EXERCISES—SERIES A

connect ACCOUNTING

All applicable Exercises in Series A are available with McGraw-Hill's *Connect® Accounting.*

LO 1

Exercise 5-1A *Effect of inventory cost flow assumption on financial statements*

Required

For each of the following situations, fill in the blank with *FIFO, LIFO,* or *weighted average:*

a. _____ would produce the highest amount of net income in an inflationary environment.
b. _____ would produce the highest amount of assets in an inflationary environment.
c. _____ would produce the lowest amount of net income in a deflationary environment.
d. _____ would produce the same unit cost for assets and cost of goods sold in an inflationary environment.
e. _____ would produce the lowest amount of net income in an inflationary environment.
f. _____ would produce an asset value that was the same regardless of whether the environment was inflationary or deflationary.
g. _____ would produce the lowest amount of assets in an inflationary environment.
h. _____ would produce the highest amount of assets in a deflationary environment.

LO 1

Exercise 5-2A *Allocating product cost between cost of goods sold and ending inventory*

Spice Co. started the year with no inventory. During the year, it purchased two identical inventory items. The inventory was purchased at different times. The first purchase cost $3,600 and the other, $4,200. One of the items was sold during the year.

Required

Based on this information, how much product cost would be allocated to cost of goods sold and ending inventory on the year-end financial statements, assuming use of

a. FIFO?
b. LIFO?
c. Weighted average?

LO 1

Exercise 5-3A *Allocating product cost between cost of goods sold and ending inventory: multiple purchases*

Suggs Company sells coffee makers used in business offices. Its beginning inventory of coffee makers was 400 units at $50 per unit. During the year, Suggs made two batch purchases of coffee makers. The first was a 500-unit purchase at $55 per unit; the second was a 600-unit purchase at $58 per unit. During the period, Suggs sold 1,200 coffee makers.

Required

Determine the amount of product costs that would be allocated to cost of goods sold and ending inventory, assuming that Suggs uses

a. FIFO.
b. LIFO.
c. Weighted average.

LO 1

Exercise 5-4A *Effect of inventory cost flow (FIFO, LIFO, and weighted average) on gross margin*

The following information pertains to Baxter Company for 2013:

Beginning inventory	90 units @ $15
Units purchased	320 units @ $19

Ending inventory consisted of 40 units. Baxter sold 370 units at $30 each. All purchases and sales were made with cash.

Required

a. Compute the gross margin for Baxter Company using the following cost flow assumptions: (1) FIFO, (2) LIFO, and (3) weighted average.
b. What is the dollar amount of difference in net income between using FIFO versus LIFO? (Ignore income tax considerations.)
c. Determine the cash flow from operating activities, using each of the three cost flow assumptions listed in Requirement *a*. Ignore the effect of income taxes. Explain why these cash flows have no differences.

Exercise 5-5A *Effect of inventory cost flow on ending inventory balance and gross margin* LO 1

Dugan Sales had the following transactions for jackets in 2013, its first year of operations:

Jan. 20	Purchased 80 units @ $15	=	$1,200
Apr. 21	Purchased 420 units @ $16	=	6,720
July 25	Purchased 250 units @ $20	=	5,000
Sept. 19	Purchased 150 units @ $22	=	3,300

During the year, Dugan Sales sold 830 jackets for $40 each.

Required

a. Compute the amount of ending inventory Dugan would report on the balance sheet, assuming the following cost flow assumptions: (1) FIFO, (2) LIFO, and (3) weighted average.
b. Record the above transactions in general journal form and post to T-accounts using (1) FIFO, (2) LIFO, and (3) weighted average. Use a separate set of journal entries and T-accounts for each method. Assume all transactions are cash transactions.
c. Compute the difference in gross margin between the FIFO and LIFO cost flow assumptions.

Exercise 5-6A *Income tax effect of shifting from FIFO to LIFO* LO 1

The following information pertains to the inventory of the Windjammer Company:

Jan. 1	Beginning Inventory	300 units @ $25
Apr. 1	Purchased	2,800 units @ $30
Oct. 1	Purchased	1,000 units @ $32

During the year, Windjammer sold 3,500 units of inventory at $50 per unit and incurred $21,000 of operating expenses. Windjammer currently uses the FIFO method but is considering a change to LIFO. All transactions are cash transactions. Assume a 30 percent income tax rate. Windjammer started the period with cash of $36,000, inventory of $7,500, common stock of $20,000 and retained earnings of $23,500.

Required

a. Record the above transactions in general journal form and post to T-accounts using (1) FIFO and (2) LIFO. Use a separate set of journal entries and T-accounts for each method.
b. Prepare income statements using FIFO and LIFO.
c. Determine the amount of income tax Windjammer would save if it changed cost flow methods.