1)

Exhibit 2–1 FIFO vs. LIFO vs. Average Cost Method of Inventory Valuation Example

Assume the following inventory events:

- November 5 Purchased 800 widgets at $10.00/unit—Total *cost* $8,000
- November 7 Purchased 300 widgets at $11.00/unit—Total *cost* $3,300
- November 8 Purchased 320 widgets at $12.25/unit—Total *cost* $3,920
- November 10 Sold 750 units of goods at $15.00/unit
- November 14 Sold 460 units of goods at $15.55/unit
- November 15 Purchased 200 widgets at $14.70/unit—Total *cost* $2,940
- November 18 Sold 220 units of goods at $14.45/unit

Basic Events:

	Units Purchased		
Date	**#Units**	**Cost/Unit**	**Total Cost**
11/5	800	$10.00	$8,000
11/7	300	11.00	3,300
11/8	320	12.25	3,920
11/15	200	14.70	2,940
Total	**1,620**	**N/A**	**$18,160**

	Units Sold		
Date	**#Units**	**Cost/Unit**	**Total Cost**
11/10	750	Varies By	
11/14	460	Valuation	
11/18	220	Method	
Total	**1,430**	**N/A**	**N/A**

Given gross sales of $21,582, calculate which calculate which method will generate the largest gross profit margin.

2)

(INVENTORIABLE COSTS: ERROR ADJUSTMENTS) The following purchase transactions occurred during the last few days of the Alco Company's business year, which ends October 31, or in the first few days after that date. A periodic inventory system is used.

1. An invoice for $4,000, terms f.o.b. shipping point, was received and entered November 1. The invoice shows that the material was shipped October 29, but the receiving report indicates receipt of goods on November 3.
2. An invoice for $2,800, terms f.o.b. destination, was received and entered November 2. The receiving report indicates that the goods were received October 29.
3. An invoice for $3,375, terms f.o.b. shipping point, was received October 15 but never entered. Attached to it is a receiving report indicating that the goods were received October 18. Across the face of the receiving report is the following notation: "Merchandise not of same quality as ordered—returned for credit October 19."
4. An invoice for $3,250, terms f.o.b. shipping point, was received and entered October 27. The receiving report attached to the invoice indicates that the shipment was received October 27 in satisfactory condition.
5. An invoice for $5,400, terms f.o.b. destination, was received and entered October 28. The receiving report indicates that the merchandise was received November 2.

Before preparing financial statements for the year, you are instructed to review these transactions and to determine whether any correcting entries are required and whether the inventory of $74,200 determined by physical count should be changed.

Instructions

Complete the following schedule and state the correct inventory at October 31. Assume that the books have not been closed. Also, given your correcting entries, identify entries that must be made after closing in order for the accounts of November to be correct.

Transaction	Purchase and Related Payable Should Be Recognized in (month)	Purchase and Related Payable Were Recognized in (month)	Correcting Journal Entries Needed	Should Inventory Be Included in October Ending Inventory?	Was Inventory Included in October Ending Inventory?	Dollar Adjustments Needed to October Ending Inventory?

3)

(PERIODIC VERSUS PERPETUAL ENTRIES) The Phoenix Company sells one product, the Wipplesnip. Presented below is information for January for the Phoenix Company:

Jan. 1	Inventory	100	units at $5 each
Jan. 4	Sale	70	units at $8 each
Jan. 11	Purchase	150	units at $6 each
Jan. 13	Sale	130	units at $8.50 each
Jan. 20	Purchase	150	units at $7 each
Jan. 27	Sale	110	units at $9 each

Phoenix uses the FIFO cost flow assumption. All purchases and sales are on account.

Instructions

(a) Assume Phoenix uses a periodic system. Prepare all necessary journal entries, including the end-of-month adjusting/closing entry to record cost of goods sold. A physical count indicates that the ending inventory for January is 90 units.

(b) Compute gross profit using the periodic system.

(c) Assume Phoenix uses a perpetual system. Prepare all necessary journal entries.

(d) Compute gross profit using the perpetual system.

4)
Winston corporation needs to know how frequently to place their orders. They provide the following information:

S = 500 units per month
P = $40 per order
C = $4 per unit

What should be the minimum size order and how often per month should an order be made?

5)
Two companies distribute fast moving consumer goods. Their results for last year were:

Annual accounts	Ace distributors ($ millions)	Deuce associates($millions)
Gross sales	8	26
Fixed assets	2	5
Cost of sales	6	21
Inventory	4	8

You have been offered the job of inventory manager by both companies. Which one would you take and, based on the data provided and using the ratios that you see fit, explain why?