

Luden Company
A Study in General Price-level Adjustments and Current Cost

On January 1, 20X1, the Luden Company was incorporated by issuing 15,000 shares of capital stock in exchange for cash, inventory and plant assets. In addition, a mortgage note payable was issued in partial payment of the plant assets. The resulting balance sheet is shown below:

Luden Company
Balance Sheet
January 1, 20X1

Assets

Cash	\$	10,000
Inventory		90,000
Plant and equipment		100,000
Total Assets	\$	<u>200,000</u>

Liabilities and Stockholders' Equity

Mortgage note payable	\$	50,000
Common stock	\$	150,000
Total liabilities and stockholders equity	\$	<u>200,000</u>

During 20X1, Luden Company sold one-half of its inventory for \$80,000 cash. The Company also incurred operating expenses, exclusive of depreciation, of \$20,000. Revenue and expenses are incurred more or less evenly over the year. The plant assets have an estimated life of 10 years and no salvage value. The straight-line depreciation method is deemed appropriate.

During 20X2, Luden Company's sales were \$180,000. Purchases amounted to \$200,000. all sales and purchases were on account. Collections on receivables amounted to \$140,000 and payments on accounts payable amounted to \$150,000. Operating expenses, exclusive of depreciation, were \$20,000.

On July 1, 20X2, the company sold a plant asset that had cost \$20,000 for \$15,000. Depreciation to July 1, 20X2, on this asset was \$3,000.

The inventory at December 31, 20X2, amounted to \$90,000 and was priced on a first-in, first-out basis. The price index was 118 when the ending inventory was acquired.

The following price indexes were in effect for the dates indicated (assume that they represent the CPI-U index).

January 1, 20X1	100	July 1, 20X2	115
December 31, 20X1	110	December 31, 20X2	120
Average, 20X1	105	Average, 20X2	115

Assume the following facts concerning current costs for the company:

	<u>12/31/X1</u>	<u>12/31/X2</u>
Current cost per unit of inventory	\$4.70	\$4.90
Number of units in inventory	12,500	26,500
Units sold during 20X2, 36,000		
Plant assets-gross current cost	\$118,333	\$105,000

Required:

1. Prepare a condensed income statement and balance sheet for 20X1 on the historical cost basis.
2. Prepare a condensed income statement and balance sheet for 20X1 adjusted for general price level changes.
3. Prepare a condensed income statement and balance sheet for 20X1 on a current cost basis.
4. Repeat steps 1 through 3 for 20X2.
5. If comparative financial statements adjusted for general price level changes were to be prepared for 20X2, what additional adjustments would have to be made to the prior year's financial statement data so that it would be comparable to the current year?