**Solution:**

(1)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| COMPARATIVE STATEMENT OF GROSS PROFIT MARGIN | | | | |
| Particulars | Price: $8 per unit | | Price: $12 per unit | |
| FIFO | LIFO | FIFO | LIFO |
| Net Sales  Cost of Goods Sold:  Purchase of Goods  Beginning Inventory  Goods Available for Sale  Deduct: Ending Inventory | 228,000  104,000  100,000 | 228,000  104,000  100,000 | 228,000  156,000  100,000 | 228,000  156,000  100,000 |
| 204,000  (88,000) | 204,000  (108,000) | 256,000  (132,000) | 256,000  (112,000) |
| Net Cost of Goods Sold | 116,000 | 96,000 | 124,000 | 144,000 |
| Gross Margin for 2012 | 112,000 | 132,000 | 104,000 | 84,000 |

The statement is provided below:

(2)

(a) In the case of $12 per unit, the acquisition cost was more than the initial inventory cost so LIFO reduces the overall margin and FIFO increased it.

(b) In the case of $8 per unit, the acquisition cost was less than the initial inventory cost so FIFO reduces the overall margin and LIFO increased it.

(3)

In the case (a) [$12 per unit], the FIFO method produces higher earnings for Stern Company.

The difference is given by:

(4)

In the case (b) [$8 per unit], the LIFO method produces higher earnings for Stern Company.

The difference is given by: