P. 2 periodic inventory system and inventory costing methods

The inventory of Product PIT and data on purchases and sales for a two-month period follow. The company closes its books at the end of each month. It uses the periodic inventory system.

|  |  |  |  |
| --- | --- | --- | --- |
| Apr. | 1 | Beginning inventory | 50 units @ $204 |
|  | 10 | Purchase | 100 units @ $ 220 |
|  | 17 | Sale | 90 units |
|  | 30 | Ending inventory | 60 units |
| May | 2 | Purchase | 100 units @ $216 |
|  | 14 | Purchase | 50units @ $ 224 |
|  | 22 | Purchase | 60 units @ $ 234 |
|  | 30 | Sale | 200 units |
|  | 31 | Ending inventory | 70 units |

Required

1. Compute the cost of ending inventory of Product PIT on April 30 and May 31 using the average-cost method. In addition, determine cost of goods sold for April and May. Round unit costs to cents and totals to dollars.
2. Compute the cost of ending inventory on April 30 and May 31 using the FIFO method. In addition, determine cost of goods sold for April and May.
3. Compute the cost of ending inventory on April 30 and May 31 using the LIFO method. In addition, determine cost of goods sold for April and May.
4. Do the cash flows from operations for April and May differ depending on which inventory costing method is used- average-cost, FIFO, or LIFO? Explain

P.3 Perpetual inventory system and inventory costing methods

Use the data provided in p. 2, but assume that the company uses the perpetual inventory system. (Hint: in preparing the solutions required below, it is helpful to determine the balance of inventory after each transaction, as shown in the review problem in this chapter).

Required

1. Compute the cost of ending inventory and cost of goods sold for April and May using the average cost method. Round unit to cents and totals to dollars.
2. Compute the cost of ending inventory and cost of goods sold for April and May using the FIFO method.
3. Compute the cost of ending inventory and cost of goods sold for April and May using the LIFO method.
4. Assume that this company grows for many years in a long period of rising prices. How realistic do you think the balance sheet value for inventory would be and what effect would it have on the inventory turnover ratio?