

20-3 WORK TOGETHER, p. 635

Estimating ending inventory using the gross profit method

1.

STEP 1:

Beginning inventory, June 1.....
 Plus net purchases for June 1 to June 30
 Equals cost of merchandise available for sale.....

STEP 2:

Net sales for June 1 to June 30.....
 Times previous year's gross profit percentage.....
 Equals estimated gross profit on operations.....

STEP 3:

Net sales for June 1 to June 30.....
 Less estimated gross profit on operations.....
 Equals estimated cost of merchandise sold.....

STEP 4:

Cost of merchandise available for sale.....
 Less estimated cost of merchandise sold.....
 Equals estimated ending merchandise inventory.....

2.

Goldsmith Company

Income Statement

For Month Ended June 30, 20—

											% OF NET SALES
Operating Revenue:											
Net Sales											
Cost of Merchandise Sold:											
Beginning Inventory, June 1											
Net Purchases											
Merchandise Available for Sale											
Less Estimated Ending Inventory, June 30											
Cost of Merchandise Sold											
Gross Profit on Operations											
Operating Expenses											
Net Income											

20-3 ON YOUR OWN, p. 635

Estimating ending inventory using the gross profit method

1.

STEP 1:

Beginning inventory, April 1
 Plus net purchases for April 1 to April 30
 Equals cost of merchandise available for sale.....

STEP 2:

Net sales for April 1 to April 30
 Times previous year's gross profit percentage.....
 Equals estimated gross profit on operations.....

STEP 3:

Net sales for April 1 to April 30
 Less estimated gross profit on operations.....
 Equals estimated cost of merchandise sold.....

STEP 4:

Cost of merchandise available for sale.....
 Less estimated cost of merchandise sold.....
 Equals estimated ending merchandise inventory.....

2.

Leah Enterprises

Income Statement

For Month Ended April 30, 20--

											% OF NET SALES
Operating Revenue:											
Net Sales											
Cost of Merchandise Sold:											
Beginning Inventory, April 1											
Net Purchases											
Merchandise Available for Sale											
Less Estimated Ending Inventory, April 30											
Cost of Merchandise Sold											
Gross Profit on Operations											
Operating Expenses											
Net Income											

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Estimating ending inventory using the gross profit method

1.

STEP 1:

Beginning inventory, March 1	
Plus net purchases for March 1 to March 31	
Equals cost of merchandise available for sale	_____

STEP 2:

Net sales for March 1 to March 31	
Times previous year's gross profit percentage	
Equals estimated gross profit on operations	_____

STEP 3:

Net sales for March 1 to March 31	
Less estimated gross profit on operations	
Equals estimated cost of merchandise sold	_____

STEP 4:

Cost of merchandise available for sale	
Less estimated cost of merchandise sold	
Equals estimated ending merchandise inventory	_____

2.

Lee Industries

Income Statement

For Month Ended March 31, 20—

											% OF NET SALES
Operating Revenue:											
Net Sales											
Cost of Merchandise Sold:											
Beginning Inventory, March 1											
Net Purchases											
Merchandise Available for Sale											
Less Estimated Ending Inventory, March 31											
Cost of Merchandise Sold											
Gross Profit on Operations											
Operating Expenses											
Net Income											

