

Ali Naeem was recently placed in charge of inventory accounting for Sialkot Surgical Supply. This company is located in Pakistan and deals in surgical supplies for global export. The company has been using the last-in, first-out inventory method applied on a perpetual basis. The company's export trade is denominated and settled in dollars, and that currency is used within the company's ledger.

Ali's responsibility is to bring Sialkot Surgical's inventory accounting into conformity with international accounting standards that have been embraced by the Institute of Chartered Accountants of Pakistan. As a result of his research, Ali was surprised to learn that LIFO does not have global acceptance and it is not a GAAP method in his country.

Below is January's preliminary inventory schedule for surgical clamps. This schedule was prepared on a LIFO basis.

Date	Purchases	Sales	Cost of Goods Sold	Balance
01-Jan				5,000 X \$20 = \$100,000
05-Jan				5,000 X \$20 = \$100,000
	7,000 X \$21 = \$147,000			7,000 X \$21 = <u>\$147,000</u> \$247,000
12-Jan		9,000 @ \$35 = \$315,000	7,000 X \$21 = \$147,000 2,000 X \$20 = <u>\$ 40,000</u> \$187,000	3,000 X \$20 = \$ 60,000
17-Jan	4,000 X \$22 = \$ 88,000			3,000 X \$20 = \$ 60,000 4,000 X \$22 = <u>\$ 88,000</u> \$148,000
26-Jan		3,000 @ \$37 = \$111,000	3,000 X \$22 = \$66,000	3,000 X \$20 = \$ 60,000 1,000 X \$22 = <u>\$ 22,000</u> \$ 82,000
31-Jan				3,000 X \$20 = \$ 60,000 1,000 X \$22 = <u>\$ 22,000</u> \$ 82,000

- Examine Sialkot's LIFO inventory schedule, and redo the presentation assuming perpetual FIFO. For this problem, you may assume that the beginning inventory would be the same as under LIFO.
- Examine Sialkot's LIFO inventory schedule, and redo the presentation assuming a moving average method. For this problem, you may assume that the beginning inventory would be the same as under LIFO.
- Prepare journal entries necessary to reflect the FIFO perpetual application.
- Show that the Inventory account balance resulting from part (c) agrees with the schedule from part (a). If Ali applied FIFO on a periodic basis, rather than a perpetual basis, would the same results occur?

- (e) By applying FIFO, rather than LIFO, will Sialkot Surgical's income be increased or decreased?
- (f) Do you suspect that global divergence in accounting practices can contribute to difficulties in cross-border financing and global trade?