

Solution:

(1)

After the purchase of 10,000 ounces of gold, the following effects are seen:

- Purchases increase by $\$1,600 \times 10,000 = \$16,000,000$.
- The final inventory will change as well. The changes are not obvious but can be inferred from the facts given as follows:
 - If purchase was not there, the LIFO layer would be penetrated by 8,000 ounces of gold for \$750 per ounce.
 - Since the purchase is there, the LIFO layer has not penetrated. The 8,000 ounces are deducted from the \$1,600 one and leaves with 2,000 ounces of gold in final inventory with \$1,600 per ounce.
 - This means that due to year-end purchase, the final inventory has increased by $\$1,600 \times 2,000 = \$3,200,000$.

These effects do mean that the cost of goods sold will be increased also by $\$16,000,000 - \$3,200,000 = \$12,800,000$.

Thus, the pre-tax income reduces by \$12.8 million, leading to $0.4 \times \$12.8 = \5.12 million savings in taxes.

This is a huge savings on the taxes!

(2)

This is a case of manipulation of the statements. The IRS should set up an enquiry on them, for this alleged misconduct.