

Solution:

We construct a table to answer both the parts:

	Purchase: \$12 per unit		Purchase: \$8 per unit	
	LIFO	FIFO	LIFO	FIFO
Sales	2,28,000	2,28,000	2,28,000	2,28,000
Gross Purchase	(1,56,000)	(1,56,000)	(1,04,000)	(1,04,000)
Beginning Inventory	(1,00,000)	(1,00,000)	(1,00,000)	(1,00,000)
Ending Inventory	1,12,000	1,44,000	1,08,000	88,000
Total Gross Margin	84,000	1,16,000	1,32,000	1,12,000

(2)

The difference between LIFO and FIFO gross margin could be accounted by the order in which they give priority to the cost of the goods sold, which marks the huge difference.

(3)

1a -> FIFO results in more cash

$$Difference = (1,16,000 - 84,000) \times 0.6 = \$19,200$$

(4)

1b -> LIFO results in more cash

$$Difference = (1,32,000 - 1,12,000) \times 0.6 = \$12,000$$