts payable		90
Aug. 31	Accounts receivable – Jack Motson	60	
	Cash		60
Aug. 31	Miscellaneous expense / Bank service charge	20	
	Cash		20

Part B

a) Encourage collection of receivables by such means as offering discounts for early payment;

b) Delay payment of liabilities as long as possible without losing discounts or damaging credit standing;

c) Keep only necessary levels of assets to have less money tied up;

d) Plan expenditures for when cash is available;

e) Invest excess cash in interest bearing accounts or short-term investments to earn income.