

York Co. sells one product, which it purchases from various suppliers. York's trial balance at December 31, 1993, included the following accounts:

Sales (33,000 units @ \$16)	\$528,000
Sales discounts	7,500
Purchases	368,900
Purchase discounts	18,000
Freight-in	5,000
Freight-out	11,000

York Co.'s inventory purchases during 1993 were as follows:

	<u>Units</u>	<u>Cost per unit</u>	<u>Total cost</u>
Beginning inventory, January 1	8,000	\$8.20	\$ 65,600
Purchases, quarter ended March 31	12,000	8.25	99,000
Purchases, quarter ended June 30	15,000	7.90	118,500
Purchases, quarter ended September 30	13,000	7.50	97,500
Purchases, quarter ended December 31	<u>7,000</u>	7.70	<u>53,900</u>
	<u>55,000</u>		<u>\$434,500</u>

Additional Information:

York's accounting policy is to report inventory in its financial statements at the lower of cost or market, applied to total inventory. Cost is determined under the last-in, first-out (LIFO) method.

York has determined that, at December 31, 1993, the replacement cost of its inventory was \$8 per unit and the net realizable value was \$8.80 per unit. York's normal profit margin is \$1.05 per unit.

Required:

1. Prepare York's schedule of cost of goods sold, with a supporting schedule of ending inventory. York uses the direct method of reporting losses from market decline of inventory.
2. Explain the rule of lower of cost or market and its application in this situation.