The management of Kreiter Instrument Company had concluded, with the concurrence of its independent auditors, that results

of operations would be more fairly presented if Kreiter changed its method of pricing inventory

from last-in, first-out (LIFO) to average cost in 2007. Given below is the 5-year summary of income under

LIFO and a schedule of what the inventories would be if stated on the average cost method.

**KREITER INSTRUMENT COMPANY**

**STATEMENT OF INCOME AND RETAINED EARNINGS**

 **FOR THE YEARS ENDED MAY 31**

2003 2004 2005 2006 2007

Sales—net $13,964 $15,506 $16,673 $18,221 $18,898

Cost of goods sold

Beginning inventory 1,000 1,100 1,000 1,115 1,237

Purchases 13,000 13,900 15,000 15,900 17,100

Ending inventory (1,100) (1,000) (1,115) (1,237) (1,369)

Total 12,900 14,000 14,885 15,778 16,968

Gross profit 1,064 1,506 1,788 2,443 1,930

Administrative expenses 700 763 832 907 989

Income before taxes 364 743 956 1,536 941

Income taxes (50%) 182 372 478 768 471

Net income 182 371 478 768 470

Retained earnings—beginning 1,206 1,388 1,759 2,237 3,005

Retained earnings—ending $ 1,388 $ 1,759 $ 2,237 $ 3,005 $ 3,475

Earnings per share $1.82 $3.71 $4.78 $7.68 $4.70

**SCHEDULE OF INVENTORY BALANCES USING AVERAGE COST METHOD**

**FOR THE YEARS ENDED MAY 31**

2002 2003 2004 2005 2006 2007

$950 $1,124 $1,091 $1,270 $1,480 $1,699

**Instructions**

Prepare comparative statements for the 5 years, assuming that Kreiter changed its method of inventory

pricing to average cost. Indicate the effects on net income and earnings per share for the years involved.

Kreiter Instruments started business in 2002. (All amounts except EPS are rounded up to the nearest dollar.)