

# Ch6

Student: \_\_\_\_\_

1. Inventory is usually reported as a long-term asset in the balance sheet.  
True False
2. Cost of goods sold is an asset reported in the balance sheet and inventory is an expense reported in the income statement.  
True False
3. Merchandising companies purchase inventories that are primarily in finished form for resale to customers.  
True False
4. Cost of goods sold is an expense reported in the income statement and represents the cost of inventory sold during the period.  
True False
5. If a company has beginning inventory of \$15,000, purchases during the year of \$75,000, and ending inventory of \$20,000, cost of goods sold equals \$70,000.  
True False
6. If a company has ending inventory of \$25,000, purchases during the year of \$95,000, and beginning inventory of \$30,000, cost of goods sold equals \$90,000.  
True False
7. Companies are not allowed to report inventory costs by assuming which units of inventory are sold and which units still remain on hand.  
True False
8. Using the first-in, first-out method (FIFO), the first units purchased are assumed to be the first ones sold.  
True False
9. Using the weighted-average cost method, the average cost of inventory is calculated as the average unit cost of inventory purchased during the year.  
True False
10. Companies are free to choose FIFO, LIFO, or weighted-average cost to report inventory and cost of goods sold.  
True False

11. For most companies, actual physical flow of their inventory follows LIFO.  
True False
12. During periods of rising costs, FIFO generally results in a higher ending inventory balance.  
True False
13. During periods of rising costs, FIFO generally results in a higher cost of goods sold.  
True False
14. During periods of rising costs, LIFO generally results in a higher cost of goods sold.  
True False
15. During periods of rising costs, LIFO generally results in a higher ending inventory balance.  
True False
16. Accountants often call FIFO the balance sheet approach because the amount it reports for ending inventory better approximates the current cost of inventory.  
True False
17. One of the primary benefits of using FIFO when inventory costs are rising is that it results in greater tax savings.  
True False
18. The LIFO conformity rule requires a company that uses LIFO for tax reporting to use FIFO for financial reporting.  
True False
19. The LIFO reserve is the additional amount of inventory a company would report if it used FIFO instead of LIFO.  
True False
20. Using a perpetual inventory system, the purchase of inventory is recorded with a debit to the Purchases account, which is a temporary account closed to cost of goods sold at the end of the period.  
True False
21. For inventory that is shipped FOB destination, title transfers from the seller to the buyer once the seller ships the inventory.  
True False
22. For inventory that is shipped FOB shipping point, title transfers from the seller to the buyer once the seller ships the inventory.  
True False

23. Freight-in is included in the cost of inventory.

True False

24. At the time inventory is sold, cost of goods sold is recorded under the perpetual inventory system.

True False

25. A multiple-step income statement reports multiple levels of profitability, such as gross profit, operating income, income before income taxes, and net income.

True False

26. Gross profit equals net sales of inventory less cost of goods sold.

True False

27. Sales revenue minus cost of goods sold is referred to as operating income.

True False

28. Income before income taxes equals operating income plus nonoperating revenues less nonoperating expenses.

True False

29. When the value of inventory falls below its cost, companies have the option of recording the inventory at cost or the lower market value.

True False

30. When the market value of inventory falls below its cost, no adjustment to the accounting records is needed.

True False

31. The adjustment to write down inventory from cost to its lower market value includes a debit to Cost of Goods Sold and a credit to Inventory.

True False

32. The use of the lower-of-cost-or-market method to report inventory is an example of conservatism in financial reporting.

True False

33. The inventory turnover ratio equals cost of goods sold divided by average inventory.

True False

34. Generally, a higher inventory turnover ratio reflects positively on a company's ability to manage its inventory.

True False

35. A company that has average inventory of \$500 and cost of goods sold of \$2,000 would have an inventory turnover ratio of 0.25.
- True False
36. The gross profit ratio measures the amount by which the sale price of inventory exceeds its cost per dollar of sales.
- True False
37. Generally, a lower gross profit ratio reflects positively on a company's ability to manage its inventory.
- True False
38. Using LIFO, the amount reported for ending inventory does not differ depending on whether a company uses a periodic system or a perpetual system.
- True False
39. A periodic inventory system does not continually modify inventory amounts, but instead adjusts for purchases and sales of inventory at the end of the reporting period based on a physical count of inventory on hand.
- True False
40. Overstating ending inventory in the current year causes net income in the current year to be overstated.
- True False
41. Understating ending inventory in the current year causes cost of goods sold in the current year to be understated.
- True False
42. Inventory does not include:
- A. Materials used in the production of goods to be sold.
  - B. Assets intended to be sold in the normal course of business.
  - C. Equipment used in the manufacturing of assets for sale.
  - D. Assets currently in production for normal sales.
43. The largest expense on a retailer's income statement is typically:
- A. Salaries.
  - B. Cost of goods sold.
  - C. Income tax expense.
  - D. Depreciation expense.
44. Cost of Goods Sold is:
- A. An asset account.
  - B. A revenue account.
  - C. An expense account.
  - D. A permanent equity account.

45. Cost of goods sold equals:
- A. Beginning inventory - net purchases + ending inventory.
  - B. Beginning inventory + accounts payable - net purchases.
  - C. Net purchases + ending inventory - beginning inventory.
  - D. Beginning inventory + net purchases - ending inventory.
46. Baker Fine Foods has beginning inventory for the year of \$12,000. During the year, Baker purchases inventory for \$150,000 and ends the year with \$20,000 of inventory. Baker will report cost of goods sold equal to:
- A. \$150,000.
  - B. \$158,000.
  - C. \$142,000.
  - D. \$170,000.
47. Tyler Toys has beginning inventory for the year of \$18,000. During the year, Tyler purchases inventory for \$230,000 and has cost of goods sold equal to \$233,000. Tyler's ending inventory equals:
- A. \$15,000.
  - B. \$18,000.
  - C. \$21,000.
  - D. \$19,000.

48. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Ending inventory assuming LIFO would be:

- A. \$500.
  - B. \$490.
  - C. \$470.
  - D. \$480.
49. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Cost of goods sold assuming LIFO would be:

- A. \$1,730.
- B. \$1,700.
- C. \$1,720.
- D. \$1,710.

50. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Ending inventory assuming FIFO would be:

- A. \$500.
- B. \$490.
- C. \$470.
- D. \$480.

51. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Cost of goods sold assuming FIFO would be:

- A. \$1,730.
- B. \$1,700.
- C. \$1,720.
- D. \$1,710.

52. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Ending inventory assuming weighted-average cost would be (round weighted-average unit cost to four decimals if necessary):

- A. \$502.
- B. \$490.
- C. \$489.
- D. \$480.

53. Inventory records for Dunbar Incorporated revealed the following:

Date	Transaction	Number of Units	Unit Cost
Apr. 1	Beginning inventory	500	\$2.40
Apr. 20	Purchase	400	2.50

Dunbar sold 700 units of inventory during the month. Cost of goods sold assuming weighted-average cost would be (round weighted-average unit cost to four decimals if necessary):

- A. \$1,711.
- B. \$1,700.
- C. \$1,720.
- D. \$1,708.

54. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Ending inventory assuming LIFO would be:

- A. \$5,040.
- B. \$5,055.
- C. \$5,075.
- D. \$5,135.

55. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Ending inventory assuming FIFO would be:

- A. \$5,140.
- B. \$5,080.
- C. \$5,060.
- D. \$5,050.

56. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Ending inventory assuming weighted-average cost would be (round weighted-average unit cost to four decimals if necessary):

- A. \$5,087.
- B. \$5,107.
- C. \$5,077.
- D. \$5,005.

57. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Cost of goods sold assuming LIFO would be:

- A. \$16,800.
- B. \$16,760.
- C. \$16,540.
- D. \$16,660.

58. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Cost of goods sold assuming FIFO would be:

- A. \$16,800.
- B. \$16,760.
- C. \$16,540.
- D. \$16,660.

59. Inventory records for Marvin Company revealed the following:

Date	Transaction	Number of Units	Unit Cost
Mar. 1	Beginning inventory	1,000	\$7.20
Mar. 10	Purchase	600	7.25
Mar. 16	Purchase	800	7.30
Mar. 23	Purchase	600	7.35

Marvin sold 2,300 units of inventory during the month. Cost of goods sold assuming weighted-average cost would be (round weighted-average unit cost to four decimals if necessary):

- A. \$16,733.
- B. \$17,408.
- C. \$16,713.
- D. \$16,089.

60. The following information pertains to Julia & Company:

March 1 Beginning inventory = 30 units @ \$5

March 3 Purchased 15 units @ \$4

March 9 Sold 25 units @ \$8

What is the cost of goods sold for Julia & Company assuming it uses LIFO?

- A. \$125.
- B. \$100.
- C. \$110.
- D. \$85.



61. The following information pertains to Julia & Company:  
March 1 Beginning inventory = 30 units @ \$5  
March 3 Purchased 15 units @ \$4  
March 9 Sold 25 units @ \$8  
What's the ending balance of inventory for Julia & Company assuming that it uses FIFO?
- A. \$125
  - B. \$100
  - C. \$110
  - D. \$85
62. Consider the following inventory transactions for September:  
Beginning inventory 15 units @ \$3.00  
Purchase on September 12 20 units @ \$3.50  
Purchased on September 23 10 units @ \$4.00  
For the month of September, the company sold 35 units. What is the cost of good sold under the weighted-average cost method (round the weighted-average unit cost to four decimals if necessary)?
- A. \$121.
  - B. \$116.
  - C. \$124.
  - D. \$131.
63. In a period when inventory costs are rising, the inventory method that most likely results in the highest ending inventory is:
- A. Lower-of-cost-or-market method.
  - B. Weighted-average cost.
  - C. FIFO.
  - D. LIFO.
64. In a period when inventory costs are falling, the lowest taxable income is most likely reported by using the inventory method of:
- A. Weighted average.
  - B. LIFO.
  - C. Moving average.
  - D. FIFO.
65. Which of the following is true regarding LIFO and FIFO?
- A. In a period of decreasing costs, LIFO results in lower total assets than FIFO.
  - B. In a period of decreasing costs, LIFO results in lower net income than FIFO.
  - C. In a period of rising costs, LIFO results in lower net income than FIFO.
  - D. The amount reported for COGS is based on market value of inventory if LIFO is used.
66. During periods when inventory costs are rising, cost of goods sold will most likely be:
- A. Higher under FIFO than LIFO.
  - B. Higher under FIFO than average cost.
  - C. Lower under average cost than LIFO.
  - D. Lower under LIFO than FIFO.

67. In a period of rising prices, which inventory valuation method would a company likely choose if they want to have the highest possible balance of inventory on the balance sheet?
- A. Average cost.
  - B. FIFO.
  - C. LIFO.
  - D. Periodic.
68. During periods when inventory costs are rising, ending inventory will most likely be:
- A. Greater under LIFO than FIFO.
  - B. Less under average cost than LIFO.
  - C. Greater under average cost than FIFO.
  - D. Greater under FIFO than LIFO.
69. The LIFO conformity rule states that if LIFO is used for:
- A. One class of inventory, it must be used for all classes of inventory.
  - B. Tax purposes, it must be used for financial reporting.
  - C. One company in an affiliated group, it must be used by all companies in an affiliated group.
  - D. Domestic companies, it must be used by foreign partners.
70. The primary reason for the popularity of LIFO is that it gives:
- A. Better matching of physical flow and cost flow.
  - B. A lower income tax obligation.
  - C. Simplified recordkeeping.
  - D. A simpler method to apply.
71. Which inventory method is better described as having an income statement focus and why is it considered as such?
- A. FIFO; better approximates the value of ending inventory.
  - B. LIFO; better approximates the value of ending inventory.
  - C. LIFO; better approximates inventory cost necessary to generate revenue.
  - D. FIFO; better approximates inventory cost necessary to generate revenue.
72. Which inventory method is better described as having a balance sheet focus and why is it considered as such?
- A. FIFO; better approximates the value of ending inventory.
  - B. LIFO; better approximates the value of ending inventory.
  - C. LIFO; better approximates inventory cost necessary to generate revenue.
  - D. FIFO; better approximates inventory cost necessary to generate revenue.
73. In a perpetual inventory system, the purchase of inventory is debited to:
- A. Purchases.
  - B. Cost of Goods Sold.
  - C. Inventory.
  - D. Accounts Payable.

