Quick Questions On The Retailing And Gross Profit Methods

1. Assume a retail store marked up its beginning inventory of $40,000 to $60,000, and that purchases of $60,000 were marked up to sell for $100,000. Sales were $120,000. Using the retail method of inventory valuation, calculate the value of the ending inventory.

	Cost	Sales Price
Beginning Inventory	$ 40,000	$ 60,000
Purchases	60,000	100,000
Cost of Goods Available	$100,000	$160,000
Sales		120,000
Inventory at Sales Price		$ 40,000

Cost Ratio:

$$\frac{\text{Goods Available at Cost}}{\text{Goods Available at Sales Price}} = \frac{\$100{,}000}{\$160{,}000}$$

$$= .625$$

Inventory at Cost = (Inventory at Sales Price)(Cost Ratio)

= ($40,000)(.625) = $25,000

2. A second retail store had sales of $404,000 and Sales Returns and Allowances of $4,000. Beginning inventory was $100,000. Purchases were $210,000 and Purchase Returns and Allowances were $10,000. Calculate the ending inventory assuming a gross profit percentage of 60%.

Beginning Inventory		$100,000	
Purchases	$210,000		
Purchase Returns	10,000	200,000	
Cost of Goods Available			$300,000
Net Sales = $404,000 - $4,000 =		$400,000	
Cost of Goods Sold % = 1.0 - .6 =		x .4	
Cost of Goods Sold			160,000
Ending Inventory			$140,000