Professor June Huang
Fall 2024 – ACCT 2304

Homework 6
Due by 12PM CT (noon) on Tuesday, October 8th
Answers to this homework assignment must be submitted online through eLearning

1. Arthur Weasley runs Muggle Electronics, a merchandiser selling televisions, sound systems, and gaming equipment to consumers in the United States. On December 31, 2002, Muggle Electronics had ending inventory worth $210,000. During 2003, the company had Cost of Goods Sold of $150,000 and on December 31, 2003, the company had ending inventory worth $290,000. Fill in the below T-account with appropriate amounts for 2003. How much were the company's inventory purchases during 2003?

Inventory (A)

2. At the end of 2003, Muggle Electronics had an ending balance of $290,000 in inventory (per question 1). During 2004, the company purchases $260,000 in additional inventory. At the end of 2004, the company had an ending balance of $315,000 in inventory. Fill in the T-account with appropriate amounts for 2004. How much was COGS for 2004?

Inventory (A)

3. In 2005, Muggle Electronics hired some house elves to help count inventory at the end of the year. Unfortunately, the house elves added incorrectly and the 2005 ending inventory was overstated by $8,000. Which of the following is TRUE about the effect of this error?

(a) 2005 Cost of Goods Sold would be overstated

(b) 2005 Net Income would be overstated

(c) 2005 Net Income would be understated

(d) 2005 ending Retained Earnings would be understated

4. Suppose a company has understated ending inventory in Year 1. If not corrected, which of the following will occur?

(a) Year 1 Net Income will be understated and Year 2 Net Income will be overstated

(b) Year 1 Net Income will be overstated and Year 2 Net Income will be overstated

(c) Year 1 Net Income will be understated and Year 2 Net Income will be understated

(d) Year 1 Net Income will be overstated and Year 2 Net Income will be understated

5. During 2019, Hudson Company sold 900 units of inventory. The company had the following information about beginning inventory and purchases:

Date	Transaction	Number of units	Unit cost
Jan 1	Beginning inventory	1,100	$7
Feb 14	Purchase	450	$5
Apr 3	Purchase	300	$6
Jul 28	Purchase	200	$10
Oct 24	Purchase	350	$11

(a) What is the ending inventory balance on December 31 using the average cost method? (Note: I am asking for the value of ending inventory (i.e., the dollar amount that would go on the balance sheet), not the number of units in ending inventory.)

(b) What is the ending inventory balance on December 31 using LIFO?

(c) What is the ending inventory balance on December 31 using FIFO?

6. Legolas and Gimli found a company called Archery and Mining Corp (AMC) in January. During the first month of operations, AMC has the following transactions for inventory:

Date	Units purchased	Unit cost	Units sold	Selling price	Inventory balance (Units)
Jan 8	300	$10			300
Jan 15	200	$15			500
Jan 20	50	$16			550
Jan 22			400	$40	150
Jan 31			110	$45	40

(a) What is cost of goods sold using the average cost method for the month of January?

(b) What is cost of goods sold under FIFO for the month of January?

(c) What is cost of goods sold under LIFO for the month of January?

(d) Does FIFO or LIFO result in higher COGS? Why?

(e) Does FIFO or LIFO result in more taxes owed? Assuming a 21% tax rate, calculate how much tax AMC could save from using the method that results in less taxes owed.

7. Suppose HP has computer chips in inventory that originally cost $300,000 total. Over time, the computer chips have fallen in value such that their market value is $250,000 total. Record the journal entry HP would use to write-down the value of this inventory.