74. In a perpetual inventory system, at the time of a sale the cost of inventory sold is:
- Debited to Accounts Receivable.
  - Credited to Cost of Goods Sold.
  - Debited to Cost of Goods Sold.
  - Not recorded at the time.
75. Good, Inc. sold inventory for \$1,200 that was purchased for \$700. Good records which of the following when it sells inventory using a perpetual inventory system?
- No entry is required for cost of goods sold and inventory.
  - Debit Cost of Goods Sold \$700; credit Inventory \$700.
  - Debit Cost of Goods Sold \$1,200; credit Inventory \$1,200.
  - Debit Inventory \$700; credit Cost of Goods Sold \$700.
76. Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of inventory costing \$620 for \$960 on account?
- |                     |     |     |
|---------------------|-----|-----|
| Inventory           | 620 |     |
| Cost of Goods Sold  |     | 620 |
| Sales Revenue       | 960 |     |
| Accounts Receivable |     | 960 |
  - |                     |     |     |
|---------------------|-----|-----|
| Accounts Receivable | 960 |     |
| Sales Revenue       |     | 960 |
| Cost of Goods Sold  | 620 |     |
| Inventory           |     | 620 |
  - |               |     |     |
|---------------|-----|-----|
| Inventory     | 620 |     |
| Gain          | 340 |     |
| Sales Revenue |     | 960 |
  - |                     |     |     |
|---------------------|-----|-----|
| Accounts Receivable | 960 |     |
| Sales Revenues      |     | 620 |
| Gain                |     | 340 |
- Option a
  - Option b
  - Option c
  - Option d

77. Ace Bonding Company purchased inventory on account. The inventory costs \$2,000 and is expected to sell for \$3,000. How should Ace record the purchase using a perpetual inventory system?
- |    |                    |       |       |
|----|--------------------|-------|-------|
| a. | Inventory          | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |
| b. | Cost of Goods Sold | 2,000 |       |
|    | Unearned Revenue   | 1,000 |       |
|    | Sales Revenue      |       | 3,000 |
| c. | Cost of Goods Sold | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |
| d. | Cost of Goods Sold | 2,000 |       |
|    | Gain               | 1,000 |       |
|    | Accounts Payable   |       | 3,000 |
- A. Option a  
 B. Option b  
 C. Option c  
 D. Option d
78. Merchandise sold FOB destination indicates that:
- A. The seller holds title until the merchandise is received at the buyer's location.  
 B. The merchandise has not yet been shipped.  
 C. The merchandise will not be shipped until payment has been received.  
 D. The seller transfers title to the buyer once the merchandise is shipped.
79. Merchandise sold FOB shipping point indicates that:
- A. The seller holds title until the merchandise is received at the buyer's location.  
 B. The merchandise has not yet been shipped.  
 C. The merchandise will not be shipped until payment has been received.  
 D. The seller transfers title to the buyer once the merchandise is shipped.
80. If A sells to B, and B obtains title while goods are in transit, the goods were shipped. If C sells to D, and C maintains title until the goods arrive at D's door then the goods were shipped.
- A. FOB shipping point, FOB destination.  
 B. FOB destination, FOB shipping point.  
 C. FOB destination, FOB destination.  
 D. FOB shipping point, FOB shipping point.
81. Ending inventory is equal to the cost of items on hand plus:
- A. Items in transit sold FOB shipping point.  
 B. Sales discounts.  
 C. Items in transit sold FOB destination.  
 D. Advertising expense.

82. Suppose Company A places an order with Company B on May 12. On May 14, Company B ships the ordered goods to Company A with terms FOB destination. The goods arrive at Company A on May 17. Company A begins selling the goods to customers on May 19 and pays Company B on May 20. When would Company B record the sale of goods to Company A?

- A. May 12
- B. May 14
- C. May 19
- D. May 17

83. The distinction between operating and nonoperating income relates to:

- A. Continuity of income.
- B. Principal activities of the reporting entity.
- C. Consistency of income stream.
- D. Reliability of measurements.

84. Given the information below, what is the gross profit?

Sales revenue	\$320,000
Accounts receivable	50,000
Ending inventory	100,000
Cost of goods sold	250,000
Sales Returns	20,000

- A. \$250,000
- B. \$70,000
- C. \$220,000
- D. \$50,000

85. Consider the following year-end information for Spitzer Corporation:  
What amount will Spitzer report for operating income?

Cost of goods sold	\$420,000
Sales revenue	800,000
Nonoperating expenses	10,000
Operating expenses	170,000
Income tax expense	80,000

- A. \$200,000
- B. \$210,000
- C. \$380,000
- D. \$120,000

86. Niva Company has the following information for their inventories A, B, C, and D:  
The necessary adjustment associated with the lower-of-cost-or-market method would be:

	Quantity	Historical Cost	Market Value
A	15	20	25
B	20	35	30
C	40	25	40
D	25	50	35

a. Inventory	675	
Cost of Goods Sold		675
b. Cost of Goods Sold	675	
Inventory		675
c. Inventory	475	
Cost of Goods Sold		475
d. Cost of Goods Sold	475	
Inventory		475

- A. Option a  
B. Option b  
C. Option c  
D. Option d

87. On April 1, Robert LLC purchased two units of inventory, A and B. The cost of unit A was \$650, and the cost of unit B was \$625. On April 30, Robert LLC had not sold the inventory. The market value of unit A was now \$685 while the market value of unit B was \$550. The adjustment associated with the lower-of-

a. Cost of Goods Sold	40	
Inventory		40
b. Inventory	40	
Cost of Goods Sold		40
c. Cost of Goods Sold	75	
Inventory		75
d. Inventory	75	
Cost of Goods Sold		75

cost-or-market method on April 30 will be:

- A. Option a  
B. Option b  
C. Option c  
D. Option d

88. Consider the following information pertaining to OldWest's inventory:

Product	Quantity	Cost	Market Value
Revolvers	16	\$120	\$150
Spurs	23	27	22
Hats	12	56	40

At what amount should OldWest report its inventory?

- A. \$3,213.  
B. \$3,386.  
C. \$2,996.  
D. \$2,906.

89. Company A is identical to Company B in every regard except that Company A uses FIFO and Company B uses LIFO. In an extended period of rising inventory costs, Company A's gross profit and inventory turnover, compared to Company B's, would be:

	<u>Gross profit</u>	<u>Inventory turnover</u>
a.	Lower	Lower
b.	Higher	Higher
c.	Higher	Lower
d.	Lower	Higher

- A. Option a
- B. Option b
- C. Option c
- D. Option d

90. Nu Company reported the following data for its first year of operations:

Net sales	\$2,800
Cost of goods sold	1,680
Operating expenses	880
Ending inventories	820

What is Nu's gross profit ratio?

