

Question	Answer
Yo Co. opens its business in 2009 and purchases merchandise on account for \$100. During 2009, Yo Co. paid \$50 cash towards the \$100 due. Its sales were \$250 and ending inventory \$20. Yo Co's gross profit for 2009 was . . .	\$170; Beg. inv. [0] + Purchases [\$100] = COGA [\$100] - End. inv. [\$20] = COGS [\$80]; Sales [\$250] - COGS [\$80] = GP [\$170]
Yo Co. has Beg. inv. costing \$200. Sales were \$600, purchases \$400, and ending inventory \$240. What is Yo Co's cost of goods sold?	\$360; Beg. inv. [200] + purchases [\$400] = COGA [\$600] - End. inv. [\$240] = COGS [\$360]
On 5/12 Yo Co. purchases merchandise for \$50 on account FOB destination. Freight charges are \$5. On 5/20 YoCo. Pays the vendor \$30. On Yo Co's 5/31 balance sheet, the A/P balance will be . . .	\$20; \$50 - \$30 = \$20 If you buy FOB destination, you don't have to pay shipping because it is "free on board."
Yo Co uses perpetual method for inventory and records purchases at gross. Its total purchases for 2009 were \$300, and it returns \$20 of merchandise for a full credit. Yo Co also receives allowances of \$10 for defective merchandise and takes \$2 of cash discounts. The net cost of Yo Co's merchandise purchases is . . .	\$268 = \$300 purchases -20 returns - 10 allowances - 2 discounts
Yo Co uses the periodic method and purchases merchandise on account for \$60 FOB shipping point. Freight charges are \$2 C.O.D. The journal entry for these purchases is . . .	Dr. Purchases 60 & Cr. A/P 60; Dr. Freight In 2 & Cr. Cash 2
Yo Co uses the periodic method and purchases merchandise on account for \$60 FOB destination. Freight charges were \$2 The journal entry for these purchases is . . .	Dr. Purchases 60 & Cr. A/P 60; You don't have to pay freight since it was "free on board" destination.
Yo Co. uses the perpetual method. On 5/9 YoCo sells \$200 merchandise on account that cost \$80. On 5/12 10% of these goods are returned. Prepare the entry that Yo Co makes on 5/12 . . .	Dr. Sales returns & allowances \$20 & Cr. A/R \$20; Dr. Inventory \$8 & Cr. COGS \$8.
Yo Co. uses the periodic method. On 5/9 YoCo sells \$200 merchandise on account that cost \$80. On 5/12 10% of these goods are returned. Prepare the entry that Yo Co makes on 5/12 . . .	Dr. Sales returns & allowances \$20 & Cr. A/R \$20;
Yo Co. uses the perpetual method and records purchases at gross. On 8/5 it buys \$240 of merchandise with terms 1/10, n/60. On 8/8 Yo Co. returns goods that cost \$40. On 8/11 YoCo. pays in full. What journal entry does it make on 8/11?	Dr. A/P 200 & Cr. Inventory 2 & Cash 198; (\$240 - \$40 returns) x .01 = \$2 discount
YoCo begins operations in February, uses the perpetual method, and records purchases at net. On 2/1 it purchases merchandise for \$200 with terms 2/10, n/50 and it pays for that purchase on 2/7. On 2/9 it purchases merchandise for \$500 with terms 2/10, n/50 and pays for that purchase on 2/26. If there are no sales in February, what is YoCo's inventory ledger balance on 2/28?	\$686; \$200 x .98 = \$196 ; \$500 x .98 = \$490 ; \$196 + \$490 = \$686; On 2/26 when YoCo pays after the discount period , it record the extra amount to <i>purchase discounts lost</i> (not inventory).
YoCo begins operations in May and uses the periodic method. Its May purchases are \$2,000 on account FOB shipping point. Merchandise that cost \$300 is returned for credit. Goods that YoCo sells for \$700 and that cost \$250 are returned to YoCo for cash refunds. In June, YoCo pays a \$200 freight bill for its May purchases. The net cost of YoCo's May purchases is . . .	\$1,900; Purchases \$2,000 - allowances \$300 + freight in \$200 = \$1,900
YoCo buys 100 cases of Oysters listed at \$2,000 a case and for which YoCo is given a 10% volume discount. YoCo sells 80% of the cases for cash. The cost of the unsold merchandise is . . .	\$36,000; 100 cases x \$2,000 case = \$200,000 x 10% volume discount = \$20,000; \$200,000 - \$20,000 discount = \$180,000 x 20% remaining = \$36,000
YoCo uses the periodic method and records merchandise purchases at net. In 2009, its ending inventory is \$150. During 2010 YoCo purchases merchandise for \$8,000, with freight in of \$30. Purchase returns are \$40, purchase discounts lost are \$5, and the cost of merchandise on hand at year end is \$180. At year End YoCo would record what journal entry to adjust inventory and record cost of goods sold.	Dr. Ending Inv. 180 ; Dr. Purchase Returns 40 ; Dr. COGS 7960; Cr. Purchases 8,000 ; Cr. Freight In 30 ; Cr. Beginning Inventory 150 ;

