

**This problem consists of two unrelated parts.**

**Part A.** The Allen Company is a wholesale distributor of automotive replacement parts. Initial amounts taken from Allen's accounting records are as follows:

Inventory at December 31, 1977 (based on physical count of goods in Allen's warehouse on December 31, 1977.	<u>\$1,250,000</u>	
Accounts payable at December 31, 1977:		
Vendor	Terms	Amount
Baker Company	2% 10 days, net 30	\$ 265,000
Charlie Company	Net 30	210,000
Dolly Company	Net 30	300,000
Eager Company	Net 30	225,000
Full Company	Net 30	---
Greg Company	Net 30	---
		<u>\$1,000,000</u>
Sales in 1977		<u>\$9,000,000</u>

Additional information is as follows:

1. Parts held on consignment from Charlie to Allen, the consignee, amounting to \$155,000, were included in the physical count of goods in Allen's warehouse on December 31, 1977, and in accounts payable at December 31, 1977.
2. \$22,000 of parts which were purchased from Full and paid for in December 1977 were sold in the last week of 1977 and appropriately recorded as sales of \$28,000. The parts were included in the physical count of goods in Allen's warehouse on December 31, 1977, because the parts were on the loading dock waiting to be picked up by customers.
3. Parts in transit on December 31, 1977, to customers, shipped F.O.B. shipping point, on December 28, 1977, amounted to \$34,000. The customers received the parts on January 6, 1978. Sales of \$40,000 to the customers for the parts were recorded by Allen on January 2, 1978.
4. Retailers were holding \$210,000 at cost (\$250,000 at retail), of goods on consignment from Allen, the consignor, at their stores on December 31, 1977.
5. Goods were in transit from Greg to Allen on December 31, 1977. The cost of the goods was \$25,000, and they were shipped F.O.B. shipping point on December 29, 1977.
6. A quarterly freight bill in the amount of \$2,000 specifically relating to merchandise purchases in December 1977, all of which was still in the inventory at December 31, 1977, was received on January 3, 1978. The freight bill was not included in either the inventory or in accounts payable at December 31, 1977.
7. All of the purchases from Baker occurred during the last seven days of the year. These items have been recorded in accounts payable and accounted for in the physical inventory at cost before discount. Allen's policy is to pay invoices in time to take advantage of all cash discounts, adjust inventory accordingly, and record accounts payable, net of cash discounts.

**Handout Problem No. F-145** (continued, p. 2)

**Required:**

Prepare a schedule of adjustment to the initial amounts using the format shown below. Show the effect, if any, of each of the transactions separately and if the transactions would have no effect on the amount shown, state NONE

Use this format—do not use this form for your solution—put on another sheet

	<u>Inventory</u>	<u>Accounts Payable</u>	<u>Sales</u>
Initial Amounts	<u>\$1,250,000</u>	<u>\$1,000,000</u>	<u>\$9,000,000</u>
Adjustments - increase (decrease)			
1			
2			
3			
4			
5			
6			
7			
	_____	_____	_____
Total adjustments	_____	_____	_____
Adjusted amounts	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$</u></u>

**Part B.** The Deytyme Construction Company began operations January 1, 1977. During the year, Deytyme entered into a contract with Redbeard Razor Corporation to construct a manufacturing facility. At that time, Deytyme estimated that it would take five years to complete the facility at a cost of \$4,800,000. The total contract price for construction of the facility is \$6,000,000. During the year, Deytyme incurred \$1,250,000 in construction costs related to the construction project. The estimated cost to complete the contract is \$3,750,000. Redbeard was billed and paid 30% of the contract price.

**Required:**

Prepare schedules to compute the amount of gross profit to be recognized for the year ended December 31, 1977, and the amount to be shown as “cost of uncompleted contract in excess of related billings” or “billings on uncompleted contract in excess of related costs” at December 31, 1977, under each of the following methods:

1. Complete-contract method.
2. Percentage-of-completion method.

Show supporting computations in good form.