LO9-2

The Gross Profit Method

Beginning inventory (from records)		$ 600,000
Plus: Net purchases (from records)		1,500,000
Goods available for sale		2,100,000
Less: Cost of goods sold:		
Net sales	$2,000,000	
Less: Estimated gross profit of 40%	(800,000)	
Estimated cost of goods sold*		(1,200,000)
Estimated ending inventory		$ 900,000

*Cost of goods sold can also be calculated as:

$$\$2{,}000{,}000 \times (1 - 0.40) = \$1{,}200{,}000$$

09-18

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Illustration 9–4 Gross Profit Method

Suppose a company began 2021 with inventory of **$600,000**, and on March 17 a warehouse fire destroyed the entire inventory. Company records indicate net purchases of **$1,500,000** and net sales of **$2,000,000** prior to the fire. The gross profit ratio in each of the previous three years has been very close to 40%. Illustration 9–4 shows how the company can estimate the cost of the inventory destroyed for its insurance claim.