

Principles of Financial Accounting I

Lecture Extension: Inventory Demonstration
 FIFO, LIFO, and Average Costing Methods

In its first month of operations, AC Company made three purchases of merchandise in the following sequence: 300 units @ \$6, 400 units @ \$7, 300 units @ \$8. If there are 450 units on hand, compute the cost of the ending inventory and cost of goods sold under the (1) FIFO method, (2) LIFO method, and (3) average method. AC Company uses a periodic inventory system.

		<u>Units</u>	<u>Unit Cost</u>	
(1)	Purchase	300	\$6	
(2)	Purchase	400	\$7	
(3)	Purchase	300	\$8	

- Find total costs of each unit. Determine total units and total costs. What name should be given for the totals?
- 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			

- 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>

The same facts apply:

		<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
(1)	Purchase	300	\$3	\$1,800
(2)	Purchase	400	\$7	2,800
(3)	Purchase	<u>300</u>	\$8	<u>2,400</u>
	Total GAFS	1,000		\$7,000

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.