

ACCT301 Extra Credit for Exam II (20 Points)

1. (10 points) The Hutton Construction company is contracted to build an office building. The construction is scheduled to begin on March 1, 20X6 and the estimated time of completion is October 31, 20x8. The contract price is \$8,000,000. Information related to the performance of the contract is summarized below:

	Billing During the year	Collections during the year	Construction costs incurred during the year	Estimated costs to complete	Total cost estimated	Cumulative percentage of completion
20X6	\$3,000,000	\$2,500,000	\$2,900,000	\$3,800,000		
20X7	\$2,000,000	\$2,000,000	\$2,200,000	\$2,100,000		
20X8	\$3,000,000	\$3,500,000	\$2,000,000	-----		

Required:

- (5 points) Using the percentage-of-completion method and the completed-contract method to compute the profits or losses to be recognized as a result of this contract for the years ended December 31, 20X6, 20X7, and 20x8. Ignore income taxes.
 - (3 points) Using the percentage-of-completion method, prepare journal entries to record the construction costs incurred in 20x6, the billings of 20x6 and the recognition of construction expense and construction revenue of 20x6.
 - (2 points) Present construction-in-progress and progress billing accounts balance on the balance sheet statement of 20x6 using the percentage of completion method.
2. (5 Points) The Nina Corporation used a periodic inventory system and the LIFO cost flow method to account for its inventory. The beginning inventory of year 20x8 consisted of the following:

30,000 units @ \$20
20,000 units @ \$22

During year 20x8, the purchases are as follows:

40,000 units @\$30
80,000 units @\$34

Sales of year 20x8 totaled 145,000 units at various prices, leaving 25,000 units in ending inventory.

What is the amount of LIFO liquidation profit that the company must report in the footnote disclosure to its financial statements of year 20x8? Assume an income tax rate of 30%.

3. (5 Points) The Following disclosure note is available in Greenway Corporation's 20x8 annual report:

December 31, 20x8		
	<u>20x8</u>	<u>20x7</u>
Inventory stated at FIFO cost	\$200,000	\$170,000
Reserve for LIFO valuation	<u>(20,000)</u>	<u>(12,000)</u>
Inventory stated at LIFO	<u>180,000</u>	<u>158,000</u>

How much higher would the **net income number** of 20x8 be if Greenway had used the FIFO inventory method instead of LIFO? Assuming an income tax rate of 30%.