Delegate Company began 20X7 with 60,000 units of inventory that cost $36,000. During 20X7, Delegate purchased merchandise on account for $352,500 as follows:

First purchase (100,000 units costing $65,000)  
Second purchase (270,000 units costing $175,500)  
Third purchase (160,000 units costing $112,000)

Cash payments on account totaled $326,000 during the year.

Delegate sales during 20X7 consisted of 520,000 units of inventory for $660,000, all on account. The company uses the **FIFO inventory method**.

Cash collections from customers were $630,000. Operating expenses totaled $240,500, of which Delegate paid $211,000 in cash. Delegate credited Accrued Liabilities for the remainder. At December 31, Delegate accrued income tax expense at the rate of 35% of income before tax.

**Question 1-7: Make summary journal entries to record Delegate transactions for the year, assuming the company uses a perpetual inventory system.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Qns** | **Details** | **DR** | **CR** |
| **1** | Inventory ($65,000 + $175,000 + $112,000)  Accounts Payable | $352,500 | $352,500 |
| **2** | Accounts Payable  Cash | $326,000 | $326,000 |
| **3** | Accounts Receivable  Sales Revenue | $660,000 | $660,000 |
| **4** | Cost of goods sold  Inventory | $339,500 | $339,500 |
| **5** | Cash  Accounts Receivable | $630,000 | $630,000 |
| **6** | Operating expenses  Cash  Accrued Liabilities | $240,500 | $211,00 $29,500 |
| **7** | Income Tax expense  Income Tax payable | $28,000 | $28,000 |

**Workings for qns 4:**

COGS (520,000 units)

60,000 units costing = $36,000  
100,000 units costing = $65,000

270,000 units costing = $175,500

90,000 units costing $0.70 each\* = $63,000  
COGS = $36,000 + $65,000 + $175,000 + $63,000 = **$339,500**  
 \* $112,000/160,000 units = $0.70 per unit

**Workings for qns 7:**

Sales revenue = $660,000

COGS = $339,500

Gross Profit = $660,000 - $339,500 = $320,500

Operating expenses = $240,500

Income before tax = $320,500 - $240,500 = $80,000

Income tax expense (35%) = **$28,000**

**Q8.** Beginning inventory is $110,000, purchases are $260,000 and sales total $470,000. The normal gross profit is 40%. Using the gross profit method, how much is ending inventory?

a. $210,000

b. $88,000

c. $132,000

d. $188,000

Answer: B

Explanation: $110,000 + $260,000 – [$470,000 x (1 – 0.40)] = $88,000