**Solution:**

(1)

After the purchase of 10,000 ounces of gold, the following effects are seen:

* Purchases increase by $1,600 x 10,000 = $16,000,000.
* The final inventory will change as well. The changes are not obvious but can be inferred from the facts given as follows:
  + If purchase was not there, the LIFO layer would be penetrated by 8,000 ounces of gold for $750 per ounce.
  + Since the purchase is there, the LIFO layer has not penetrated. The 8,000 ounces are deducted from the $1,600 one and leaves with 2,000 ounces of gold in final inventory with $1,600 per ounce.
  + This means that due to year-end purchase, the final inventory has increased by $1,600 x 2,000 = $3,200,000.

These effects do mean that the cost of goods sold will be increased also by $16,000,000 - $3,200,000 = $12,800,000.

Thus, the pre-tax income reduces by $12.8 million, leading to 0.4 x $12.8 = $5.12 million savings in taxes.

This is a huge savings on the taxes!

(2)

This is a case of manipulation of the statements. The IRS should set up an enquiry on them, for this alleged misconduct.