

RETAIL INVENTORY METHOD

The records of Alaska Company provide the following information for the year ended December 31.

Beginning inventory, January 1
 Cost of goods purchased
 Sales
 Sales returns

At Cost	At Retail
\$ 471,750	\$ 927,550
3,564,338	6,279,750
	5,499,700
	45,000

Required:

- Use the retail inventory method to estimate the company's year-end inventory at cost.
- A year-end physical inventory at retail prices yields a total inventory of \$1,679,800. Prepare a calculation showing the company's loss for shrinkage at cost and at retail.

SOLUTION 1.

ALASKA COMPANY
 Estimated Inventory
 December 31

Goods available for sale
 Beginning inventory
 Cost of goods purchased
 Goods available for sale
 Sales
 Less: Sales returns
 Net sales
 Ending inventory at retail (\$7,207,300 - \$5,454,700)
 Cost-to-retail ratio: \$4,036,088 / \$7,207,300 = 0.56 or 56%
 Ending inventory at cost (\$1,752,600 × 56%)

At Cost	At Retail	COST TO RETAIL RATIO
\$ 471,750	\$ 927,550	
3,564,338	6,279,750	
<u>\$ 4,036,088</u>	<u>\$ 7,207,300</u>	= 56%
	5,499,700	
	(45,000)	
	5,454,700	
	<u>\$ 1,752,600</u>	← MULTIPLY
<u>\$ 981,456</u>		← Result

SOLUTION 2

Estimated Inventory (above)

Physical Inventory

Inventory Shrinkage

AT COST	AT RETAIL
981,456	1,752,600
940,688	1,679,800
<u>40,768</u>	<u>72,800</u>

Estimated inventory at cost
 $= 1,679,800 \times .56 = 940,688$

CHS PDR

Gross Profit Method

Wayward Company wants to prepare interim financial statements for the first quarter. The company wishes to avoid making a physical count inventory. Wayward's gross profit rate averages 30%. The following information for the first quarter is available from its records.

Beginning inventory, January 1	\$ 490,260
Cost of goods purchased	1,129,050
Sales	1,381,150
Sales returns	11,350

Required:
Use the gross profit method to estimate the company's first quarter ending inventory.

SOLUTION

- Goods available for sale
 - Beginning inventory, Jan. 1
 - Cost of goods purchased
 - Goods available for sale
- Less estimated cost of goods sold
 - Sales
 - Less sales returns
 - Net sales
 - Estimated cost of goods sold [$\$1,369,800 \times (1 - 30\%)$]
- Estimated March 31 inventory

WAYWARD COMPANY
Estimated Inventory at March 31

COST RETAIL COST%

\$	490,260
	1,129,050
\$	1,619,310

\$ 1,381,150
(11,350)

\$ 1,369,800

(958,860)

\$ 660,450

GIVEN GROSS PROFIT = COST 70%

1 - GP% = COST

MULTIPLY ← 70%

SOLUTION