

In-class Worksheet: Week 7
Kim's Antiques

1. Kim's Antiques is an antique store in Stars Hollow, Connecticut. Inventory consists of antiques such as chairs, tables, wardrobes, and vases. In 2013, Kim's Antiques has the following information about inventory:

- Beginning balance of \$400,000
- Cost of Goods Sold of \$110,000
- Ending balance of \$380,000

How much did the company purchase in inventory during 2013?

2. In 2014, Kim's Antiques asked Rory Gilmore and Lane Kim to help count inventory at the end of the year. Unfortunately, Rory and Lane incorrectly understated 2014 ending inventory by \$10,000. If the error is uncorrected, which of the following are TRUE about the effect of the error?

- (a) 2014 Cost of Goods Sold is understated
- (b) 2014 Net Income is understated
- (c) 2014 Retained Earnings is understated
- (d) 2015 Beginning Inventory is understated

For questions 3-7, use the following information:

During 2016, Kim's Antiques sold 2,800 units of inventory. The company had the following information about beginning inventory and purchases during the year:

Date	Transaction	Number of units	Unit cost
Jan 1	Beginning inventory	2,100	\$20
Feb 20	Purchase	220	\$25
May 1	Purchase	480	\$28
July 6	Purchase	400	\$30
Sept 15	Purchase	300	\$32

3. What are 2016 COGS and Ending Inventory using FIFO?

4. What are 2016 COGS and Ending Inventory using LIFO?

5. What are 2016 COGS and Ending Inventory using the average cost method?

6. Does FIFO or LIFO result in higher COGS? Why?

7. Does FIFO or LIFO result in more taxes owed? Assuming a 28% tax rate, calculate how much tax Kim's Antiques could save from using the method that results in less taxes owed.