

Solution:

(1)

The inventory turnover is given by the formula:

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Given the sales is \$2,500,000 with profit \$1,320,000, the cost of goods sold is \$1,180,000. And the average inventory is given to be \$1,000,000. Thus, the inventory turnover is:

$$\text{Inventory Turnover} = \frac{\$1,180,000}{\$1,000,000} = 1.18$$

(2)

The inventory turnover becomes 1.5 times if the reduction is applied. Since the average inventory remains unchanged, we get the cost of goods sold as:

$$\text{Cost of Goods Sold} = 1.5 \times \$1,000,000 = \$1,500,000$$

The sale prices are reduced by 10%, meaning that the sales will be given by 90% of \$2,500,000 = \$2,250,000.

Thus, the gross profit will be given by:

$$\text{Gross Profit} = \$2,250,000 - \$1,500,000 = \$750,000$$

The new gross profit percentage will be:

$$\text{New Gross Profit \%age} = \frac{\$750,000}{\$2,250,000} \times 100 = 33.30\%$$

In 2014, under the old scheme, the profit percentage was:

$$\text{Actual Gross Profit \%age} = \frac{\$1,320,000}{\$2,500,000} \times 100 = 52.80\%$$

The profit percentage has decreased considerably under the new scheme.

This suggest that Anne Scott should not implement this method as it has led to strongly reduced earnings.