

**LIFO Examples of Correlation Between FIFO Balance Changes and LIFO Expense/Income Amounts**

	A	B	C	D	E	F	G	H	I	J	K	L	M
1													
2	It is a common misconception that people think that the LIFO reserve will only increase if the FIFO inventory increases. This is untrue. Unless FIFO values decrease significantly, the amount of inflation is a far more important determinant of LIFO expense than FIFO values and significant LIFO reserve increases are possible even with sizable FIFO inventory decreases. Below is an example of LIFO-PRO Report 16. Each example uses a different FIFO inventory level to proof this point.												
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10	<b>Example 1</b>		CUR. YR.	CUMLTV.	INVENTORY	INC(DEC)	CUMLTV.						
11	FIFO		DEFLATOR	DEFLATOR	AT BASE	AT BASE	INFLATOR	PRICED	LIFO	LIFO	LIFO	LAYER	LAYER AT
12	PERIOD	INVENTORY	INDEX	INDEX	PRICES	PRICES	INDEX	INC(DEC)	INVENTORY	RESERVE	EXPENSE	AT BASE	COST
13	12/31/2001	1,000,000	1.000000	1.000000	1,000,000	1,000,000	1.000000	1,000,000	1,000,000	0	0	1,000,000	1,000,000
14	12/31/2002	1,020,000	1.020000	1.020000	1,000,000	0	1.020000	0	1,000,000	20,000	20,000	0	0
15	12/31/2003	1,040,400	1.020000	1.040400	1,000,000	0	1.040400	0	1,000,000	40,400	20,400	0	0
16	12/31/2004	1,061,208	1.020000	1.061208	1,000,000	0	1.061208	0	1,000,000	61,208	20,808	0	0
17	12/31/2005	1,082,432	1.020000	1.082432	1,000,000	0	1.082432	0	1,000,000	82,432	21,224	0	0
18						1,000,000	1.000000	1,000,000			82,432	1,000,000	1,000,000
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22	<b>Example 2</b>		CUR. YR.	CUMLTV.	INVENTORY	INC(DEC)	CUMLTV.						
23	FIFO		DEFLATOR	DEFLATOR	AT BASE	AT BASE	INFLATOR	PRICED	LIFO	LIFO	LIFO	LAYER	LAYER AT
24	PERIOD	INVENTORY	INDEX	INDEX	PRICES	PRICES	INDEX	INC(DEC)	INVENTORY	RESERVE	EXPENSE	AT BASE	COST
25	12/31/2001	1,000,000	1.000000	1.000000	1,000,000	1,000,000	1.000000	1,000,000	1,000,000	0	0	1,000,000	1,000,000
26	12/31/2002	1,020,000	1.020000	1.020000	1,000,000	0	1.020000	0	1,000,000	20,000	20,000	0	0
27	12/31/2003	1,040,400	1.020000	1.040400	1,000,000	0	1.040400	0	1,000,000	40,400	20,400	0	0
28	12/31/2004	1,061,208	1.020000	1.061208	1,000,000	0	1.061208	0	1,000,000	61,208	20,808	0	0
29	12/31/2005	2,122,416	1.020000	1.082432	1,960,785	960,785	1.082432	1,039,984	2,039,984	82,432	21,224	960,785	1,039,984
30						1,960,785	1.040392	2,039,984			82,432	1,960,785	2,039,984
31													
32													
33	<b>Example 3</b>		CUR. YR.	CUMLTV.	INVENTORY	INC(DEC)	CUMLTV.						
34	FIFO		DEFLATOR	DEFLATOR	AT BASE	AT BASE	INFLATOR	PRICED	LIFO	LIFO	LIFO	LAYER	LAYER AT
35	PERIOD	INVENTORY	INDEX	INDEX	PRICES	PRICES	INDEX	INC(DEC)	INVENTORY	RESERVE	EXPENSE	AT BASE	COST
36	12/31/2001	1,000,000	1.000000	1.000000	1,000,000	1,000,000	1.000000	1,000,000	1,000,000	0	0	831,461	831,461
37	12/31/2002	1,020,000	1.020000	1.020000	1,000,000	0	1.020000	0	1,000,000	20,000	20,000	0	0
38	12/31/2003	1,040,400	1.020000	1.040400	1,000,000	0	1.040400	0	1,000,000	40,400	20,400	0	0
39	12/31/2004	1,000,000	1.020000	1.061208	942,322	-57,678	1.000000	-57,678	942,322	57,678	17,278	0	0
40	12/31/2005	900,000	1.020000	1.082432	831,461	-110,861	1.000000	-110,861	831,461	68,539	10,861	0	0
41						831,461	1.000000	831,461			68,539	831,461	831,461
42													
43													
44	<b>Example 4</b>		CUR. YR.	CUMLTV.	INVENTORY	INC(DEC)	CUMLTV.						
45	FIFO		DEFLATOR	DEFLATOR	AT BASE	AT BASE	INFLATOR	PRICED	LIFO	LIFO	LIFO	LAYER	LAYER AT
46	PERIOD	INVENTORY	INDEX	INDEX	PRICES	PRICES	INDEX	INC(DEC)	INVENTORY	RESERVE	EXPENSE	AT BASE	COST
47	12/31/2001	1,000,000	1.000000	1.000000	1,000,000	1,000,000	1.000000	1,000,000	1,000,000	0	0	692,884	692,884
48	12/31/2002	1,020,000	1.020000	1.020000	1,000,000	0	1.020000	0	1,000,000	20,000	20,000	0	0
49	12/31/2003	1,040,400	1.020000	1.040400	1,000,000	0	1.040400	0	1,000,000	40,400	20,400	0	0
50	12/31/2004	1,000,000	1.020000	1.061208	942,322	-57,678	1.000000	-57,678	942,322	57,678	17,278	0	0
51	12/31/2005	750,000	1.020000	1.082432	692,884	-249,438	1.000000	-249,438	692,884	57,116	-562	0	0
52						692,884	1.000000	692,884			57,116	692,884	692,884