

# Dollar-Value LIFO Retail

Screen 001

The purpose of this illustration is to explain the use of the dollar-value LIFO retail method for inventory accounting. This method combines the dollar-value LIFO method and the retail inventory method, which were the focus of other illustrations in Chapters 8 and 9.

## Bevo Boot Shops

Information

Required

On January 1, 2009, the Bevo Boot Shops adopted the dollar-value LIFO retail inventory method for preparing financial statements. Bevo provided the following information (in \$ thousands) at December 31, 2009, the company's fiscal year-end:

	<u>Cost</u>	<u>Retail</u>
<b>Beginning inventory</b>	<b>20,000</b>	<b>40,000</b>
<b>Net Purchases</b>	<b>106,500</b>	<b>140,250</b>
<b>Freight in</b>	<b>5,500</b>	
<b>Net markups</b>		<b>35,850</b>
<b>Net markdowns</b>		<b>16,100</b>
<b>Net sales</b>		<b>140,150</b>

The retail prices for Bevo's boots increased by 5% from January 1 to December 31, 2009.

Screen 002

On January 1, 2009, the Bevo Boot Shops adopted the dollar-value LIFO retail inventory method. Bevo provided the following information (in \$ thousands) at December 31, 2009, the company's fiscal year-end.

The retail prices for Bevo's boots increased by 5% from January 1 to December 31, 2009.

## Bevo Boot Shops

Information

Required

### Required

Calculate Bevo's estimated cost of goods sold for 2009.

Your answer: \$  thousand

Screen 003

Your requirement is to calculate Bevo's estimated cost of goods sold for 2009.

Try to make this computation. Place your answer in the space provided. Then click NEXT when you are ready to do so.

## Bevo Boot Shops

Answers

Basis for Answers

### Required

Calculate Bevo's estimated cost of goods sold for 2009.

Your answer: \$ \_\_\_\_\_ thousand

Correct answer: \$ 99,505 thousand

	<u>Cost</u>	<u>Retail</u>
<b>Beginning inventory</b>	<b>20,000</b>	<b>40,000</b>
<b>Net Purchases</b>	<b>106,500</b>	<b>140,250</b>
<b>Freight in</b>	<b>5,500</b>	
<b>Net markups</b>		<b>35,850</b>
<b>Net markdowns</b>		<b>16,100</b>
<b>Net sales</b>		<b>140,150</b>

Screen 004

The correct answer is \$99,505,000. Your answer is repeated here for comparison. Congratulations if you got it correct.

# Bevo Boot Shops

Answers

Basis for Answers

## Requirement 1

	<u>Cost</u>	<u>Retail</u>
Beginning inventory	20,000	40,000
Plus: Purchases	106,500	140,250
Freight-in	5,500	
Net markups		35,850
Less: Net markups		(16,100)
Goods available for sale (excluding beginning inventory)	<u>112,000</u>	<u>160,000</u>
Goods available for sale (including beginning inventory)	132,000	200,000
Cost-to-retail percentage: $(112,000/160,000) = 70\%$		
Less: Net sales		(140,150)
Estimated ending inventory at current year retail		<u>59,850</u>
Estimated ending inventory at cost (see below)	<u>(32,495)</u>	
Estimated cost of goods sold	<u>99,505</u>	

	Ending Inventory at Year-end Retail Prices	Step 1 Ending Inventory at Base Year Retail Prices	Inventory Layers at Base Year Retail Prices	Inventory Layers Converted to Cost
* $59,850 / 1.05 = 57,000$		*57,000		
** $40,000 \times 1.00 \times 0.50 = 20,000$	59,850		40,000 (base)	**20,000
*** $17,000 \times 1.05 \times 0.70 = 12,495$			17,000 (2005)	***12,495
Total ending inventory at dollar-value LIFO retail cost				<u>32,495</u>

Screen 005

The basis for the answer is presented in the following table. We start with the January 1, 2009 inventory balance as the base layer for Bevo. Both cost and retail amounts are provided, and the cost-to-retail percentage is 50%. Our next step is to compute the cost-to-retail percentage for transactions during 2009. We add Bevo's net purchases of inventory during 2009, both at cost and retail. As we did in the illustration on the LIFO retail method, we add freight-in to the 2009 layer cost, and adjust the retail numbers by the net markups and markdowns of retail prices during the year. This gives us goods available for sale (excluding the base layer of inventory), \$112 million and \$160 million at cost and retail, respectively. Therefore, we are able to compute the ratio of cost to retail for the 2009 inventory layer, which is 70%.

Next, we subtract the 2009 retail sales from the goods available for sale from both layers of inventory, yielding an ending inventory at retail of \$59,850,000, which is measured in year-end 2009 dollars.

Now we employ the dollar-value index technique to convert this retail number to a cost number for the ending inventory. We deflate the \$59,850,000 by 1.05, because the prices increased during 2009 by 5% over the base index. This gives us \$57 million for the inventory at base year retail. We started the year with a base of \$40 million, so we now split off that base layer from the \$57 million, deriving a \$17 million retail value of the new LIFO layer. Now, we multiply both the base layer and the additional 2009 layer by their respective price indexes and then by their respective cost-to-retail percentages to convert these to their cost bases. The sum of these-- \$32,495,000—is the estimated cost of Bevo's ending inventory.

Our final step is to subtract this ending inventory figure from the cost of goods available for sale to derive our estimated cost of goods sold, which is \$99,505,000.