YoCo uses the periodic method and has the following account balances: Purchase Returns \$40 ; Beg. Inventory \$5 ; Purchases \$500; Freight-in \$30; A/P \$50. What are YoCo's net purchases?	\$490 ; Net purchases = Purchases \$500 - Purchase Returns \$40 + Freight-In \$30 = \$490
YoCo has the following account balances: Purchase Returns \$20; Purchases \$900; Purchase Discounts \$10; Beg. Inventory \$25; Freight-In \$30; End. Inventory \$40. YoCo's COGS is . . .	\$885 ; Beg. Inv \$25 + Purchases \$900 - Purch. Returns \$20 - Purch. Discounts - \$10 + Freight-In \$30 = COGA = \$900 - End. Inv. \$40 = \$885
YoCo uses periodic method. Its Beg. Inventory is \$50, Purchases are \$400, FOB destination, Purchase Returns are \$20, and Freight is \$10. The balance of YoCo's ledger Purchases account is . . .	\$400
YoCo uses the periodic method and is preparing its year-end journal entry to record cost of goods sold. What accounts are debited? Which are credited?	Debits: Ending Inventory, Purchase Discounts, Purchase Returns, Purchase Allowances, & COGS. Credits: Beg. Inventory, Purchases, Freight-In.
YoCo begins operations in 2009 and uses the periodic method and weighted average costing. YoCo has the following purchases in 2009: 100 units in March @ \$2; 200 units in June @ \$3, and 400 units in November at \$5. A physical count of ending inventory finds 160 units. Calculate the cost of goods sold.	COGS \$2,160 ; COGA \$2,800 = (100 x \$2) + (200 x \$3) + (400 x \$5) ; \$2,800 COGA / 700 units avail = \$4 per unit ; 700 units available - 160 remaining = 540 sold ; 540 x \$4 = \$2,160 COGS
YoCo begins operations in 2009 and uses the periodic method and weighted average costing. YoCo has the following purchases in 2009: 100 units in March @ \$2; 200 units in June @ \$3, and 400 units in November at \$5. A physical count of ending inventory finds 160 units. Calculate the cost of ending inventory.	End. Inv \$640 ; COGA \$2,800 = (100 x \$2) + (200 x \$3) + (400 x \$5) ; \$2,800 COGA / 700 units avail = \$4 per unit ; 160 units x \$4 cost = \$640
YoCo begins operations in 2009 and uses the periodic method and LIFO costing. YoCo has the following purchases in 2009: 100 units in March @ \$2; 200 units in June @ \$3, and 400 units in November at \$5. A physical count of ending inventory finds 160 units. Calculate the cost of goods sold.	COGS \$2,420 ; COGA \$2,800 = (100 x \$2) + (200 x \$3) + (400 x \$5) ; If LIFO, last units were first ones sold and the 160 units remaining in inventory consist of 100 @ \$2 and 60 @ \$3 = \$380 Ending Inventory; COGA \$2,800 - End. Inv \$380 = \$2,420 COGS
YoCo begins operations in 2009 and uses the periodic method and LIFO costing. YoCo has the following purchases in 2009: 100 units in March @ \$2; 200 units in June @ \$3, and 400 units in November at \$5. A physical count of ending inventory finds 160 units. Calculate the cost or value of ending inventory.	End. Inv \$380; COGA \$2,800 = (100 x \$2) + (200 x \$3) + (400 x \$5) ; If LIFO, last units were first ones sold and the 160 units remaining in inventory consist of 100 @ \$2 and 60 @ \$3 = \$380 Ending Inventory
MyCo uses the periodic method and weighted average costing. The cost of the 1,000 units in MyCo's 2009 ending inventory is \$10,000. MyCo has the following merchandise purchases in 2010: 1,500 units in April @ \$15; 2,000 units in September @ \$20; and 3,500 units in December @ \$25. Calculate the cost of the remaining 1,600 units in ending inventory.	End. Inv. \$32,000; COGA \$ 160,000 = (1,000 x \$10) + (1,500 x \$15) + (2,000 x \$20) + (3,500 x \$25) ; COGA \$160,000 / 8,000 units avail = \$20 per unit ; \$20 x 1,600 units end. inv. = \$32,000
MyCo uses the periodic method and FIFO costing. The cost of the 1,000 units in MyCo's 2009 ending inventory is \$10,000. MyCo has the following merchandise purchases in 2010: 1,500 units in April @ \$15; 2,000 units in September @ \$20; and 3,500 units in December @ \$25. Calculate the cost of the remaining 1,600 units in ending inventory.	End. Inv. \$40,000; COGA \$ 160,000 = (1,000 x \$10) + (1,500 x \$15) + (2,000 x \$20) + (3,500 x \$25) ; Under FIFO the first units in were first sold and ending inventory is based on last units purchased or 1,600 X \$25 = \$40,000 End. Inv.
MyCo uses the periodic method and FIFO costing. The cost of the 1,000 units in MyCo's 2009 ending inventory is \$10,000. MyCo has the following merchandise purchases in 2010: 1,500 units in April @ \$15; 2,000 units in September @ \$20; and 3,500 units in December @ \$25. Calculate the cost of goods sold if there are 1,600 units left in ending inventory.	COGS \$120,000; COGA \$ 160,000 = (1,000 x \$10) + (1,500 x \$15) + (2,000 x \$20) + (3,500 x \$25) ; Under FIFO the first units in were first sold and ending inventory is based on last units purchased or 1,600 X \$25 = \$40,000 End. Inv.; COGA \$160,000 - End. Inv. \$40,000 = \$120,000 COGS
YoCo begins operations and uses the perpetual method and moving average costing. On 2/3 YoCo buys 100 units of merchandise @ \$2, On 2/4 it sells 50 units. On 2/8 it buys 120 units @ \$3.53, and on 2/18 it sells 70 units. On 2/18 what does YoCo record as the COGS?	\$215.60; 100 - 50 = (50 @ \$2) + (120 @ \$3.53) = \$523.60 / 170 units = \$3.08 ave cost x 70 sold = \$215.60
YoCo begins operations and uses the perpetual method and moving average costing. On 2/3 YoCo buys 100 units of merchandise @ \$2, On 2/4 it sells 50 units. On 2/8 it buys 120 units @ \$3.53, and on 2/18 it sells 70 units. What is the value of the ending inventory?	\$308; 100 - 50 = (50 @ \$2) + (120 @ \$3.53) = \$523.60 / 170 units = \$3.08 ave cost x 100 units = \$308 End. Inv.

