

On February 28, 1994, a fire destroyed the factory offices of the Cape Company. The company uses a normal costing system and the LIFO method of inventory costing. The data from February that survived the fire is given below.

- 1 Calculate the amount of cost that had been assigned to the inventories of raw materials, work-in-process, and finished goods that were in hand on February 28. Use the normal costing system. What will be the adjusted cost of goods sold? (This is also referred to as the closing cost of goods sold with immediate write-off of all overhead variances).
- 2 Cape company's management has claimed that a portion of underabsorbed overhead should be assigned to the inventory, thereby increasing the amount due from the insurance company. The insurance company has denied this claim, and you have been called to arbitrate the dispute. What answer will you give? What arguments would you advance to support it? [You can assume that the beginning and the ending work-in-process inventory consisted of only material costs].

1	Beginning inventories: (from February 1 balance sheet)	Raw materials Work-in-process Finished Goods	1,800 lbs. 200 units 700 units	\$9,000 \$2,000 \$103,600
2	Budgeted indirect costs Budgeted activity level		\$78,000 1,000 units	
3	Total sales for the month Finished goods units manufactured	800 units x 900 units	\$200.00	\$160,000
4	Purchase of raw materials Ending inventory of raw materials	1,950 lbs. 1,900 lbs.	\$6.00	\$11,700
5	Wages paid	Direct Labor Indirect Labor		\$47,250 \$59,200
6	Overhead charges Total credit entries	Other overhead		\$32,800 \$150,950
7	Ending work in process		200 units	\$2,000