S6-10 **5 Applying the lower-of-cost-or-market rule [5–10 min]**
Refer to Short Exercises 6-3 through 6-9. At August 31, the accountant for Mountain Cycles determines that the current replacement cost of each bike is $40.

Requirements

1. Assuming inventory was calculated using the FIFO method, make any adjusting entry needed to apply the lower-of-cost-or-market rule. Inventory would be reported on the balance sheet at what value on August 31?
2. Assuming inventory was calculated using the LIFO method, make any adjusting entry needed to apply the lower-of-cost-or-market rule. Inventory would be reported on the balance sheet at what value on August 31?
3. Assuming inventory was calculated using the average-cost method, make any adjusting entry needed to apply the lower-of-cost-or-market rule. Inventory would be reported on the balance sheet at what value on August 31?

S6-11 **5 Applying the lower-of-cost-or-market rule [5–10 min]**
Assume that a Rocket Burger restaurant has the following perpetual inventory record for hamburger patties:

Hamburger Patties			
Date	Purchases	Cost of Goods Sold	Inventory on Hand
Feb 9	$ 470		$ 470
22		$ 280	190
28	210		400

Requirements

1. At February 28, the accountant for the restaurant determines that the current replacement cost of the ending inventory is $447. Make any adjusting entry needed to apply the lower-of-cost-or-market rule. Inventory would be reported on the balance sheet at what value on February 28?
2. Inventory would be reported on the balance sheet at what value if Rocket uses the average-cost method?

S6-12 **6 Effect of an inventory error—one year only [5 min]**
California Pool Supplies' inventory data for the year ended December 31, 2012, follow:

Sales revenue	$ 60,000
Cost of goods sold:	
Beginning inventory	$ 4,200
Net purchases	26,600
Cost of goods available	$ 30,800
Ending inventory	(6,200)
Cost of goods sold	$ 24,600
Gross profit	$ 35,400

Assume that the ending inventory was accidentally overstated by $2,400.

Requirement

1. What are the correct amounts for cost of goods sold and gross profit?

S6-13 **6 Next year's effect of an inventory error [5–10 min]**
Refer back to the California Pool Supplies' inventory data in Short Exercise 6-12.

Requirement

1. How would the inventory error affect California Pool Supplies' cost of goods sold and gross profit for the year ended December 31, 2013, if the error is not corrected in 2012?