Chapter 6 (week 8 lecture)

Tutorial question (P6-6A, E6-14)

P6–6A At the beginning of October, Bowser Co.'s inventory consists of 50 units with a cost per unit of $50. The following transactions occur during the month of October.

October 4	Purchase 130 units of inventory on account from Waluigi Co. for $50 per unit, terms 2/10, n/30.
October 5	Pay cash for freight charges related to the October 4 purchase, $600.
October 9	Return 10 defective units from the October 4 purchase and receive credit.
October 12	Pay Waluigi Co. in full.
October 15	Sell 160 units of inventory to customers on account, $12,800. (*Hint:* The cost of units sold from the October 4 purchase includes $50 unit cost plus $5 per unit for freight less $1 per unit for the purchase discount, or $54 per unit.)
October 19	Receive full payment from customers related to the sale on October 15.
October 20	Purchase 100 units of inventory from Waluigi Co. for $70 per unit.
October 22	Sell 100 units of inventory to customers for cash, $8,000.

Required:

1. Assuming that Bowser Co. uses a FIFO perpetual inventory system to maintain its inventory records, record the transactions.

2. Suppose by the end of October that the remaining inventory is estimated to have a net realizable value per unit of $35. Record any necessary adjustment for lower of cost and net realizable value.

3. Prepare the top section of the multiple-step income statement through gross profit for the month of October after the adjustment for lower of cost and net realizable value.

E6–14 A company like Golf USA that sells golf-related inventory typically will have inventory items such as golf clothing and golf equipment. As technology advances the design and performance of the next generation of drivers, the older models become less marketable and therefore decline in value. Suppose that in the current year, Ping (a manufacturer of golf clubs) introduces the MegaDriver II, the new and improved version of the MegaDriver. Below are year-end amounts related to Golf USA's inventory.

Inventory	Quantity	Unit Cost	Unit NRV
Shirts	35	$ 60	$ 70
MegaDriver	15	360	250
MegaDriver II	30	350	420

Required:

1. Calculate the total recorded cost of ending inventory before any adjustments.
2. Calculate ending inventory using lower of cost and net realizable value.
3. Record any necessary adjustment to inventory.
4. Determine the impact of the adjustment in the financial statements.

Take-home question (P6-3A, P6-5A)

P6–3A At the beginning of July, CD City has a balance in inventory of $3,400. The following transactions occur during the month of July.

July 3	Purchase CDs on account from Wholesale Music for $2,300, terms 1/10, n/30.
July 4	Pay cash for freight charges related to the July 3 purchase from Wholesale Music, $110.
July 9	Return incorrectly ordered CDs to Wholesale Music and receive credit, $200.
July 11	Pay Wholesale Music in full.
July 12	Sell CDs to customers on account, $5,800, that had a cost of $3,000.
July 15	Receive full payment from customers related to the sale on July 12.
July 18	Purchase CDs on account from Music Supply for $3,100, terms 1/10, n/30.
July 22	Sell CDs to customers for cash, $4,200, that had a cost of $2,500.
July 28	Return CDs to Music Supply and receive credit of $300.
July 30	Pay Music Supply in full.

Required:

1. Assuming that CD City uses a perpetual inventory system, record the transactions.
2. Prepare the top section of the multiple-step income statement through gross profit for the month of July.

P6–5A For the current year, Parker Games has the following inventory transactions related to its traditional board games.

Date	Transaction	Units	Cost	Total Cost
Jan. 1	Beginning inventory	120	$21	$2,520
Mar. 12	Purchase	90	16	1,440
Sep. 17	Purchase	60	9	540
		270		$4,500
Jan. 1–Dec. 31	Sales	170		

Required:

1. Using FIFO, calculate ending inventory and cost of goods sold.
2. Using LIFO, calculate ending inventory and cost of goods sold.
3. Because of the increasing popularity of electronic video games, Parker Games continues to see a decline in the demand for board games. Sales prices have decreased by over 50% during the year. At the end of the year, Parker estimates the net realizable value of the 100 units of unsold inventory to be $500. Determine the amount of ending inventory to report using lower of cost and net realizable value under FIFO. Record any necessary adjustment.