B EXERCISES

(L0 1) **E9-1B (Lower-of-Cost-or-Market)** The inventory of Wei Company on December 31, 2007, consists of the following items.

Part No.	Quantity	Cost per Unit	Cost to Replace per Unit
10	900	$135	$150
11	1,500	90	78
12	750	120	114
13	300	255	270
20	600	308	312
21[a]	2,400	24	14
22	450	360	352.50

[a]Part No. 21 is obsolete and has a realizable value of $0.20 each as scrap.

Instructions

(a) Determine the inventory as of December 31, 2007, by the lower-of-cost-or-market method, applying this method directly to each item.

(b) Determine the inventory by the lower-of-cost-or-market method, applying the method to the total of the inventory.

(L0 1) **E9-2B (Lower-of-Cost-or-Market)** Wolfe Company uses the lower-of-cost-or-market method, on an individual-item basis, in pricing its inventory items. The inventory at December 31, 2007, consists of products D, E, F, G, H, and I. Relevant per-unit data for these products appear below.

	Item D	Item E	Item F	Item G	Item H	Item I
Estimated selling price	$ 240	$220	$190	$180	$220	$180
Cost	150	160	160	160	100	72
Replacement cost	2,400	144	140	60	140	60
Estimated selling expense	60	60	60	50	60	60
Normal profit	40	40	40	40	40	40

Instructions

Using the lower-of-cost-or-market rule, determine the proper unit value for balance sheet reporting purposes at December 31, 2007, for each of the inventory items above.

(L0 1, 2) **E9-3B (Lower-of-Cost-or-Market—Journal Entries)** Yousuf Company began operations in 2006 and determined its ending inventory at cost and at lower-of-cost-or-market at December 31, 2006, and December 31, 2007. This information is presented below.

	Cost	Lower-of-Cost-or-Market
12/31/06	$ 865,000	$817,500
12/31/07	1,025,000	987,500

Instructions

(a) Prepare the journal entries required at December 31, 2006, and December 31, 2007, assuming that the inventory is recorded at market, and that a perpetual inventory system (direct method) is used.

(b) Prepare journal entries required at December 31, 2006, and December 31, 2007, assuming that the inventory is recorded at cost and an allowance account is adjusted at each year-end under a perpetual system.

(c) Which of the two methods above provides the higher net income in each year?

(L0 3) **E9-4B (Relative Sales Value Method)** During 2007, Galarraga Furniture Company purchases a carload of wicker chairs. The manufacturer sells the chairs to Galarraga for a lump sum of $5,985, because it is discontinuing manufacturing operations and wishes to dispose of its entire stock. Three types of chairs are included in the carload. The three types and the estimated selling price for each are listed below.

Type	No. of Chairs	Estimated Selling Price Each
Lounge chairs	80	$45
Armchairs	60	40
Straight chairs	140	25

During 2007, Galarraga sells 40 lounge chairs, 20 armchairs, and 24 straight chairs.

Instructions

What is the amount of gross profit realized during 2007? What is the amount of inventory of unsold straight chairs on December 31, 2007?

(L0 4) **E9-5B (Purchase Commitments)** Canseco Company has been having difficulty obtaining key raw materials for its manufacturing process. The company therefore signed a long-term noncancelable purchase commitment with its largest supplier of this raw material on November 30, 2007, at an agreed price of $100,000. At December 31, 2007, the raw material had declined in price to $85,000.

Instructions

What entry would you make on December 31, 2007, to recognize these facts?

(L0 4) **E9-6B (Purchase Commitments)** At December 31, 2007, Stargell Company has outstanding noncancelable purchase commitments for 100,000 gallons, at $1.50 per gallon, of raw material to be used in its manufacturing process. The company prices its raw material inventory at cost or market, whichever is lower.

Instructions

(a) Assuming that the market price as of December 31, 2007, is $1.65, how would this matter be treated in the accounts and statements? Explain.

(b) Assuming that the market price as of December 31, 2007, is $1.35, how would you treat this situation in the accounts and statements?

(c) Give the entry in January 2008, when the 100,000-gallon shipment is received, assuming that the situation given in (b) above existed at December 31, 2007, and that the market price in January 2008 was $1.35 per gallon. Give an explanation of your treatment.

