



Joe's TV Sales (A)*

Frank is the owner-manager of Joe's TV. He purchased the business from Joe several years ago and decided to keep Joe's good name. The Company specializes in selling a single model of a nationally known television for a 'cash and carry' price of \$300.

Wholesale prices escalated in 1995 due to instability in the asian country where the television sets are manufactured. The Company uses a periodic inventory system and below is a description of Company inventory, purchases and sales for 1995.

	<u>Units</u>	<u>Cost per unit</u>	<u>Total cost</u>
<i>Beginning inventory</i> (Jan. 1, 1995)	2	\$150	\$300
<i>Purchases during 1995:</i>			
February 8	2	160	320
May 14	4	170	680
August 12	4	180	720
October 28	2	190	380
December 24	2	200	400
<i>Total purchases</i>	14		\$2,500
<i>Available for sale</i>	16		\$2,800
<i>Number of units sold</i>	11		
<i>Units in ending inventory</i> (Dec.31, 1995)	5		

Question:

1. Compute 1995 gross profit under the following cost-flow assumptions:
 - a. First-in, first-out (FIFO),
 - b. Last-in, first-out (LIFO), and
 - c. Average cost.

* Prepared by Robert Bowen and Glenn Pfeiffer for class discussion. Revised September 1998.



Joe's TV Sales (B)*

Assume Frank elected to use last-in, first-out (LIFO) to account for inventory valuation and determination of cost of goods sold. Below is a description of Company inventory, purchases and sales for 1996.

	<u>Units</u>	<u>Cost per unit</u>	<u>Total cost</u>
<i>Beginning inventory</i> (Jan. 1, 1996)	2	\$150	\$300
	2	160	320
	<u>1</u>	<u>170</u>	<u>170</u>
<i>Total beginning inventory</i>	5		\$790
<i>Purchases during 1996:</i>	10	\$200	\$2,000
<i>Available for sale</i>	15		\$2,790
<i>Number of units sold</i>	14		
<i>Units in ending inventory</i> (Dec.31, 1996)	?		

On December 30, 1996, Frank was debating whether or not to purchase four additional TV sets from a "local distributor" before the end of the fiscal year. Due to high demand at year-end, the sets would cost \$220 each and he wouldn't be able to sell them until 1997. Frank estimates that his marginal tax bracket is 20%.

Questions:

1. Would you recommend that Frank purchase the four additional TVs before yearend? Why or why not?
2. Should Frank purchase more than four TVs if possible?
3. Assume Frank approached your bank for financing. How would you react to lending for his end-of-year purchase?

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