

# Concept Check: Retail Inventory Method

The Bowden Company uses the retail inventory method. The following information is available for the year:

	Cost	Retail
Inventory (beginning of year)	\$ 780,000	\$ 1,300,000
Net purchases for the year	2,804,000	3,670,000
Net markups		150,000
Net markdowns		(90,000)
Net sales		3,690,000

Applying the average cost retail inventory method, Bowden's inventory at the end of the year is estimated at:

- a. \$954,784      The correct answer is a:  
 Ending inventory at retail = \$1,340,000  
 b. \$790,318      [\$1,300,000 + \$3,670,000 + \$150,000 - \$90,000 - \$3,690,000]  
 c. \$938,000      Cost-to-retail ratio = 71.2525%  
 d. \$810,700      [\$780,000 + \$2,804,000] ÷ [\$1,300,000 + \$3,670,000 + \$150,000 - \$90,000]  
 Ending inventory at cost = \$1,340,000 × 71.2525% = \$954,784

Source: *Entrepreneur* p. 50  
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## AVERAGE COST RETAIL INVENTORY METHOD

	<u>COST</u>	<u>RETAIL</u>
Beginning Inventory	780,000	1,300,000
Net Purchases	2,804,000	3,670,000

NET MARKUPS 150,000  
 NET MARKDOWNS < 90,000 >

— GOODS AVAILABLE FOR SALE 3,584,000      5,030,000 →  $3,584,000 / 5,030,000$

— Less NET SALES AT RETAIL < 3,690,000 >      = 71.2525%

ESTIMATED END INV AT RETAIL 1,340,000      MULTIPLY

← CALCULATIONS TO GET ESTIM COST →  $[1,340,000 \times .712525]$

ESTIMATED END INV AT COST < 954,784 >      ← CALCULATED

ESTIM COST OF GOODS SOLD @ COST 2,629,216      ← (RESIDUAL)

<u>COST</u>	<u>RETAIL</u>
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RETAIL INVENTORY METHOD:  
 USES COST TO RETAIL PERCENTAGE TO  
 ESTIMATE ENDING INVENTORY,  
 THEN CGS IS THE RESIDUAL