

The following five transactions occurred in 2012:

1. First purchase (cash) 120 units @ \$92
2. Second purchase (cash) 200 units @ \$100
3. Sales (all cash) 300 units @ \$185
4. Paid \$15,000 cash for operating expenses.
5. Paid cash for income tax at the rate of 40 percent of income before taxes.

#### Required

- a. Compute the cost of goods sold and ending inventory, assuming (1) FIFO cost flow, (2) LIFO cost flow, and (3) weighted-average cost flow.
- b. Use a vertical model to prepare the 2012 income statement, balance sheet, and statement of cash flows under FIFO, LIFO, and weighted average. (*Hint*: Record the events under an accounting equation before preparing the statements.)

## ANALYZE, THINK, COMMUNICATE

### ATC 5-1 Business Application Case *Understanding real-world annual reports*

Use the *Target Corporation's* annual report in Appendix B to answer the following questions related to Target's 2009 fiscal year.

#### Required

- a. What percentage of Target's total assets was comprised of credit card receivables?
- b. Approximately what percentage of credit card receivables did the company think will not be collected in 2009 and 2008?
- c. What is Target's policy regarding when to write off credit card receivables?
- d. What percentage of Target's total assets was comprised of inventory?
- e. What cost flow method did Target use to account for its inventory?
- f. Target had arrangements with some of its vendors such that it does not purchase or pay for merchandise inventory until the merchandise is sold to outside customers. Was the cost of these goods ever included in the Inventory account?

### ATC 5-2 Group Assignment *Inventory cost flow*

The accounting records of Robin Co. showed the following balances at January 1, 2012:

Cash	\$30,000
Beginning inventory (100 units @ \$50, 70 units @ \$55)	8,850
Common stock	20,000
Retained earnings	18,850



Transactions for 2012 were as follows:

- Purchased 100 units @ \$54 per unit.
- Purchased 250 units @ \$58 per unit.
- Sold 220 units @ \$80 per unit.
- Sold 200 units @ \$90 per unit.
- Paid operating expenses of \$3,200.
- Paid income tax expense. The income tax rate is 30%.

#### Required

- a. Organize the class into three sections, and divide each section into groups of three to five students. Assign each section one of the cost flow methods, FIFO, LIFO, or weighted average. The company uses the perpetual inventory system.