MyCo begins operations and uses the perpetual method and LIFO. On 2/3 YoCo buys 100 units of merchandise @ \$2, On 2/4 it sells 50 units. On 2/8 it buys 120 units @ \$3.53, and on 2/18 it sells 70 units. What is the value of the ending inventory?	\$276.50 End. Inv.; 100 units(2/3) - 50 units (2/4) = 50 units @ \$2 +120 units @ \$3.53 - 70 @ \$3.53 = 50 units @ \$2 + 50 units @ \$3.53 = \$276.50 End. Inv.
MyCo begins operations and uses the perpetual method and LIFO. On 2/3 YoCo buys 100 units of merchandise @ \$2, On 2/4 it sells 50 units. On 2/8 it buys 120 units @ \$3.53, and on 2/18 it sells 70 units. For 2/18 what does MyCo record as COGS?	\$247.10; 100 units(2/3) - 50 units (2/4) = 50 units @ \$2 +120 units @ \$3.53 (Since LIFO means last in are first sold, 70 @ \$3.53 = \$247.10 COGS
YoCo has 100 units of inventory on hand at year end. Each unit cost \$20, has a replacement cost of \$16, an estimated selling price of \$40, disposal costs of \$2, and an estimated normal markup of \$20. If YoCo applies LCM, what is the ceiling?	Ceiling (NRV) = Selling Price – Disposal Costs \$40 - \$2 = \$38
YoCo has 100 units of inventory on hand at year end. Each unit cost \$20, has a replacement cost of \$16, an estimated selling price of \$40, disposal costs of \$2, and an estimated normal markup of \$20. If YoCo applies LCM, what is the floor?	Floor = Ceiling – Normal Markup per unit \$38 - \$20 = \$18
YoCo has 100 units of inventory on hand at year end. Each unit cost \$20 and has replacement cost of \$22. Assuming a ceiling of \$34 and floor of \$15? What is the per unit amount YoCo would use for its ending inventory on the balance sheet?	\$20 x 100 = \$2,000
If temporary decline in value of inventory (out of season inventory) what do you do?	Ignore it.
If there is a permanent decline in value of inventory and the amount of loss is not significant enough to warrant disclosure on income statement, it is . . .	Added to cost of goods sold
If there is a permanent decline in value of inventory and the amount of loss is significant enough to warrant disclosure on income statement, it is . . .	Debited to Loss on Inventory Writedown & Credited to Inventory or Allowance to Reduce Inventory
There was a permanent decline in value of inventory, that resulted in the following journal entry: debit to Loss on Writedown & credit to Inventory. However, the inventory unexpectedly recovered some of its value. What journal entry is required?	No journal entry since loss was recorded directly to inventory. If it had been credited to Allowance to Reduce Inventory to Mkt then subsequent recovery would result in following journal entry: Dr. Allow & Cr. Loss Recovery
On 12/1 YoCo enters into a contractual agreement to take delivery of 1,000 pounds of strawberries for \$1 per lb. On 12/31, the market price has declined to \$0.75 per pound and the decline is deemed permanent. How would these developments appear on the financial statements 12/31?	Dr. \$250 estimated loss on purchase commitment Cr. \$250 estimated liability on purchase commitment
On 12/1 YoCo enters into a contractual agreement to take delivery of 1,000 pounds of strawberries for \$1 per lb. On 12/31, the market price has declined to \$0.75 per pound and the decline is deemed permanent. If the market price drops to \$0.60 per pound on the date YoCo takes delivery, what journal entry is required?	Dr. Inventory \$600 Dr. Estimated Liability on Purchase Commitment \$250 Dr. Loss on Purchase Commitment \$150 Cr. Cash \$1,000

