

Assignment # 2

Ace Traders uses Perpetual inventory system and made the following purchases and sales during the

month of August.

- a. Choose any one of the inventory flow methods(LIFO,FIFO or Moving Average cost)
- a. make journal Entries for that method.
- b. create Inventory cards for all three inventory flow methods.
- c. as the accountant for this company, which method do you prefer, give reason for your selection in (a).

Inventory on August 01, 400 Units @ Rs. 14.00

Purchase 05 500 Units @ Rs.13.10

Purchase 09 200 Units @ Rs.12.40

Purchase 25 700 Units @ Rs.12.10

Sold 12 400 Units sold @Rs. 15.00

Sold 27 500 Units sold @Rs. 15.50

Ace Traders uses perpetual inventory system and made the following purchases and sales during the month of August.

- a. Choose any one of the inventory flow methods (LIFO, FIFO or Moving Average cost)

Ans. FIFO

- a. make journal Entries for that method.

Ace Trader

General Journal				Page#: 3	
Date		Title of Accounts and explanation	L/P	Debit	Credit
2020					
Aug	01	Inventory		5600	
		cash			5600
		Purchase 400 Units @ Rs.14.00 on cash			
	05	inventory		6550	
		cash			6550
		Purchase 500 Units @ Rs.13.10 on cash			
	09	Inventory		2480	
		cash			2480
		Purchase 200 Units @ Rs.12.40			
	12	Cash		6000	
		Sales revenue			6000
		Sold 400 units @ Rs.15.00			
		COGS		5600	
		inventory			5600
		To allocate cost of 400 units @ Rs.14.00			
	25	Inventory		8470	
		Cash			8470
		Purchase 700 Units @ Rs.12.10			
	27	Cash		7750	
		Sales revenue			7750
		Sold 500 units @ Rs.15.50			
		COGS		6550	
		Inventory			6550
		To allocate cost of 500 units @ Rs. 13.10			

b. create Inventory cards for all three inventory flow methods.

FIFO

Item: Inventory

Primary Supplier: inventory Manufacturer

Midha Tahir
SE-87

Description: inventory description
Wholesale

Secondary Supplier: inventory

Location: Street 03 Warehouse

Inventory level: Min 400 Max 2000

Date	Purchased			Sold			Balance		
	Units	Unit Cost	Total	Units	Unit Cost	COGS	Units	Unit Cost	Total
Aug, 01	400	14.00	5,600	-	-	-	400	14.00	5,600
Aug,05	500	13.10	6,550	-	-	-	400	14.00	5,600
							500	13.10	6,550
									12,150
Aug,09	200	12.40	2,480	-	-	-	400	14.00	5,600
							500	13.10	6,550
							200	12.40	2,480
									14,630
Aug,12	-	-	-	400	14.00	5,600	500	13.10	6,550
							200	12.40	2,480
									9,030
Aug,25	700	12.10	8,470	-	-	-	500	13.10	6,550
							200	12.40	2,480
							700	12.10	8,470
									17,500
Aug,27	-	-	-	500	13.10	6,550	200	12.40	2,480
							700	12.10	8,470
									10,950
Total	1,800		23,100	900		12,150	900		10,950

Ending Inventory: (900 units) = 10,950

Cost of goods sold: (900 units) = 12,150

LIFO

Item: Inventory

Primary Supplier: inventory Manufacturer

Midha Tahir
SE-87

Description: inventory description

Secondary Supplier: inventory Wholesale

Location: Street 03 Warehouse

Inventory level: Min 400 Max 2000

Date	Purchased			Sold			Balance		
	Units	Unit Cost	Total	Units	Unit Cost	COGS	Units	Unit Cost	Total
Aug, 01	400	14.00	5,600	-	-	-	400	14.00	5,600
Aug,05	500	13.10	6,550	-	-	-	400	14.00	5,600
							500	13.10	6,550
									12,150
Aug,09	200	12.40	2,480	-	-	-	400	14.00	5,600
							500	13.10	6,550
							200	12.40	2,480
									14,630
Aug,12	-	-	-	200	12.40	2,480	400	14.00	5,600
				200	13.10	2,620	300	13.10	3,930
									9,530
Aug,25	700	12.10	8,470	-	-	-	400	14.00	5,600
							300	13.10	3,930
							700	12.10	8,470
									18,000
Aug,27	-	-	-	500	12.10	6,050	400	14.00	5,600
							300	13.10	3,930
							200	12.10	2,420
									11,950
Total	1,800		23,100	900		11,150	900		11,950

Ending Inventory: (900 units) = 11,950

Cost of goods sold: (900 units) = 11,150

Weighted Average

Item: Inventory

Primary Supplier: inventory Manufacturer

Description: inventory description

Secondary Supplier: inventory Wholesale

Location: Street 03 Warehouse

Inventory level: Min 400 Max 2000

Date	Purchased			Sold			Balance		
	Units	Unit Cost	Total	Units	Unit Cost	COGS	Units	Unit Cost	Total
Aug, 01	400	14.00	5,600	-	-	-	400	14.00	5,600
Aug,05	500	13.10	6,550	-	-	-	900	13.5	12,150
Aug,09	200	12.4	2,480	-	-	-	1,100	13.3	14,630
Aug,12	-	-	-	400	13.3	5,320	700	13.3	9,310
Aug,25	700	12.10	8,470	-	-	-	1,400	12.7	17,780
Aug,27	-	-	-	500	12.7	6,350	900	12.7	11,430
Total	1,800		23,100	900		11,670	900		11,430

Ending Inventory: (900 units) = 11,547

Cost of goods sold: (900 units) = 11,735

c. as the accountant for this company, which method do you prefer, give reason for your selection in (a).

Ans. In FIFO method flow of cost corresponds with the physical flow of inventory, the amount shown on the balance sheet for the inventory on hand is closer to the current market value of inventory. Also net income calculated is more realistic.