

Name \_\_\_\_\_

Principles of Financial Accounting I

**Chapter 6: FIFO, LIFO, Average Costing Methods**

This exercise is similar to BE6-3, E6-5, and E6-6. Our Company reports the following for the month for Commodity A.

		<u>Units</u>	<u>Unit Cost</u>	
(1)	Beginning Inventory	30	\$3	
(2)	Purchase	40	\$5	
(3)	Purchase	50	\$8	

By taking a physical inventory, ending inventory was determined to be 55 units.

1. Find total costs of each unit. Determine total units and total costs. What name should be given for the totals?
2. From glancing at the unit costs, determine whether this is a period of rising prices or declining prices. Based on your conclusion, predict the impact of unit prices on EI, COGS, and NI under the various inventory costing techniques. Write in the actual answers as you determine them to see whether the predictions are true.

	<u>FIFO</u>	<u>Average</u>	<u>LIFO</u>
EI			
COGS			
Net Income			

3. Determine the cost of the ending inventory under the FIFO assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

		<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
(1)	Beginning Inventory	30	\$3	\$ 90
(2)	Purchase	40	\$5	200
(3)	Purchase	<u>50</u>	\$8	<u>400</u>
	Total GAFS	120		\$690

4. Determine the cost of the ending inventory under the LIFO assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

5. Determine the cost of the ending inventory under the average assumption. Find and prove COGS.

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

<u>Quantity</u>	<u>Price</u>	<u>Amount</u>

6. Compare your results with your predictions. Practice BE6-3, E6-5, and E6-6 for your benefit.