- A. 80%.
  - B. 49%.
  - C. 40%.
  - D. 5%.
91. Anthony Corporation reported the following amounts for the year:  
Net sales \$296,000  
Cost of goods sold 138,000  
Average inventory 50,000  
Anthony's inventory turnover ratio is:
- A. 2.42.
  - B. 2.76.
  - C. 3.21.
  - D. 2.14.
92. Anthony Corporation reported the following amounts for the year:  
Net sales \$296,000  
Cost of goods sold 138,000  
Average inventory 50,000  
Anthony's average days in inventory is:
- A. 170 days.
  - B. 114 days.
  - C. 132 days.
  - D. 151 days.

93. Anthony Corporation reported the following amounts for the year:  
Net sales \$296,000  
Cost of goods sold 138,000  
Average inventory 50,000  
Anthony's gross profit ratio is:
- A. 53.4%.
  - B. 51.9%.
  - C. 50.3%.
  - D. 46.6%.
94. In a periodic inventory system, the purchase of inventory is debited to:
- A. Purchases.
  - B. Cost of goods sold.
  - C. Inventory.
  - D. Accounts payable.
95. Northwest Fur Co. started the year with \$94,000 of merchandise inventory on hand. During the year, \$400,000 in merchandise was purchased on account with credit terms of 1/15 ,n/45. All discounts were taken. Northwest paid freight-in charges of \$7,500. Merchandise with an invoice amount of \$5,000 was returned for credit. Cost of goods sold for the year was \$380,000. What is ending inventory?
- A. \$112,490.
  - B. \$112,550.
  - C. \$116,500.
  - D. \$120,300.
96. The inventory method that will always produce the same amount for cost of goods sold in a periodic inventory system as in a perpetual inventory system would be:
- A. FIFO.
  - B. LIFO.
  - C. Weighted average.
  - D. Each method always produces a different amount.
97. If a company overstates its ending balance of inventory in year 1 and it records inventory correctly in year 2, which one of the following is true?
- A. Net income is overstated in year 2.
  - B. Cost of goods sold is overstated in year 1.
  - C. Net income is understated in year 1.
  - D. Retained earnings is overstated in year 1.
98. If a company understates its ending balance of inventory in year 1 and it records inventory correctly in year 2, which one of the following is true?
- A. Net income is overstated in year 1.
  - B. Cost of goods sold is overstated in year 2.
  - C. Net income is understated in year 2.
  - D. Retained earnings is understated in year 2.



99. If a company understates its count of ending inventory in Year 1, which of the following is true?

- A. Costs of good sold is understated at the end of Year 1.
- B. Profit is correct in Year 2.
- C. The balance of retained earnings is overstated at the end of Year 1.
- D. The balance of retained earnings is correct at the end of Year 2.

100. At the beginning of 2012, Calston Incorporated reports inventory of \$9,000. During 2012, the company purchases additional inventory for \$25,000. At the end of 2012, the cost of inventory remaining is \$8,000. Calculate cost of goods sold for 2012.

101. During 2012, a company sells 20 units of inventory. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	15	\$60	\$ 900
Sep. 8	Purchase	10	62	620
		<u>25</u>		<u>\$1,520</u>

Calculate ending inventory and cost of goods sold for 2012 assuming the company uses FIFO with a periodic inventory system.

102. During 2012, a company sells 20 units of inventory. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	15	\$60	\$ 900
Sep. 8	Purchase	10	62	620
		<u>25</u>		<u>\$1,520</u>

Calculate ending inventory and cost of goods sold for 2012 assuming the company uses LIFO with a periodic inventory system.

103. During 2012, a company sells 20 units of inventory. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	15	\$60	\$ 900
Sep. 8	Purchase	10	62	620
		<u>25</u>		<u>\$1,520</u>

Calculate ending inventory and cost of goods sold for 2012 assuming the company uses weighted-average cost with a periodic inventory system.

104. During 2012, a company sells 300 units of inventory for \$85 each. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	60	\$71	\$ 4,260
May 5	Purchase	170	72	12,240
Nov. 3	Purchase	180	74	13,320
		<u>410</u>		<u>\$29,820</u>

Calculate ending inventory and cost of goods sold for 2012 assuming the company uses FIFO with a periodic inventory system.

105. During 2012, a company sells 400 units of inventory for \$85 each. The company has the following

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	60	\$70	\$ 4,200
May 5	Purchase	180	72	12,960
Nov. 3	Purchase	190	75	14,250
		<u>430</u>		<u>\$31,410</u>

inventory purchase transactions for 2012:

Calculate ending inventory and cost of goods sold for 2012 assuming the company uses LIFO with a periodic inventory system.

106. During 2012, a company sells 500 units of inventory for \$90 each. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	80	\$79	\$ 6,320
May 5	Purchase	270	80	21,600
Nov. 3	Purchase	190	82	15,580
		<u>540</u>		<u>\$43,500</u>

Calculate cost of goods sold and ending inventory for 2012 assuming the company uses weighted-average cost with a periodic inventory system (round weighted-average unit cost to four decimals if necessary).

107. During 2012, a company sells 200 units of inventory for \$50 each. The company has the following inventory purchase transactions for 2012:

<b>Date</b>	<b>Transaction</b>	<b>Number of Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Jan. 1	Beginning inventory	50	\$39	\$ 1,950
May 5	Purchase	100	38	3,800
Nov. 3	Purchase	80	37	2,960
		<u>230</u>		<u>\$8,710</u>

Actual sales by the company include its entire beginning inventory, 80 units of inventory from the May 5 purchase, and 70 units from the November 3 purchase. Calculate cost of goods sold and ending inventory for 2012 assuming the company uses specific identification.

108. For each item below, indicate whether FIFO or LIFO will generally result in a higher reported amount when inventory costs are rising versus falling.

<b>Inventory Costs</b>	<b>Higher Total Assets</b>	<b>Higher Cost of Goods Sold</b>	<b>Higher Net Income</b>
Rising			
Falling			

109. A company begins the year with inventory of \$50,000 and ends the year with inventory of \$55,000. During the year, the following amounts are recorded:

Purchases	\$210,000
Purchase returns	25,000
Purchase discounts	15,000
Freight-in	40,000

Calculate cost of goods sold for the year.

