Inventory estimation is useful:

1. When interim financial statements are prepared.
2. When inventory is destroyed by catastrophes.
3. When testing the validity of inventory cost using either periodic or perpetual inventory system.

Inventory Estimation Methods:

1. **Gross Profit Method** - assumes that the relationship of Gross Profit and Sales remains stable over time.
2. **Retail Inventory Method** - estimates the cost of inventory using cost-to-retail ratio.

Gross Profit Method Assumptions:

1. Beginning Inventory + Purchases = Total Goods to be Accounted For
2. Goods not sold must be on hand
3. Sales, reduced to cost, deducted from the sum of Beginning Inventory + Purchases equals Ending Inventory

Beginning Inventory	xx
Purchases	xx
Cost of Goods Available for Sale	xx
Ending Inventory	(xx)
Cost of Goods Sold	xx

*For Inventory Estimations, ignore Sales Discounts and Allowances
*If partially damaged, apply Lower of Cost and Net Realizable Value
*If undamaged, apply Cost