CHAPTER SIX

SE6-2
Tone Company

<table>
<thead>
<tr>
<th>Cost of Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000 transformers × $100 each = $400,000</td>
</tr>
<tr>
<td>+ freight 950</td>
</tr>
<tr>
<td>+ insurance 200</td>
</tr>
<tr>
<td>Total cost of inventory $401,150</td>
</tr>
</tbody>
</table>

SE6-5

Inventory errors

a. Understate net income by $3,000
b. Overstate net income by $2,500
c. Understate net income by $2,000
d. Overstate net income by $1,000

SE6-11

Lower-of-cost-or-market

On the year-end balance sheet, Drayco should show the inventory at the market value of $15,000.

E6-13

Seattle Ship Products, Inc.: Gross profit method of estimating inventory

Ending inventory = Beginning inventory + purchases – cost of goods sold
Ending inventory = $300,000 + 160,000 – (0.70 × 450,000)
Ending inventory = $145,000
Payroll and payroll taxes

a. $14,400

b. $20,000 (an additional $1,600 (employer’s matching FICA) would be shown as employer’s tax expense)

c. Definitely determinable liability

Furlong Corporation: FIFO, LIFO, Weighted average inventory calculations

a. 1. Average cost: Goods available for sale/total cost = $39,000/11,000 = 3.5454/unit; units sold = 7,000 × 3.5454 = $24,818 cost of goods sold

Ending inventory = 4,000 units × $3.5454 = $14,182 (rounded)
(If you rounded the average cost to $3.54, your answers would be $24,780 for cost of goods sold and $14,160 for ending inventory. One of them would have to be adjusted to bring the total to $39,000—the total goods available for sale. Generally, computerized inventory systems would not round unnecessarily.)

2. FIFO: Cost of goods sold = (3,000 × $3) + (4,000 × 3.50) = $23,000
   Ending inventory = 4,000 × $4 = $16,000

3. LIFO: Cost of goods sold = (4,000 × $4) + (3,000 × $3.50) = $26,500
   Ending inventory = (3,000 × $3) + (1,000 × $3.50) = $12,500

b. FIFO: Cost of goods sold = (2,000 × $3.00) + (1,000 × $3.00) + (4,000 × $3.50) = $6,000 + $3,000 + $14,000 = $23,000
   Ending Inventory = 4,000 × $4.00 = $16,000