(L0 5) **E9-7B (Gross Profit Method)** Schmidt Company uses the gross profit method to estimate inventory for monthly reporting purposes. Presented below is information for the month of May.

Inventory, May 1	$ 40,000
Purchases (gross)	160,000
Freight-in	7,500
Sales	250,000
Sales returns	17,500
Purchase discounts	3,000

Instructions

(a) Compute the estimated inventory at May 31, assuming that the gross profit is 25% of sales.

(b) Compute the estimated inventory at May 31, assuming that the gross profit is 25% of cost.

(L0 5) **E9-8B (Gross Profit Method)** McGriff requires an estimate of the cost of goods lost by fire on March 9. Merchandise on hand on January 1 was $76,000. Purchases since January 1 were $144,000; freight-in, $6,800; purchase returns and allowances, $4,800. Sales are made at 25% above cost and totaled 200,000 to March 9. Goods costing $21,800 were left undamaged by the fire; remaining goods were destroyed.

Instructions

(a) Compute the cost of goods destroyed.

(b) Compute the cost of goods destroyed, assuming that the gross profit is 25% of sales.

(L0 6) **E9-9B (Retail Inventory Method)** Presented below is information related to Mantle Company.

	Cost	Retail
Beginning inventory	$ 50,000	$ 70,000
Purchases	343,750	535,000
Markups		23,750
Markup cancellations		3,750
Markdowns		8,750
Markdown cancellations		1,250
Sales		550,000

Instructions

Compute the inventory by the conventional retail inventory method.

(LO 6) **E9-10B (Retail Inventory Method)** The records of Thome's Boutique report the following data for the month of April.

Sales	$204,000	Purchases (at cost)	$ 96,000
Sales returns	4,000	Purchases (at sales price)	176,000
Additional markups	20,000	Purchase returns (at cost)	4,000
Markup cancellations	3,000	Purchase returns (at sales price)	6,000
Markdowns	18,600	Beginning inventory (at cost)	60,000
Markdown cancellations	5,600	Beginning inventory (at sales price)	93,000
Freight on purchases	2,000		

Instructions

Compute the ending inventory by the conventional retail inventory method.

(LO 7) **E9-11B (Analysis of Inventories)** The financial statements of Killebrew, Inc's. 2006 annual report disclose the following information.

(in millions)	May 27, 2006	May 28, 2005	May 26, 2004
Inventories	$250	$240	$200

	Fiscal Year	
	2006	2005
Sales	$4,000	$3,700
Cost of goods sold	1,400	1,300
Net income	300	280

Instructions

Compute Killebrew's **(a)** inventory turnover and **(b)** the average days to sell inventory for 2006 and 2005.

(LO 8) ***E9-12B (Retail Inventory Method—Conventional and LIFO)** Davis Company began operations on January 1, 2006, adopting the conventional retail inventory system. None of its merchandise was marked down in 2006 and because there was no beginning inventory, its ending inventory for 2006 of $38,100 would have been the same under either the conventional retail system or the LIFO retail system.

On December 31, 2007, the store management considers adopting the LIFO retail system and desires to know how the December 31, 2007, inventory would appear under both systems. All pertinent data regarding purchases, sales, markups, and markdowns are shown below. There has been no change in the price level.

	Cost	Retail
Inventory, January 1, 2007	$ 21,000	$ 30,000
Markdowns (net)		15,000
Markups (net)		20,000
Purchases (net)	111,000	190,000
Sales (net)		175,000

Instructions

Determine the cost of the 2007 ending inventory under both **(a)** the conventional retail method and **(b)** the LIFO retail method.

(LO 8) ***E9-13B (Dollar-Value LIFO Retail)** You assemble the following information for Henderson Department Store, which computes its inventory under the dollar-value LIFO method.

	Cost	Retail
Inventory on January 1, 2007	$420,000	$600,000
Purchases	720,000	960,000
Increase in price level for year		5%

Instructions

Compute the cost of the inventory on December 31, 2007, assuming that the inventory at retail is **(a)** $640,500 and **(b)** $745,500.