110. When inventory costs are rising, \_\_\_\_\_ generally results in a higher amount of reported net income.

\_\_\_\_\_

111. When inventory costs are declining, \_\_\_\_\_ generally results in a lower amount of reported cost of goods sold.

\_\_\_\_\_

112. When inventory costs are declining, \_\_\_\_\_ generally results in a lower amount of reported inventory.

\_\_\_\_\_

113. When inventory costs are rising, \_\_\_\_\_ generally results in a lower amount of reported cost of goods sold.

\_\_\_\_\_

114. When inventory costs are declining, \_\_\_\_\_ generally results in a higher amount of reported net income.

\_\_\_\_\_

115. \_\_\_\_\_ is commonly referred to as the balance sheet approach.

\_\_\_\_\_

116. \_\_\_\_\_ is commonly referred to as the income statement approach.

\_\_\_\_\_

117. When inventory costs are rising, \_\_\_\_\_ generally results in a lower income tax obligation.

\_\_\_\_\_

118. A company uses a perpetual system to record inventory transactions. The company purchases inventory on account on February 9, 2012, for \$50,000 and then sells this inventory on account on March 7, 2012, for \$70,000. Record the transactions for the purchase and sale of the inventory.

119. A company has the following transactions during March:

March 3 Purchases inventory on account for \$3,500, terms 2/10, n/30.

March 5 Pays freight costs of \$200 on inventory purchased on March 3.

March 6 Returns inventory with a cost of \$500.

March 12 Pays the full amount due on March 3 purchase.

March 29 Sells all inventory purchased on March 3 (less those returned on March 6) for \$5,000 on account.

Record all transactions, assuming the company uses a perpetual inventory system.

120. For each company, calculate the missing amount.

<b>Company</b>	<b>Sales</b>	<b>Cost of Goods Sold</b>	<b>Gross Profit</b>	<b>Operating Expenses</b>	<b>Net Income</b>
Lennon	\$8,000	(a)	\$4,000	\$3,000	\$1,000
Harrison	9,000	3,000	(b)	2,000	4,000
McCartney	8,000	3,000	5,000	(c)	2,000
Starr	7,000	3,000	5,000	3,000	(d)

121. Below are some of the items found in a multiple-step income statement:

- Sales revenue
- Net income
- Operating income
- Income before income taxes
- Gross profit

Place these items in the order they would appear from first to last.

122. Beasley, Inc. reports the following amounts in its December 31, 2012, income statement.

Sales revenue \$300,000    Income tax expense \$38,000  
Interest expense 12,000    Cost of goods sold 125,000  
Salaries expense 35,000    Advertising expense 24,000  
Utilities expense 41,000

Prepare a multiple-step income statement.

123. A company reports inventory using lower-of-cost-or-market. Below is information related to its year-end inventory. Calculate the amount to be reported for ending inventory.

Inventory	Quantity	Cost	Market	Inventory	Quantity	Lower of Cost or Market	Ending Inventory
Ski jackets	10	\$130	\$110	Ski jackets	10	\$110	\$1,100
Skis	25	\$250	\$300	Skis	25	250	6,250
							<u>\$7,350</u>

Answer:

124. A company reports inventory using the lower-of-cost-or-market method. Below is information related to its year-end inventory:

Inventory	Quantity	Cost	Market
Item A	100	\$ 25	\$ 30
Item B	50	30	20

Calculate ending inventory under lower-of-cost-or-market and record any necessary adjustment to inventory.

125. A company reports inventory using lower-of-cost-or-market. Below is information related to its year-end inventory:

Inventory	Quantity	Cost	Market
Unit A	10	\$30	\$32
Unit B	18	43	40
Unit C	12	23	27
Unit D	15	18	17

Calculate ending inventory under lower-of-cost-or-market and record any necessary adjustment to inventory.



126. A company reports the following amounts for 2012:

Inventory (beginning)	\$ 20,000
Inventory (ending)	30,000
Purchases	160,000
Purchase returns	10,000

Calculate cost of goods sold, the inventory turnover ratio, and the average days in inventory for 2012.

127. A company reports the following amounts at the end of the year:

Sales revenue \$300,000  
Cost of goods sold 225,000  
Net income 50,000

Compute the company's gross profit ratio.

128. A company uses a periodic system to record inventory transactions. The company purchases inventory on account on February 9, 2012, for \$50,000 and then sells this inventory on account on March 7, 2012, for \$70,000. Record the transactions for the purchase and sale of the inventory.

129. A company has the following transactions during March:

March 3 Purchases inventory on account for \$3,500, terms 2/10, n/30.

March 5 Pays freight costs of \$200 on inventory purchased on March 3.

March 6 Returns inventory with a cost of \$500.

March 12 Pays the full amount due on March 3 purchase.

March 29 Sells all inventory purchased on March 3 (less those returned on March 6) for \$5,000 on account.

Record all transactions, including the month-end adjustment to cost of goods sold, assuming the company uses a periodic inventory system and has no beginning inventory.

130. A company understated its ending inventory balance by \$8,000 in 2012. What impact will this error have on cost of goods sold and gross profit in 2012 and 2013?

131. A company overstated its ending inventory balance by \$6,000 in 2012. What impact will this error have on cost of goods sold and gross profit in 2012 and 2013?

132. A company understated its ending inventory balance by \$5,000 in 2012. What impact will this error have on total assets and retained earnings in 2012 and 2013 (ignoring tax effects)?

133. A company overstated its ending inventory balance by \$9,000 in 2012. What impact will this error have on total assets and retained earnings in 2012 and 2013 (ignoring tax effects)?

134. What does the balance of cost of goods sold in the income statement represent? What does the balance of inventory in the balance sheet represent?

135. What are the three primary cost flow assumptions? How does the specific identification method differ from these three primary cost flow assumptions?

136. What does it mean that FIFO has a balance sheet focus and LIFO has an income statement focus?

137. What is a multiple-step income statement? What information does it provide beyond "bottom-line" net income?

138. What is meant by the assertion that the lower-of-cost-or-market method is an example of conservatism in accounting?

Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

**Terms:**

- a. Work-in-process inventory
- b. Merchandising companies
- c. Finished goods
- d. Raw materials
- e. Manufacturing companies

139. \_\_\_\_\_ Products that have started the production process but are not yet complete at the end of the period.

Answer: a

140. \_\_\_\_\_ Inventory items for which the manufacturing process is complete.

Answer: c

141. \_\_\_\_\_ Companies that produce the inventories they sell, rather than buying them from suppliers in finished form.

Answer: e

142. \_\_\_\_\_ Companies that purchase inventories that are primarily in finished form for resale to customers.

Answer: b

143. \_\_\_\_\_ Cost of components that will become part of the finished product but have not yet been used in production.

Answer: d

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

**Terms:**

- a. Ending inventory
- b. Freight-in
- c. Cost of goods sold
- d. LIFO conformity rule
- e. LIFO
- f. Freight-out
- g. LIFO reserve
- h. Specific identification
- i. FIFO
- j. Average cost

144. \_\_\_\_\_ Inventory costing method that matches each unit of inventory with its actual cost.

Answer: h

145. \_\_\_\_\_ Cost of inventory sold during the period.

Answer: c

146. \_\_\_\_\_ Additional amount of inventory a company would report if it used FIFO instead of LIFO.

Answer: g

147. \_\_\_\_\_ Cost of freight included in inventory.

Answer: b

148. \_\_\_\_\_ Cost flow assumption that assumes last units purchased are sold first.

Answer: e

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

**Terms:**

- a. Ending inventory
- b. Freight-in
- c. Cost of goods sold
- d. LIFO conformity rule
- e. LIFO
- f. Freight-out
- g. LIFO reserve
- h. Specific identification
- i. FIFO
- j. Average cost

149. \_\_\_\_\_ Cost of inventory not sold by the end of the period.

Answer: a

150. \_\_\_\_\_ Cost flow assumption that assumes first units purchased are sold first.

Answer: i

151. \_\_\_\_\_ Inventory costing method that assumes both cost of goods sold and ending inventory consist of a random mixture of all the goods available for sale.

Answer: j

152. \_\_\_\_\_ LIFO must be used for financial reporting if elected for taxes.

Answer: d

153. \_\_\_\_\_ Cost of freight not included in inventory.

Answer: f

Listed below are four terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

**Terms:**

- a. FOB shipping point
- b. FOB destination
- c. Periodic inventory system
- d. Perpetual inventory system

154. \_\_\_\_\_ Requires a debit to cost of goods sold when inventory is sold.

Answer: d

155. \_\_\_\_\_ Indicates that title to inventory transfers from the seller to the buyer at the point it is shipped.

Answer: a

156. \_\_\_\_\_ Requires a year-end adjustment for inventory.

Answer: c

157. \_\_\_\_\_ Indicates that title to inventory transfers from the seller to the buyer once it reaches the buyer.

Answer: b

Listed below are five terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the best term placing the letter designating the term in the space provided.

**Terms:**

- a. Gross profit
- b. Net income
- c. Inventory turnover ratio
- d. Operating income
- e. Income before income taxes

158. \_\_\_\_\_ Equals operating income plus nonoperating revenues less nonoperating expenses.

Answer: e

159. \_\_\_\_\_ Equals income before income taxes less income taxes.

Answer: b

160. \_\_\_\_\_ Equals sales revenue minus cost of goods sold.

Answer: a

161. \_\_\_\_\_ Equals gross profit less operating expenses.

Answer: d

162. \_\_\_\_\_ Equals cost of goods sold divided by average inventory.

Answer: c

163. Given the information in the table below, what is the company's gross profit?

Sales revenue	\$350,000
Accounts receivable	\$280,000
Ending inventory	\$230,000
Cost of goods sold	\$180,000
Sales returns	\$50,000
Sales discount	\$20,000

a. \$280,000.

b. \$170,000.

c. \$50,000.

d. \$100,000.

Answer: d

164. What effect would an adjustment to record inventory at the lower-of-cost-or-market have on the company's financial statements?

a. An increase to assets.

b. An increase to stockholders' equity.

c. A decrease to revenue.

d. An increase to expense.

Answer: d

165. Bill Inc.'s correct ending balance for the inventory account at the end of 2012 should be \$5,000, but the company incorrectly stated it as \$3,000. In 2013, Bill correctly recorded its ending balance of the inventory account. Which one of the following is true?

a. Gross profit is overstated by \$2,000 in 2012.

b. Retained earnings are understated by \$2,000 in 2013.

c. Gross profit is overstated by \$2,000 in 2013.

d. Cost of goods sold is understated by \$2,000 in 2012.

Answer: c

166. The practice of using the lower-of-cost-or-market to evaluate inventory reflects which of the following accounting principles?
- a. Matching principle.
  - b. Revenue recognition.
  - c. Conservatism.
  - d. Materiality.

Answer: c

167. Which inventory cost flow assumption generally results in the highest reported amount for cost of goods sold when inventory costs are falling?
- a. FIFO.
  - b. LIFO.
  - c. Weighted-average cost.
  - d. Straight-line.

Answer: a

168. The primary difference between the periodic and perpetual inventory systems is:
- a. The reported amount of ending inventory is higher under the periodic system.
  - b. The perpetual system maintains a continual record of inventory transactions, whereas the periodic system records these transactions only at the end of the period.
  - c. The reported amount of sales revenue is higher under the periodic inventory system.
  - d. The reported amount of cost of goods sold is higher under the perpetual inventory system.

Answer: b

169. At the end of a reporting period, Gamble Corporation determines that its ending inventory has a cost of \$300,000 and a market value of \$230,000. What would be the effect(s) of the adjustment to write down inventory to market value?
- a. Decrease total assets.
  - b. Decrease net income.
  - c. Increase retained earnings.
  - d. a and b.

Answer: d

170. Suppose that Hastings Corporation overstates its ending inventory for 2012. What effect will this have on the reported amount of cost of goods sold for 2012?
- a. Overstate cost of goods sold.
  - b. Understate cost of goods sold.
  - c. Have no effect on cost of goods sold.
  - d. Cannot be determined given the information provided.

Answer: b



171. LeGrand Corporation reported the following amounts in its income statement:

Sales revenue \$440,000  
Advertising expense 60,000  
Interest expense 10,000  
Salaries expense 55,000  
Utilities expense 25,000  
Income tax expense 45,000  
Cost of goods sold 180,000  
What was LeGrand's gross profit?

- a. \$260,000.
- b. \$180,000.
- c. \$220,000.
- d. \$120,000.

