

FA Module 8: Inventories – homework assignment

(The attached PDF file has better formatting.)

*Homework assignment:*

A firm is choosing among FIFO, LIFO, and weighted average inventory management systems. The firm has two objectives:

- ! maximize reported profits for the period
- ! minimize tax payments for the period

- A. If unit costs are increasing, how does the choice of inventory management system affect each objective?
- B. If unit costs are decreasing, how does the choice of inventory management system affect each objective?
- C. How does the trend of business volume (increasing vs flat vs decreasing) affect the answer?

Explain the reasoning for your solutions.

