What is the LIFO Method?

Worksheet

Under LIFO, the cost of goods sold is based on the newest inventory costs first, while ending inventory reflects the oldest purchase costs.

Questions

1. LIFO assumes that

A) the oldest units are sold first
B) the newest units are sold first
C) all units are sold at once
D) inventory costs never change

2. 100 units bought at $5, then 50 at $7. If 120 units are sold under LIFO, what is COGS?

A) $600
B) $640
C) $700
D) $840

3. During rising prices, LIFO generally results in

A) lower reported profit
B) higher reported profit
C) no change in profit
D) negative inventory

4. Under LIFO, ending inventory is valued using

A) the most recent purchase costs
B) an average of all costs
C) the oldest purchase costs
D) only market value

5. A shop's inventory: 100 units bought at $8 (Jan), then 150 units at $10 (Feb). It sells 120 units in March. Under LIFO, what is COGS?

6. Using the same purchases (100 @ $8, 150 @ $10), find the ending inventory value after selling 120 units under LIFO.

7. A store bought 50 units at $20 in Week 1, then 30 more units at $25 in Week 2, and sells 40 units in Week 3. What is LIFO COGS?

8. Define: What does LIFO stand for?

9. Define: How does LIFO affect COGS during inflation?

10. Define: What does ending inventory reflect under LIFO?

Answer Key

1. B) the newest units are sold first - LIFO = Last-In, First-Out: the newest purchases are expensed first.

2. C) $700 - First 50 units come from the newest batch: 507=350. Remaining 70 units come from the $5 batch: 705=350. COGS=350+350=$700.

3. A) lower reported profit - LIFO expenses newer, pricier costs first, so profit looks lower when prices rise.

4. C) the oldest purchase costs - The units left in stock are assumed to be from the oldest purchases.

5. Most recent 120 units come from the Feb batch (150 available at $10): 120 $10 = $1,200 COGS = $1,200

6. Feb batch has 150 120 = 30 units left at $10 = $300 All 100 units of the Jan batch remain at $8 = $800 Ending inventory = 300 + 800 = $1,100

7. First take all 30 units from the newest (Week 2) batch: 30 $25 = $750 Still need 10 more units, taken from the Week 1 batch: 10 $20 = $200 COGS = 750 + 200 = $950

8. Last-In, First-Out - the most recently purchased inventory costs are recorded as sold first.

9. COGS is higher (based on newer, pricier costs), so reported profit - and taxable income - is lower.

10. The oldest (often cheaper) unit costs still on the books.