YoCo began operations in 2001 and uses the periodic method and LIFO costing. Its merchandise purchases are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	100 @ \$1	400 @ \$5	350 @ \$9
April	200 @ \$2	250 @ \$6	200 @ \$10
August	150 @ \$3	500 @ \$7	500 @ \$11
December	300 @ \$4	600 @ \$8	700 @ \$12

If YoCo sells 500 units in 2001, its December 31, 2001 ending inventory of 250 units is . . .

100 @ \$1 = \$100
150 @ \$2 = \$300
 250 \$400

YoCo began operations in 2001 and uses the periodic method and LIFO costing. Its merchandise purchases are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	100 @ \$1	400 @ \$5	350 @ \$9
April	200 @ \$2	250 @ \$6	200 @ \$10
August	150 @ \$3	500 @ \$7	500 @ \$11
December	300 @ \$4	600 @ \$8	700 @ \$12

If instead YoCo had 100 units in its 2001 inventory and 50 units in its 2002 inventory (which is lower than its 2002 Beg. Inv.); Its 12/31/03 ending inventory is 400 units. What is YoCo's 12/31/03 inventory value?

End Inventory 2001
 100 @ \$1 = \$100

End Inventory 2002
 50 @ \$1 = \$50

End Inventory 2003
 50 @ \$1 = \$50
350 @ \$9 = \$3,150
 400 \$3,200

YoCo began operations in 2001 and uses the periodic method and LIFO costing. Its merchandise purchases are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	100 @ \$1	400 @ \$5	350 @ \$9
April	200 @ \$2	250 @ \$6	200 @ \$10
August	150 @ \$3	500 @ \$7	500 @ \$11
December	300 @ \$4	600 @ \$8	700 @ \$12

If instead YoCo had 100 units in its 2001 inventory and 200 units in its 2002 inventory, then its 2002 inventory is valued at . . .

