Estimating Ending Inventory: Gross margin Method

Don Green, owner of Plains Company, is reviewing the quarterly financial statements and thinks the cost of goods sold is out of line with past years. The following historical data is available for 2004 and 2005

2004 2005

Net Sales $160,000 $200,000

Cost of good sold 70,000 90,000

At the end of the first quarter of 2006, Plains Company’s ledger had the following account balances:

Sales $240,000

Purchases 160,000

Beginning Inventory, 01/02/06 $60,000

Required

Using the information provided, estimate the following for the first quarter of 2006:

1. Cost of good sold (Use average cost of goods sold %)
2. Ending Inventory at 03/31 based on historical cost of goods sold percentage
3. Inventory shortage if inventory balance as of 03/31 is $100,000