

Solution:

(1)

(a) Consider FIFO. Under FIFO, the goods that are bought the earliest are sold first. Thus, in accordance with this principle, the goods that are bought the latest remain in inventory. Thus, the final inventory is valued as follows:

- 4,000 units at \$15 per unit, resulting in \$60,000 of inventory left.

The net income can be calculated in the table as follows:

STATEMENT OF INCOME (in thousands of \$)	
Particulars	Amount
Net Sales	120
Cost of Goods Sold:	
Purchase of Goods	117
Beginning Inventory	0
Cost of Goods Available for Sale	117
Deduct: End Inventory	(60)
Net Cost of Goods Sold	57
Gross Margin	63
Deduct: Other Expenses	(31)
Income Before Tax	32
Deduct: Income Tax (40%)	(12.8)
Net Income	19.2

(b) Consider LIFO. Under LIFO, the goods that are bought at the latest are sold first. Thus, in accordance with this principle, the goods that are bought the earliest remain in inventory. Thus, the final inventory is valued as follows:

- 1,000 units at \$9 per unit
- 1,000 units at \$10 per unit
- 1,000 units at \$11 per unit
- 1,000 units at \$12 per unit, resulting in \$42,000 of the inventory left.

The statement of income can be calculated as follows:

STATEMENT OF INCOME (in thousands of \$)	
Particulars	Amount
Net Sales	120
Cost of Goods Sold:	
Purchase of Goods	117
Beginning Inventory	0
Cost of Goods Available for Sale	117
Deduct: End Inventory	(42)
Net Cost of Goods Sold	75
Gross Margin	45
Deduct: Other Expenses	(31)
Income Before Tax	14
Deduct: Income Tax (40%)	(5.6)
Net Income	8.4

(2) (a)

STATEMENT OF INCOME (in thousands of \$)	
Particulars	Amount
Net Sales	100
Cost of Goods Sold:	
Purchase of Goods	0
Beginning Inventory	60
Cost of Goods Available for Sale	60
Deduct: End Inventory	0
Net Cost of Goods Sold	60
Gross Margin	40
Deduct: Other Expenses	(30)
Income Before Tax	10
Deduct: Income Tax (40%)	(4)
Net Income	6

(b)

STATEMENT OF INCOME (in thousands of \$)	
Particulars	Amount
Net Sales	100
Cost of Goods sold:	
Purchase of Goods	0
Beginning Inventory	42
Cost of Goods Available for Sale	42
Deduct: End Inventory	0

Net Cost of Goods Sold	42
Gross Margin	58
Deduct: Other Expenses	(30)
Income Before Tax	28
Deduct: Income Tax (40%)	(11.2)
Net Income	16.8

(3)

If the entire purchase was made in year 2, then we can see that the entire stock was sold in year 1 as well as year 2, resulting in equal amount of earnings for FIFO and LIFO as the end inventory in both the cases will be zero.