Inventories and the cost of the goods sold REVIEW

*Determining COGS, Ending Inventory and recording related transactions

Stone Jewelers, Inc. uses a perpetual inventory system and maintains an inventory record of each type of product in stock. The following transactions show beginning inventory, purchases and sales of ER-500, silver earrings for the month of March:

March 1	Balance on hand, 10 units, cost $50 each
March 5	Sale, 7 units, Sales price $80 each
March 8	Purchase 15 units, cost $56 each
March 15	Sale, 7 units, Sales price $75 each
March 30	Sale, 8 units, Sales price $80 each

Stone Inc. uses the FIFO method of maintaining inventory:

Part A

1. What was the COGS on March 5? What was the value of the ending inventory?

2. What was the COGS on March 15? What was the value of the ending inventory?

3. What was the COGS on March 30? What was the value of the ending inventory?

Part B

Record the transactions for the above purchases and sales of inventory for Stone Inc. in a general journal.

NAME

SECTION

DATE

a Perpetual inventory record card: LIFO basis

Item ______ **Inventory method** ______ **Primary supplier** ______

Description ______ **Secondary supplier** ______

Location ______ **Inventory level: Minimum** ______ **Maximum** ______

	PURCHASED			SOLD			BALANCE		
Date	**Units**	**Unit Cost**	**Total**	**Units**	**Unit Cost**	**Cost of Goods Sold**	**Units**	**Unit Cost**	**Balance**

Year-end adjustments:
Shrinkage Losses and LCM (REVIEW)

DeMaria Toys uses a perpetual inventory system. On December 31, 2006 the inventory records indicate the following quantities of a particular toy.

	Quantity	Unit Cost	Total Cost
September	30	14	420
October	40	18	720
November	45	20	900
Total	**115**		**2,040**

A year-end physical inventory, however, shows only 95 of these toys on hand. In its financial statements, DeMaria values its inventory at lower-of-cost-or-market.

A. Shrinkage loss -- _______ toys
B. Prepare journal entries to adjust the inventory for shrinkage loss at year-end. Assume DeMaria Toys Uses:

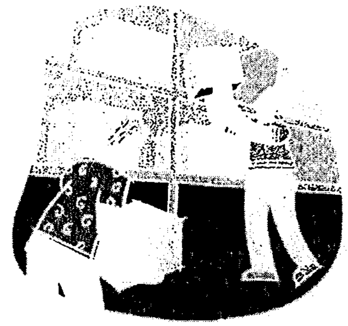
1. LIFO Method

2. FIFO Method:

3. Average Cost Method

C. Assume DeMaria Toys uses the FIFO method. At year-end the per-unit replacement cost of this toys is $14. ***Record the journal entry to write down the inventory to market value***. (Use $3,000 as the "level of materiality" in deciding the account to debit the losses to)

ACCOUNTING
Inventory turnover rate



A recent annual report of TECHTRON shows:
- -Cost of Goods sold, $5,500
- -Inventory at the beginning of the year, $240
- -Inventory at the end of the year, $260
- (These dollar amounts are in millions)

a. Compute the inventory turnover rate for the year (round to the nearest tenth)
b. Using the assumption of 365 days in a year, compute the number of days required for the company to sell the amount of its average inventory (round to the nearest day)
c. Assume that an average of 30 days is required for TECHTRON to collect its accounts receivable. What is the length of TECHTRON's *operating cycle*?

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Stone Inc. uses the FIFO method of maintaining inventory:

Part A

1. What was the COGS on March 5? What was the value of the ending inventory?

   350   150

2. What was the COGS on March 15? What was the value of the ending inventory?

   374   616

3. What was the COGS on March 30? What was the value of the ending inventory?

   448   168

Part B

Record the transactions for the above purchases and sales of inventory for Stone Inc. in a general journal.

		Debit	Credit
3/5	A/R	560	
	Sales		560
	COGS	350	
	Inventory		350
3/8	Inventory	840	
	A/P		840
3/15	A/R	525	
	Sales		525
	COGS	374	
	Inventory		374
3/30	A/R	640	
	Sales		640
	COGS	448	
	Inventory		448

40

NAME

SECTION

DATE

a Perpetual inventory record card: LIFO basis

Item ______ **Inventory method** ______ **Primary supplier** ______

Description ______ **Secondary supplier** ______

Location ______ **Inventory level: Minimum** ______ **Maximum** ______

	PURCHASED			SOLD			BALANCE		
Date	Units	Unit Cost	Total	Units	Unit Cost	Cost of Goods Sold	Units	Unit Cost	Balance
3/1							10	50	500
3/5				7	50	350	3	50	150
3/8	15	56	840				3 15	50 56	150 840
3/15				3 4	50 56	150 224	11	56	616
3/30				8	56	448	3	56	168

Year-end adjustments:
Shrinkage Losses and LCM (REVIEW)

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Total	**115**		**2,040**

A year-end physical inventory, however, shows only 95 of these toys on hand. In its financial statements, DeMaria values its inventory at lower-of-cost-or-market.

A. Shrinkage loss -- 20 toys
B. Prepare journal entries to adjust the inventory for shrinkage loss at year-end. Assume DeMaria Toys Uses:

1. LIFO Method

COGS	400	
Inventory		400

20 @ 20

2. FIFO Method:

COGS	280	
Inventory		280

20 @ 14

3. Average Cost Method

COGS	354.78	
Inventory		354.78

2040 ÷ 115 = 17,74 per item × 20

C. Assume DeMaria Toys uses the FIFO method. At year-end the per-unit replacement cost of this toys is $14. ***Record the journal entry to write down the inventory to market value.*** (Use $3,000 as the "level of materiality" in deciding the account to debit the losses to)

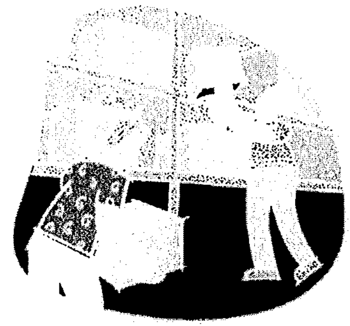
COGS	430	
Inventory		430

Market 95 · 14 = 1330

fifo
10 · 14 = 140
40 · 18 720
45 · 20 900

1760
−1330
430

ACCOUNTING
Inventory turnover rate



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c. Assume that an average of 30 days is required for TECHTRON to collect its accounts receivable. What is the length of TECHTRON's *operating cycle*?

A. $\frac{5500}{((240+260)\div 2)}$ $\frac{5500}{250} = 22$

B. $\frac{365}{22} = 16.6 = 17$ days

C. $30 + 17 = 47$ days