**Solution:**

(1)

The comparative statement is as follows:

|  |  |  |
| --- | --- | --- |
| Particulars | Amount (in thousands of $) in | |
| (a) | (b) |
| Net Sales  Cost of Goods Sold:  Purchase of Goods  Beginning Inventory  Goods Available for Sale  Deduct: End Inventory | 5,000  2,700  0 | 5,000  4,300  0 |
| 2,700  (400) | 4,300  (1,200) |
| Net Cost of Goods Sold | 2,300 | 3,100 |
| Gross Margin  Deduct: Other Expenses | 2,700  1,400 | 1,900  1,400 |
| Income Before Tax  Deduct: Income Tax | 1,300  (520) | 500  (200) |
| Net Income  Divide: No of shares (100,000) | 780 | 300 |
| Earnings Per Share (in $) | 7.8 | 3.0 |

(2)

The comparative statement is as follows:

|  |  |  |
| --- | --- | --- |
| Particulars | Amount (in thousands of $) in | |
| (a) | (b) |
| Net Sales  Cost of Goods Sold:  Purchase of Goods  Beginning Inventory  Goods Available for Sale  Deduct: End Inventory | 5,000  2,700  0 | 5,000  4,300  0 |
| 2,700  (600) | 4,300  (2,200) |
| Net Cost of Goods Sold | 2,100 | 2,100 |
| Gross Margin  Deduct: Other Expenses | 2,900  1,400 | 2,900  1,400 |
| Income Before Tax  Deduct: Income Tax | 1,500  (600) | 1,500  (600) |
| Net Income  Divide: No of shares (100,000) | 900 | 900 |
| Earnings Per Share (in $) | 9.0 | 9.0 |

(3)

Fleming should use the FIFO method. While the LIFO method saves taxes, the FIFO method ensures that the shareholders get to see higher income. Since it is in the first year of its business, it needs to show that it is earning higher and earn the stockholders’ trust.

(4)

(a)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Particulars | Amount (in thousands of $) | | | |
| FIFO | LIFO | FIFO  (Purchased) | LIFO  (Purchased) |
| Net Sales  Cost of Goods Sold:  Purchase of Goods  Beginning Inventory  Goods Available for Sale  Deduct: End Inventory | 5,500  6,800  600 | 5,500  6,800  400 | 5,500  5,200  2,200 | 5,500  5,200  1,200 |
| 7,400  (3,200) | 7,200  (2,800) | 7,400  (3,200) | 6,400  (2,000) |
| Net Cost of Goods Sold | 4,200 | 4,400 | 4,200 | 4,400 |
| Gross Margin  Deduct: Other Expenses | 1,300  800 | 1,100  800 | 1,300  800 | 1,100  800 |
| Income Before Tax  Deduct: Income Tax | 500  (175) | 300  (105) | 500  (175) | 300  (105) |
| Net Income  Divide: No of shares (100,000) | 325 | 195 | 325 | 195 |
| Earnings Per Share (in $) | 3.25 | 1.95 | 3.25 | 1.95 |

(b)

Interestingly, there are no differences in the income between the purchase and not purchase.

(C)

LIFO assumed the prices to be different.

(d)

Total cash outflow is as follows:

* Under FIFO
  + Without purchase: 600 + 175 = $775,000
  + With purchase: 600 + 175 = $775,000
* Under LIFO
  + Without purchase: 520 + 105 = $625,000
  + With purchase: 200 + 105 = $305,000

(e)

This is very interesting now, under LIFO there are huge savings in the income taxes if they decide to purchase the 400,000 pounds early. This could be very beneficial for the company.

Thus, the company can decide to opt for the LIFO with advanced purchase.