Answer: a

172. LeGrand Corporation reported the following amounts in its income statement:

Sales revenue \$440,000  
Advertising expense 60,000  
Interest expense 10,000  
Salaries expense 55,000  
Utilities expense 25,000  
Income tax expense 45,000  
Cost of goods sold 180,000  
What was LeGrand's operating income?

- a. \$120,000.
- b. \$260,000.
- c. \$110,000.
- d. \$65,000.

Answer: a

173. LeGrand Corporation reported the following amounts in its income statement:

Sales revenue \$440,000  
Advertising expense 60,000  
Interest expense 10,000  
Salaries expense 55,000  
Utilities expense 25,000  
Income tax expense 45,000  
Cost of goods sold 180,000  
What was LeGrand's net income?

- a. \$120,000.
- b. \$60,000.
- c. \$110,000.
- d. \$65,000.

Answer: d

174. Using the information below, determine the ending inventory value applying the lower-of-cost-or-market method.

Inventory Item Quantity Cost Market

Cutlets 200 \$12 \$14

Chops 400 \$16 \$14

Shanks 300 \$15 \$12

a. \$13,300.

b. \$12,000.

c. \$11,600.

d. \$13,700.

Answer: c

175. After applying the lower-of-cost-or-market method, the accountant prepares a year-end adjustment. That adjustment would:

a. Decrease the company's cost of goods sold.

b. Reduce the company's stockholders' equity.

c. Increase the company's inventory.

d. Increase the company's total assets.

Answer: b

176. Consider the following inventory data for two companies:

Nichols, Inc. Winters, Inc.

Beginning inventory \$120,000 \$150,000

Ending inventory 80,000 100,000

Purchases 240,000 310,000

Which of these companies had the higher inventory turnover ratio?

a. Nichols.

b. Winters.

c. The ratios are the same for both companies.

d. Cannot determine with the information given.

Answer: b

177. Consider the following inventory data:

Beginning inventory \$150,000

Ending inventory 100,000

Purchases 310,000

What is the average days in inventory for the year?

a. 126.7 days.

b. 101.4 days.

c. 152.0 days.

d. 111.7 days.

Answer: a

178. The following information relates to inventory for Shoeless Joe Inc.

<u>Date</u>		<u>Quantity</u>	<u>Price</u>
March 1	Beginning Inventory	20	\$2
March 7	Purchase	15	3
March 11	Sale	25	7
March 12	Purchase	20	4

At what amount would Shoeless report gross profit using LIFO cost flow assumptions?

- a. \$105.
- b. \$80.
- c. \$175.
- d. \$120.

Answer: b

179. The following information relates to inventory for Shoeless Joe Inc.

<u>Date</u>		<u>Quantity</u>	<u>Price</u>
March 1	Beginning Inventory	20	\$2
March 7	Purchase	15	3
March 11	Sale	25	7
March 12	Purchase	20	4

At what amount would Shoeless report ending inventory using FIFO cost flow assumptions?

- a. \$55.
- b. \$170.
- c. \$110.
- d. \$70.

Answer: c

180. Wildwood, an outdoors clothing store, reports the following information for June:

Sales revenue	\$104,000	Income tax expense	\$11,000
Operating expenses	22,000	Cost of goods sold	65,000
Unearned revenues	\$15,000	Nonoperating revenues	12,000

What is Wildwood's gross profit for June?

- a. \$18,000.
- b. \$39,000.
- c. \$104,00.
- d. \$17,000.

Answer: b

181. Which of the following is true concerning inventory cost flow assumptions?

- a. LIFO produces higher net income than FIFO in a period of rising prices.
- b. FIFO is an income statement focus.
- c. LIFO is a balance sheet focus.
- d. None of the above are true.

Answer: d



185. Davis Hardware Company uses a periodic inventory system. How should Davis record the return of inventory previously purchased on account for \$200?

- |    |                  |     |     |
|----|------------------|-----|-----|
| a. | Inventory        | 200 |     |
|    | Accounts Payable |     | 200 |
| b. | Accounts Payable | 200 |     |
|    | Inventory        |     | 200 |
| c. | Purchase Returns | 200 |     |
|    | Accounts Payable |     | 200 |
| d. | Accounts Payable | 200 |     |
|    | Purchase Returns |     | 200 |

- a. Option a
- b. Option b
- c. Option c
- d. Option d

Answer: d

186. In a periodic inventory system, at the time of a sale the cost of inventory sold is:

- a. Debited to Accounts Receivable.
- b. Credited to Cost of Goods Sold.
- c. Debited to Cost of Goods Sold.
- d. Not recorded at this time.

Answer: d

187. Good, Inc. sold inventory for \$1,200 that was purchased for \$700. Good records which of the following when it sells inventory using a periodic inventory system?

- a. No entry is required for cost of goods sold and inventory.
- b. Debit Cost of Goods Sold \$700; credit Inventory \$700.
- c. Debit Cost of Goods Sold \$1,200; credit Inventory \$1,200.
- d. Debit Inventory \$700; credit Cost of Goods Sold \$700.

Answer: a

188. Davis Hardware Company uses a periodic inventory system. How should Davis record the sale of inventory costing \$620 for \$960 on account?

- |    |                     |     |     |
|----|---------------------|-----|-----|
| a. | Cost of Goods Sold  | 620 |     |
|    | Purchases           |     | 620 |
|    | Accounts Receivable | 960 |     |
|    | Sales Revenue       |     | 960 |
| b. | Accounts Receivable | 960 |     |
|    | Sales Revenue       |     | 960 |
| c. | Purchases           | 620 |     |
|    | Gain                | 340 |     |
|    | Sales Revenue       |     | 960 |
| d. | Accounts Receivable | 960 |     |
|    | Sales Revenues      | 620 |     |
|    | Gain                |     | 340 |

a. Option a

b. Option b

c. Option c

d. Option d

Answer: b

189. Ace Bonding Company purchased inventory on account. The inventory costs \$2,000 and is expected to sell for \$3,000. How should Ace record the purchase using a periodic inventory system?

- |    |                    |       |       |
|----|--------------------|-------|-------|
| a. | Purchases          | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |
| b. | Cost of Goods Sold | 2,000 |       |
|    | Unearned Revenue   | 1,000 |       |
|    | Sales Revenue      |       | 3,000 |
| c. | Cost of Goods Sold | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |
| d. | Cost of Goods Sold | 2,000 |       |
|    | Gain               | 1,000 |       |
|    | Accounts Payable   |       | 3,000 |

a. Option a

b. Option b

c. Option c

d. Option d

Answer: a

190. On May 1, Ace Bonding Company purchased inventory costing \$2,000 on account with terms 2/10, n/30. On May 8, Ace pays for this inventory and records which of the following using a perpetual inventory system?

