Problems

Problem 6–1.

In the following table, there appear income statements for four hypothetical companies. Each income statement is missing three numbers; you are to determine these missing numbers. (Assume taxes are part of "period expenses.")

	Co. W	Co. X	Co. Y	Co. Z
Sales	$2,250	$1,800	$1,350	$2,100
Cost of goods sold:				
Beginning inventory	300	225	?	300
Plus: Purchases	975	?	850	1,200
Less: Ending inventory	225	300	300	?
Cost of goods sold	?	900	?	?
Gross margin	?	?	?	750
Period expenses	300	400	150	?
Net income (loss)	$?	$?	$ 150	$ (50)

Problem 6–2.

The Gardner Pharmacy uses the periodic inventory method. In its most recent fiscal year, 2010, Gardner had beginning inventory of $50,000; gross purchases of $167,000; freight-in of $4,000; purchases returned to suppliers totaling $8,000; and ending inventory of $77,500. Make the year-end adjusting and closing entries to reflect the above information in the inventory, cost of goods sold, and income summary accounts. Then, assuming sales of $325,000, other expenses (excluding taxes) of $95,000, and a tax rate of 30 percent, prepare an income statement for the year, including the derivation of the cost of goods sold amount.

Problem 6–3.

Gould's Company, which makes a single product, uses the perpetual inventory method. At the end of each accounting period, a physical inventory is taken to verify the perpetual inventory records. For its most recent accounting period, Gould's records showed beginning inventory of 673 units; goods added to finished goods inventory during the period, 5,700 units; and sales during the period of 5,800 units. Finally, during the period, 80 units in resalable condition were returned by Gould's customers. The unit cost was $15 throughout the period.

Required

a. Assuming Gould's sells this item for $23 per unit, prepare summary journal entries for the period's purchases, sales, and sales returns.

b. Prepare an income statement down to the gross margin line.

c. Assume that after the entries in part (*a*) were made, a physical count revealed that ending inventory was actually 610 units. What additional entry is required? How does this affect your income statement?

Problem 6–4.

On March 31, the Maple Shop had no alarm clocks on hand. During the next four months, it first purchased 50 clocks for $14 each, and then 75 more for $12 each. During these four months, 100 alarm clocks were sold.

Required

What will the July 31 alarm clock inventory amount and the four months' cost of goods be if the Maple Shop uses the periodic inventory method and (*a*) average cost; (*b*) FIFO; (*c*) LIFO?

Problem 6–5.

Electronic Heaven, Inc., sells electronic merchandise, including a personal computer offered for the first time in September, which retails for $695. Sales of this personal computer for the next six-month period (ending February 28) totaled $52,125. Purchase records indicate the following on the amounts purchased and prices paid by Electronic Heaven:

Purchase Date	Units	Cost per Unit
September 10	12	$370
October 15	20	375
November 2	32	360
December 10	11	350
February 3	10	335
	85	

Required

a. Prepare a statement for this personal computer showing its gross margin for the six-month period ending February 28 using the FIFO, average cost, and LIFO inventory methods.

b. What was the gross margin percentage earned on the $52,125 sales of this personal computer? (*Hint:* The answer depends on the inventory method used.)

c. If all of the purchases and sales of this personal computer were for cash, what was the net *pretax* cash flow resulting from the purchases and sales of this personal computer? Would the use of different inventory methods change the pre-tax cash flow figure you calculated?

d. Assume a tax rate of 30 percent. What would be the net *after-tax* cash flow using different inventory methods for tax purposes?

Problem 6–6.

Marks Manufacturing Company has the following beginning balances:

Materials inventory	$100,000
Work in process	370,000
Finished goods	60,000

During the period, the following occurred:

1. Purchased for cash $872,000 worth of raw materials. Delivery charges on these materials equaled $22,000.
2. Used $565,000 worth of direct labor in the production process.
3. Used $900,000 worth of materials in the production process.
4. The following costs were incurred:

Indirect labor	$27,000	Factory utilities	$147,000
Factory supplies used	46,000	Depreciation—manufacturing	46,000
Property taxes and insurance	14,000	Selling and administrative*	28,000
Depreciation—factory	54,000		

5. Transferred $2,035,000 worth of work in process inventory to finished goods inventory.
6. Sales were $2,600,000.
7. The ending balance in Finished Goods Inventory was $93,000.

Required

a. Calculate the Ending Materials and Work in Process Inventory balances. (*Hint:* Refer to Illustration 6–4.)

b. What was Marks Manufacturing's gross margin during the period?

Problem 6–7.

You are given the following unit cost data for Sun-Power Company:

	A	B	C	D
Historical cost	$150	$183	$134	$113
Current replacement cost	145	177	126	116
Net realizable value	150	173	134	128
Net realizable value less profit margin	143	165	131	122
Number of units on hand	30	40	20	40

Required

Determine the carrying cost of each item, and record the adjusting entry to the inventory account.