**SOLUTIONS TO ASSIGNED PROBLEMS P6-5, AP7-1**

**P6–5.**

Req. 1

**TUNGSTEN COMPANY, INC.**

**Income Statement**

**For the Year Ended December 31, 2014**

Net sales revenue ($147,100 − $5,600 − $6,400) $135,100

Cost of goods sold 78,400

Gross profit on sales 56,700

Operating expenses:

Selling expense $14,100

Administrative expense 15,400

Bad debt expense 1,600 31,100

Income from operations 25,600

Income tax expense 7,680

Net income $ 17,920

Earnings per share on capital stock outstanding

($17,920 ÷ 10,000 shares) $1.79

Req. 2

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Receivables | = | Net Sales |  | = | $135,100 | = | 8.89 |  |
| Turnover |  | Average Net Trade Accounts Receivable |  |  | $15,200\* |  |  |  |

\* ($16,000 + $14,400) ÷ 2

The receivables turnover ratio measures the effectiveness of credit-granting and collection activities.

**AP7−1.**

**a) Goods available for sale for all methods:**

**Unit Total**

**Units Cost Cost**

January 1, 2014–Beginning inventory 390 $32.00 $12,480

February 20, 2014–Purchase 700 34.25 23,975

June 30, 2014–Purchase 460 37.00 17,020

**Goods available for sale 1,550 $53,475**

**Ending inventory: 1,550 units – (70 + 750) = 730 units**

b) and c)

1. Average cost:

Average unit cost $53,475 ÷ 1,550=$34.50.

Ending inventory (730 units x $34.50) $25,185

Cost of goods sold1 ($53,475 – $25,185) $28,290

1. Direct computation of Cost of goods sold: (820 units @ $34.50) = $28,290

**2. First-in, first-out:**

Ending inventory (460 units x $37) +

(270 units x $34.25) $26,267.50

Cost of goods sold2 ($53,475 – $26,267.50) $27,207.50

1. Direct computation of Cost of goods sold: [(390 units @ $32) + (430 units @ $34.25)] = $27,207.50

**3. Last-in, first-out:**

Ending inventory (390 units x $32) +

(340 units x $34.25) $24,125

Cost of goods sold3 ($53,475 – $24,125) $29,350

1. Direct computation of Cost of goods sold: [(460 units @ $37) + (360 units @ $34.25)] = $29,350

**4. Specific identification:**

Ending inventory (658 units x $34.25) +

(72 units x $37) $25,200.50

Cost of goods sold4 ($53,475 – $25,200.50) $28,274.50

1. Direct computation of Cost of goods sold: [(390 units @ $32) + (42 units @ $34.25) + (388 units @ $37)] = $28,274.50