

CONCEPT: FINANCIAL STATEMENT EFFECTS OF COSTING METHODS

- The choice between FIFO, LIFO, and Average Cost leads to differences in the following accounts/calculations:

- ☐ COGS
- ☐ Gross Profit = Sales Revenue – COGS
- ☐ Net Income = Gross Profit – Other Expenses/Revenues
- ☐ Ending Merchandise Inventory = Beginning Inventory + Purchases – Ending Inventory

Excerpts from periodic inventory example

	FIFO	LIFO	Average Cost
Sales	39,000	39,000	39,000
COGS	26,720	29,180	27,968
Gross Profit			
Inventory Balance, July 31	18,460	20,000	17,212

- The differences in these values are dependent on whether prices are generally rising or declining over the period.

Rising Price Environment	FIFO	LIFO
COGS		
Gross Profit		
Net Income		
Ending Inventory		

Falling Price Environment	FIFO	LIFO
COGS		
Gross Profit		
Net Income		
Ending Inventory		

Rising	FIFO	Rising	LIFO	Falling	FIFO	Falling	LIFO
\$		\$		\$		\$	
\$		\$		\$		\$	
\$		\$		\$		\$	
\$		\$		\$		\$	

Note: Companies reporting in LIFO must also show what Inventory would be under FIFO using a **LIFO reserve**.