WORKSHEET: 18

School: <u>Ba Sangam College</u>   Year: <u>1101</u>   Name:_____

Subject : <u>Accounting</u>

Strand – 6	**SYSTEMS FOR IMPLEMENTING THE ACCOUNTING PROCESS- I**
Sub Strand (6.3)	**Sub System Inventory**
Content Learning Outcome (6.3.1)	Evaluate the internal control procedures over inventory.

<u>Sub System Inventory</u>

LIFO (Last in First Out) Method
- assumes that goods bought at the end will be sold first (most recently acquired goods are sold first).
- it leaves the oldest items in closing stock.
- in times of rising prices it tends to under value closing stock, over- value cost of goods sold, under value profits.

Advantages	Disadvantages
in times of rising prices it shows a smaller profit, resulting in less income tax paid.	Not permitted as a stock valuation method under financial reporting standard.
is best suited for the income statement because it matches current cost against current sales .	the stock in the balance sheet is recorded at the outdated price therefore unrealistic.
	during inflation stock on hand is undervalued in real terms resulting in working capital and current ratio to be understated.

Example : Daven and Company sells saffron dresses. The following transactions took place during the month.
June 1 Balance 10 dress at $20 each
8 Purchases 15 dress at $8 each
10 Sold 12 dresses
19 Purchased 25 dresses at $10 each
22 Sold 15 dresses
26 Purchased 35 dresses at $9 each
30 Sold 20 dresses

Required :

a) Prepare the Stock Ledger card using the LIFO method under perpetual system .

b) Calculate the total amount of purchases.

c) Calculate the cost of goods sold.

d) Calculate the gross profit or loss made if the selling price of the dress is $15 each.

e) Calculate the amount of closing stock.

f) If the physical ending inventory count revealed $440, calculate the amount of theft.

a)

Item : Dress								Method: LIFO		
		Receipt/ In			Issued/ Out			Balance		
Date	Particulars	Qty	Price	Total	Qty	Price	Total	Qty	Price	Total
1	Balance							10	20	200
8	Purchases	15	8	120				15	8	120
10	Sales				12	8	96	10	20	200
								3	8	24
19	Purchases	25	10	250				25	10	250
22	Sales				15	10	150	10	20	200
								3	8	24
								10	10	100
26	Purchases	35	9	315				10	20	200
								3	8	24
								10	10	100
								35	9	315
30	Sales				20	9	180	10	20	200
								3	8	24
								10	10	100
								15	9	135

b) Total purchases = 120 +250 +315

= $685

c) Cost of goods sold = 96+ 150+180

= $426

d) Gross profit = ($15 x 47) - 426

= $279

e) Closing stock = $200 +24 + 100+ 135

= $459

f) Stock loss/ theft/ shoplifting = $459 – 440

= $19

1.The following is obtained from De Anna about a particular item of inventory

August 1 Balance 220 units at $4 per unit
6 Purchased 100 units at $5 per unit
10 Sold 120 units at $8 per unit
15 Sold 10 units at $6 per unit
18 Purchased 70 units at $3 per unit
21 Purchased 20 units at $7 per unit

23 Sold 95 units at $10 per unit
26 Purchased 56 units at $5 per unit
30 Sold 25 units at $10 per unit

Required:
a). Prepare the stock ledger card using LIFO Perpetual Method.
b). calculate the total value of cost of goods sold.
c). Calculate the gross profit under the LIFO method.
d). what is the value of the closing stock under LIFO method

SOLUTION

i.

Item: Computers		Method: LIFO									
		Receipt/ In			Issued/ Out			Balance			
Date	Particulars	Qty	Price	Total	Qty	Price	Total	Qty	Price	Total	
August 1											
6											
10											
15											
18											
21											
26											
30											

b.

value of cost of goods sold

c.

gross profit under the LIFO method

d.

value of the closing stock under LIFO method

THE END