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Edmonds-Olds-McNair-Tsay:
Survey of Accounting,
Second Edition4. Accounting for
Inventories

Text

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Chapter 4

Required

- Before performing any calculations, speculate as to which company will take the longest to sell its inventory. Explain the rationale for your decision.
- Calculate the inventory turnover ratios for Ruby Tuesday's and Zale Corporation.
- Calculate the average days to sell inventory for Ruby Tuesday's and Zale Corporation.
- Do the calculations from Requirements *b* and *c* confirm your speculations in Requirement *a*?

ANALYZE, THINK, COMMUNICATE**ATC 4-1 Business Applications Case** *Understanding real-world annual reports***Required**

Use the **Topps Company's** annual report in Appendix B to answer the following questions.

- What was Topps' inventory turnover ratio and average days to sell inventory for 2006 and 2005?
- Is the company's management of inventory getting better or worse?
- What cost flow method(s) did Topps use to account for inventory?

The Topps Company, Inc.

**ATC 4-2 Group Assignment** *Inventory cost flow*

The accounting records of Robin Co. showed the following balances at January 1, 2008:

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

Transactions for 2008 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

- 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.

Group Tasks

Determine the amount of ending inventory, cost of goods sold, gross margin, and net income after income tax for the cost flow method assigned to your section. Also prepare an income statement using that cost flow assumption.

Class Discussion

- Have a representative of each section put its income statement on the board. Discuss the