End Inventory 2001
 100 @ \$1 = \$100

End Inventory 2002
 100 @ \$1 = \$100
100 @ \$5 = \$500
 200 \$600

YoCo began operations in 2001 and uses the periodic method and LIFO costing. Its merchandise purchases are as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	100 @ \$1	400 @ \$5	350 @ \$9
April	200 @ \$2	250 @ \$6	200 @ \$10
August	150 @ \$3	500 @ \$7	500 @ \$11
December	300 @ \$4	600 @ \$8	700 @ \$12

If instead YoCo had 300 units in its 2001 inventory and 100 units in its 2002 inventory (which is lower than its 2002 Beg. Inv.); Its 12/31/03 ending inventory is 400 units. What is YoCo's 12/31/03 inventory value?

End Inventory 2001
 100 @ \$1 = \$100

End Inventory 2002
 100 @ \$1 = \$100

End Inventory 2003
 100 @ \$1 = \$100
300 @ \$9 = \$2,700
 400 \$2,800

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

<u>2009</u>	<u>Total Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500

<u>2010</u>	<u>Units</u>	<u>\$/Unit</u>	<u>Total Cost</u>
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

If MyCo uses FIFO costing and its 12/31/10 ending inventory is 600 units, then ending inventory on its balance sheet will be . . .

$$\begin{aligned}
 500 \times \$7 &= \$3,500 \\
 \underline{100 \times \$6} &= \underline{\$600} \\
 600 &\quad \$4,100
 \end{aligned}$$

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

<u>2009</u>	<u>Total Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500

<u>2010</u>	<u>Units</u>	<u>\$/Unit</u>	<u>Total Cost</u>
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

If MyCo uses LIFO and sold 900 units in 2009, what is its cost of goods sold?

$$\begin{aligned}
 700 \times \$5 &= \$3,500 \\
 \underline{200 \times \$4} &= \underline{\$800} \\
 900 &\quad \$4,300
 \end{aligned}$$

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

<u>2009</u>	<u>Total Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500

<u>2010</u>	<u>Units</u>	<u>\$/Unit</u>	<u>Total Cost</u>
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

If MyCo uses LIFO and sold 850 units each year, what is its 2010 cost of goods sold?

$$\begin{aligned}
 \text{COGS 2009} & & \text{COGS 2010} \\
 700 @ \$5 &= \$3,500 & 500 \times \$7 = \$3,500 \\
 150 @ \$4 &= \$600 & 300 \times \$6 = \$1,800 \\
 \text{End Inventory 2009} & & 50 \times \$4 = \underline{\$200} \\
 150 @ \$4 &= \$600 & & \underline{\$5,500}
 \end{aligned}$$

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

<u>2009</u>	<u>Total Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500

<u>2010</u>	<u>Units</u>	<u>\$/Unit</u>	<u>Total Cost</u>
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

MyCo uses LIFO and sold 800 units in 2009, and has 400 units in its 12/31/10 ending inventory. What is the ending inventory on the 12/31/10 balance sheet?

$$\begin{aligned}
 \text{End Inventory 2009} & & \text{End Inventory 2010} \\
 200 @ \$4 &= \$800 & 200 \times \$4 = \$800 \\
 & & \underline{200 \times \$6 = \$1,200} \\
 & & 400 \quad \$2,000
 \end{aligned}$$

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

2009	Total Units	Unit Cost	Total Cost
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500
2010	Units	\$/Unit	Total Cost
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

MyCo uses FIFO and sold 900 units each year. What is its 2010 cost of goods sold?

<u>End Inventory 2009</u>	<u>COGS 2010</u>
100 @ \$5 = \$800	100 x \$5 = \$800
	300 x \$6 = \$1,800
	500 x \$7 = \$3,500
	900 \$6,100

MyCo begins operations in 2009, uses the periodic method, and makes the following purchases.

2009	Total Units	Unit Cost	Total Cost
Feb.	300	\$ 4	\$ 1,200
Oct.	700	\$ 5	\$ 3,500
2010	Units	\$/Unit	Total Cost
June	300	\$ 6	\$ 1,800
Dec.	500	\$ 7	\$ 3,500

MyCo uses weighted average method and had 400 units in 2009 ending inventory. If MyCo sells 700 units in 2010, what is the 2010 COGS? (round unit costs in computation to nearest penny).