(LO 8) ***E9-14B (Dollar-Value LIFO Retail)** Presented below is information related to Winfield Corporation.

	Price Index	LIFO Cost	Retail
Inventory on December 31, 2007, when dollar-value LIFO is adopted	100	$50,000	$75,000
Inventory, December 31, 2008	105	?	94,500

Instructions

Compute the ending inventory under the dollar-value LIFO method at December 31, 2008. The cost-to-retail ratio for 2008 was 60%.

(L0 8) *E9-15B **(Change to LIFO Retail)** May Ltd., a local retailing concern in the Bronx, N.Y., has decided to change from the conventional retail inventory method to the LIFO retail method starting on January 1, 2007. The company recomputed its ending inventory for 2006 in accordance with the procedures necessary to switch to LIFO retail. The inventory computed was $100,000.

Instructions

Assuming that May Ltd.'s ending inventory for 2006 under the conventional retail inventory method was $98,600, prepare the appropriate journal entry on January 1, 2007.

(L0 5) **E9-16B (Gross Profit Method)** Horton, Inc. suffered an inventory loss due to a flood. The following information is available to you.

Beginning inventory	$100,000
Net purchase	400,000
Sales	400,000
Inventory salvaged from flood	50,000

Instructions

Use the gross profit method for estimating inventory to determine the loss due to the flood, assuming **(a)** gross profit is 25% of sales, and **(b)** gross profit is 25% of the cost of goods sold.

(L0 1) **E9-17B (Lower-of-Cost-or-Market Journal Entries)** Dial Corporation began operations on January 1, 2006. Information on the cost and market value of ending inventory is presented below for 2006 to 2009.

Year	Cost	Market
12/31/06	$350,000	$300,000
12/31/07	400,000	320,000
12/31/08	370,000	350,000
12/31/09	410,000	420,000

Instructions

Prepare the necessary journal entries for each year, assuming the following.

(a) The inventory is recorded at lower-of-cost-or-market, and a perpetual inventory system (direct method) is used.

(b) The inventory is recorded at cost, and an allowance account is adjusted at each year-end under a perpetual inventory system.

(L0 4) **E9-18B (Purchase Commitments)** Holloway Enterprises entered into a noncancelable contract to purchase $3,000,000 of inventory on November 13, 2007. The contract was to be executed in January 2008. By December 31, 2007 (the end of Holloway's fiscal year), the fair market value of the goods had declined to $2,700,000.

Instructions

(a) Prepare the journal entry to record the decline in value at December 31, 2007.

(b) What journal entry would be recorded at the execution of the contract if the fair market value on the date of execution remains at $2,700,000?

(c) What journal entry would be recorded at the execution of the contract if the fair market value on the date of execution declines to $2,500,000?

(d) What journal entry would be recorded at the execution of the contract if the fair market value on the date of execution increases to $2,800,000?

(e) What journal entry would be recorded at the execution of the contract if the fair market value on the date of execution increases to $3,200,000?

(L0 1) **E9-19B (Lower-of-Cost-or-Market Calculation)** Presented below is per-unit data on four products sold by Rando Company for the year ending December 31, 2007. Rando applies the lower-of-cost-or-market rule to inventory on an individual item basis.

	Product			
	A	B	C	D
Cost	$55	$100	$30	$20
Replacement cost	40	100	45	35
Selling price	80	120	70	50
Cost of completion and disposal	20	25	5	5
Normal profit as percentage of selling price	10%	15%	30%	20%

Instructions

Determine the proper unit value under the lower-of-cost-or-market rule for each inventory item as of December 31, 2007.

(LO 6) **E9-20B (Retail Inventory Method)** Under the conventional retail inventory method of estimating ending inventory, identify which of the following special items are included in the numerator of the cost-to-retail ratio, the denominator of the cost-to-retail ratio, or are deducted from the retail column following the cost-to-retail ratio calculation.

Item	Numerator of Ratio	Denominator of Ratio	Deducted after Ratio Calculation
Normal shortages			
Abnormal shortages			
Freight-in			
Purchase discounts			
Purchase returns			
Employee discounts			