

*Answer on Question #79835, Economics / Finance*

The retail inventory method is used by retailers that resell merchandise to estimate their ending inventory balances. This method is based on the relationship between the cost of merchandise and its retail price. The method is not entirely accurate, and so should be periodically supplemented by a physical inventory count.

The retail inventory method is a quick and easy way to determine an approximate ending inventory balance.

*Inventory at cost*

$$850,000 + 650,000 = 1,500,000;$$

*Inventory at retail*

$$2,100,000 + 1,000,000 = 3,100,000;$$

*Inventory markups*

$$3,100,000 + 80,000 = 3,180,000;$$

*Cost Ratio*

$$1,500,000 / 3,180,000 = 47\%;$$

*Less Sales and Markdowns*

$$3,180,000 - 2,650,000 - 35,000 = 495,000 \text{ at retail};$$

*Ending Inventory Value at cost*

$$495,000 \times 47\% = 232,650.$$

Answer provided by <https://www.AssignmentExpert.com>