

Situation	Concepts	Journal Entries	Calculations	Research	Communications
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A Client, Blaedon Co., sells lawn mowers and garden tillers. The garden tillers are purchased from Bestbuilt Tillers and sold to customers without modification. The lawn mowers, however, are purchased from several contractors. Blaedon then makes ongoing design refinements to the mowers before selling them to customers.

The lawn mowers cost \$200. Blaedon then makes the design refinements at a cost of \$85 per lawn mower. Blaedon stores the lawn mowers in its own warehouse and sells them directly to retailers at a list price of \$500. Blaedon uses FIFO inventory method. Approximately two-thirds of new lawn mower sales involve trade-ins. For each used lawn mower traded in and returned to Blaedon, retailers receive a \$40 allowance regardless of whether the trade-in was associated with a sale of a 2008 or a 2009 model. Blaedon’s net realizable value on a used lawn mower averages \$25.

At December 31, 2008, Blaedon’s inventory of new lawn mowers includes both 2008 and 2009 models. When the 2009 model was introduced in September 2008, the list price of the remaining 2008 model lawn mowers was reduced below cost. Blaedon is experiencing rising costs.

Blaedon has contacted your firm for advice on how to report the carrying value of inventory, the impact of the decline in value on the 2008 models, and the effects of using the FIFO method on their December 31, 2008 financial statements.

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Indicate whether each of the following is included in the cost of inventory.

	Included	Not included
1. Merchandise purchased for resale	<input type="radio"/>	<input type="radio"/>
2. Freight out	<input type="radio"/>	<input type="radio"/>
3. Direct materials	<input type="radio"/>	<input type="radio"/>
4. Sales returns	<input type="radio"/>	<input type="radio"/>
5. Packaging for shipment to customer	<input type="radio"/>	<input type="radio"/>
6. Factory overhead	<input type="radio"/>	<input type="radio"/>
7. Interest on inventory loan	<input type="radio"/>	<input type="radio"/>
8. Purchase discounts not taken	<input type="radio"/>	<input type="radio"/>
9. Freight in	<input type="radio"/>	<input type="radio"/>
10. Direct labor	<input type="radio"/>	<input type="radio"/>

			Calculations		
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Assume that Blaedon had the following information regarding the garden tiller inventory:

Purchases	\$ 210,000
Purchase discounts	38,000
Purchase returns	17,500
Freight-in	12,100
Freight out	18,000
Beginning inventory	42,900
Ending inventory	34,250

Calculate the following items:

1. Goods available for sale
2. Cost of goods sold

				Research	
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Research the following issues in the authoritative literature. Select the appropriate citations to answer each question.

1. What costs should be included in Blaedon's inventory?
2. How should Blaedon report the 2008 inventory that has declined in value below cost?

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Prepare a memo to your client explaining

How Blaedon should determine the carrying amounts assigned to its lawn mower inventory for 2008 and 2009 models.

Considering only the 2009 model lawn mower, explain in your memo the impact of the FIFO cost flow assumptions in Blaedon's 2008 income statement and balance sheet amounts.

To: CEO, Blaedon Corp.

From: CPA Candidate

Re: Inventory valuation