

PRACTICE SET

ACCOUNTING FOR INVENTORIES

I. ALTERNATIVE VALUATION METHODS

Instructions: Given the following information, calculate the value of the 4,000 units of ending inventory.

Jan. 1	Beginning Inventory	1,000 units @ \$4.20	\$ 4,200
April 10	Purchase	2,000 units @ \$4.30	8,600
Aug. 30	Purchase	3,000 units @ \$4.40	13,200
Dec. 22	Purchase	4,000 units @ \$4.50	18,000
		10,000	\$44,000

SPECIFIC IDENTIFICATION METHOD (SI)

1,000 units from Beginning Inventory	
1,500 units from April 10 Purchase	
1,000 units from Aug. 30 Purchase	
<u>500</u> units from Dec. 22 Purchase	
<u>4,000</u> units	<u>\$17,300</u>

FIRST-IN, FIRST-OUT METHOD (FIFO)

= \$18,000

LAST-IN, FIRST-OUT METHOD (LIFO)

= \$17,200

WEIGHTED AVERAGE METHOD (WA)

= \$17,600

II. COMPARING METHODS

Instructions: Using the inventory values calculated above, fill in the chart below and analyze the effect of the different methods on Income Statement and Balance Sheet values.

	SI	FIFO	LIFO	WA
Sales	\$100,000	\$100,000	\$100,000	\$100,000
Cost of Goods Sold:				
Beginning Inventory	10,400	10,400	10,400	10,400
Purchases	<u>47,100</u>	<u>47,100</u>	<u>47,100</u>	<u>47,100</u>
Cost of Goods Available	\$57,500	\$57,500	\$57,500	\$57,500
Less Ending Inventory				
Cost of Goods Sold				
Gross Profit on Sales	<u>\$59,800</u>			

Note: We are going to leave Linda's Video Showcase for the rest of this Practice Set. Her adventure will return next Practice Set.