COGA= \$4,700 / 1,000 units	COGA= \$1,880+1,800+3,500
= \$4.70 Ave Cost	= \$7,180/1,200 units= \$5.98 Ave
<u>End Inventory 2009</u>	<u>COGS 2010</u>
400 x \$4.70 = \$1,880	700 x \$5.98 = \$4,186

What is YoCo's ending inventory applying LCM by item?

	Units	Cost Market		Cost	Market	Item by Item
		per Unit	per Unit			
<u>Chocolate</u>						
KitKat	30	\$20	\$21	\$600	\$630	\$600
Hersheys	20	\$15	\$10	\$300	\$200	\$200
<u>Chewey</u>						
Licorice	25	\$12	\$10	\$300	\$250	\$250
Gummy Bears	10	\$10	\$12	\$100	\$120	\$100
<u>Suckers</u>						
Tootsie Pop	15	\$9	\$8	\$135	\$120	\$120
Blow Pop	25	\$8	\$12	\$200	\$300	\$200
						\$1,470

What is YoCo's ending inventory applying LCM by Group?

	Units	Cost Market		By		
		per Unit	per Unit	Cost	Market	Group
<u>Chocolate</u>						
KitKat	30	\$20	\$21	\$600	\$630	
Hersheys	20	\$15	\$10	\$300	\$200	
				\$900	\$830	\$830
<u>Chewey</u>						
Licorice	25	\$12	\$10	\$300	\$250	
Gummy Bears	10	\$10	\$12	\$100	\$120	
				\$400	\$370	\$370
<u>Suckers</u>						
Tootsie Pop	15	\$9	\$8	\$135	\$120	
Blow Pop	25	\$8	\$12	\$200	\$300	
				\$335	\$420	\$335
						\$1,535

What is YoCo's ending inventory applying LCM in Total?

		Cost per Unit	Market per Unit	Cost	Market	Total
<u>Chocolate</u>						
KitKat	30	\$20	\$21	\$600	\$630	
Hersheys	20	\$15	\$10	\$300	\$200	
<u>Chewey</u>						
Licorice	25	\$12	\$10	\$300	\$250	
Gummy Bears	10	\$10	\$12	\$100	\$120	
<u>Suckers</u>						
Tootsie Pop	15	\$9	\$8	\$135	\$120	
Blow Pop	25	\$8	\$12	\$200	\$300	
				\$1,635	\$1,620	\$1,620

If temporary decline in value of inventory (out of season inventory) what do you do?

Answer: **Ignore it**

If there is a permanent decline in value of inventory and the amount of loss is not significant enough to warrant disclosure on income statement, it is . . .

Answer: **Added to *cost of goods sold***

If there is a permanent decline in value of inventory and the amount of loss is significant enough to warrant disclosure on income statement, it is . . .

Answer: **Debited to Loss on Inventory Writedown & Credited to Inventory or Allowance to Reduce Inventory**

There was a permanent decline in value of inventory, that resulted in the following journal entry: debit to *Loss on Writedown* & credit to *Inventory*.

However, the inventory unexpectedly recovered some of its value. What journal entry is required?

Answer: No journal entry since loss was recorded directly to inventory. If it had been credited to *Allowance to Reduce Inventory to Mkt* then subsequent recovery would result in following journal entry: Dr. *Allow* & Cr. *Loss Recovery*

On 12/1 YoCo enters into a contractual agreement to take delivery of 1,000 pounds of strawberries for \$1 per lb. On 12/31, the market price has declined to \$0.75 per pound and the decline is deemed permanent. How would these developments appear on the financial statements 12/31?

Answer: Dr. \$250 *estimated loss on purchase commitment* & Cr. \$250 *estimated liability on purchase commitment*

On 12/1 YoCo enters into a contractual agreement to take delivery of 1,000 pounds of strawberries for \$1 per lb. On 12/31, the market price has declined to \$0.75 per pound and the decline is deemed permanent. If the market price drops to \$0.60 per pound on the date YoCo takes delivery, what journal entry is required ?

Answer:

Inventory	\$600	
Estimated Liability on Purchase Commitment	\$250	
Loss on Purchase Commitment	\$150	
Cash		\$1,000

