

Solution:

(1)

We can prepare the income statements for the two situations as follows:

Purchase of 400,000 pounds is NOT done yet:

STATEMENT OF INCOME (in \$)		
Name: Kansas Seed Corn Co.		
Particulars	Amount (LIFO)	Amount (FIFO)
Net Sales	5,000,000	5,000,000
Gross Purchase	2,700,000	2,700,000
Add: Beginning Inventory	0	0
Cost of Goods Available for Sale	2,700,000	2,700,000
Less: Ending Inventory	(400,000)	(600,000)
Cost of Goods Sold	2,300,000	2,100,000
Gross Profit (Loss)	2,700,000	2,900,000
Other Income (Expense)	(1,400,000)	(1,400,000)
Income Before Tax	1,300,000	1,500,000
Income Tax Applicable	(520,000)	(600,000)
Net Income	780,000	900,000
Earnings per share	7.8	9

Purchase of 400,000 pounds is done:

STATEMENT OF INCOME (in \$)		
Name: Kansas Seed Corn Co.		
Particulars	Amount (LIFO)	Amount (FIFO)
Net Sales	5,000,000	5,000,000
Gross Purchase	4,300,000	4,300,000
Add: Beginning Inventory	0	0
Cost of Goods Available for Sale	4,300,000	4,300,000
Less: Ending Inventory	(1,200,000)	(2,200,000)
Cost of Goods Sold	3,100,000	2,100,000
Gross Profit (Loss)	1,900,000	2,900,000
Other Income (Expense)	(1,400,000)	(1,400,000)
Income Before Tax	500,000	1,500,000
Income Tax Applicable	(125,000)	(600,000)
Net Income	375,000	900,000
Earnings Per Share	3.75	9

(3)

FIFO and he should buy the 400,000 pound now. This is crucial, because there is no problem in using FIFO at all, and when you buy 400,000 pounds now, this could inflate the income in the next year.

(4)

Will complete later...