- |    |                  |       |       |
|----|------------------|-------|-------|
| a. | Accounts Payable | 2,000 |       |
|    | Cash             |       | 2,000 |
| b. | Accounts Payable | 1,960 |       |
|    | Inventory        | 40    |       |
|    | Cash             |       | 2,000 |
| c. | Accounts Payable | 2,000 |       |
|    | Inventory        |       | 40    |
|    | Cash             |       | 1,960 |
| d. | Cash             | 2,000 |       |
|    | Accounts Payable |       | 2,000 |

- a. Option a  
b. Option b  
c. Option c  
d. Option d  
Answer: c

191. On May 1, Ace Bonding Company purchased inventory costing \$2,000 on account with terms 2/10, n/30. On May 8, Ace pays for this inventory and records which of the following using a periodic inventory system?

- |    |                    |       |       |
|----|--------------------|-------|-------|
| a. | Accounts Payable   | 2,000 |       |
|    | Cash               |       | 2,000 |
| b. | Accounts Payable   | 1,960 |       |
|    | Purchase Discounts | 40    |       |
|    | Cash               |       | 2,000 |
| c. | Accounts Payable   | 2,000 |       |
|    | Purchase Discounts |       | 40    |
|    | Cash               |       | 1,960 |
| d. | Cash               | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |

- a. Option a  
b. Option b  
c. Option c  
d. Option d  
Answer: c

192. On May 1, Ace Bonding Company purchased inventory costing \$2,000 on account with terms 2/10, n/30. On May 18, Ace pays for this inventory and records which of the following using a perpetual inventory system?

- |    |                  |       |       |
|----|------------------|-------|-------|
| a. | Accounts Payable | 2,000 |       |
|    | Cash             |       | 2,000 |
| b. | Accounts Payable | 1,960 |       |
|    | Inventory        |       | 40    |
|    | Cash             |       | 2,000 |
| c. | Accounts Payable | 2,000 |       |
|    | Inventory        |       | 40    |
|    | Cash             |       | 1,960 |
| d. | Cash             | 2,000 |       |
|    | Accounts Payable |       | 2,000 |

- a. Option a
- b. Option b
- c. Option c
- d. Option d

Answer: a

193. On May 1, Ace Bonding Company purchased inventory costing \$2,000 on account with terms 2/10, n/30. On May 18, Ace pays for this inventory and records which of the following using a periodic inventory system?

- |    |                    |       |       |
|----|--------------------|-------|-------|
| a. | Accounts Payable   | 2,000 |       |
|    | Cash               |       | 2,000 |
| b. | Accounts Payable   | 1,960 |       |
|    | Purchase Discounts |       | 40    |
|    | Cash               |       | 2,000 |
| c. | Accounts Payable   | 2,000 |       |
|    | Purchase Discounts |       | 40    |
|    | Cash               |       | 1,960 |
| d. | Cash               | 2,000 |       |
|    | Accounts Payable   |       | 2,000 |

- a. Option a
- b. Option b
- c. Option c
- d. Option d

Answer: a



## Ch6 Key

1. FALSE
2. FALSE
3. TRUE
4. TRUE
5. TRUE
6. FALSE
7. FALSE
8. TRUE
9. FALSE
10. TRUE
11. FALSE
12. TRUE
13. FALSE
14. TRUE
15. FALSE
16. TRUE
17. FALSE
18. FALSE
19. TRUE
20. FALSE
21. FALSE
22. TRUE
23. TRUE
24. TRUE
25. TRUE
26. TRUE
27. FALSE
28. TRUE
29. FALSE
30. FALSE
31. TRUE
32. TRUE

33. TRUE
34. TRUE
35. FALSE
36. TRUE
37. FALSE
38. FALSE
39. TRUE
40. TRUE
41. FALSE
42. C
43. B
44. C
45. D
46. C
47. A
48. D
49. C
50. A
51. B
52. C
53. A
54. A
55. A
56. A
57. B
58. D
59. C
60. C
61. D
62. A
63. C
64. D
65. C
66. C
67. B

68. D  
69. B  
70. B  
71. C  
72. A  
73. C  
74. C  
75. B  
76. B  
77. A  
78. A  
79. D  
80. A  
81. C  
82. D  
83. B  
84. D  
85. B  
86. D  
87. C  
88. C  
89. C  
90. C  
91. B  
92. C  
93. A  
94. A  
95. B  
96. A  
97. D  
98. B  
99. D

	Beginning inventory	\$ 9,000
+	Purchases	<u>25,000</u>
	Cost of goods available for sale	34,000
-	Ending inventory	<u>8,000</u>
100.	Cost of goods sold	<u>\$26,000</u>

101. Ending inventory = \$310; Cost of goods sold = \$1,210

Ending inventory:

Date	Transaction	Number of units	Unit cost	Ending Inventory
Sep. 8	Purchase	<u>5</u>	\$62	<u>\$310</u>

Cost of goods sold:

Date	Transaction	Number of units	Unit cost	Cost of Goods Sold
Jan. 1	Beginning inventory	15	\$60	\$900
Sep. 8	Purchase	<u>5</u>	62	<u>310</u>
		<u>20</u>		<u>\$1,210</u>

Feedback:

102. Ending inventory = \$300; Cost of goods sold = \$1,220

Ending inventory:

Date	Transaction	Number of units	Unit cost	Ending Inventory
Jan. 1	Purchase	<u>5</u>	\$60	<u>\$300</u>

Cost of goods sold:

Date	Transaction	Number of units	Unit cost	Cost of Goods Sold
Jan. 1	Beginning inventory	10	\$60	\$600
Sep. 8	Purchase	<u>10</u>	62	<u>620</u>
		<u>20</u>		<u>\$1,220</u>

Feedback:

103. Ending inventory = \$304; cost of goods sold = \$1,216

104. Ending inventory = \$8,140; Cost of goods sold = \$21,680

Ending inventory:

Date	Transaction	Number of units	Unit cost	Ending Inventory
Nov. 3	Purchase	<u>110</u>	\$74	<u>\$8,140</u>

Cost of goods sold:

Date	Transaction	Number of units	Unit cost	Cost of Goods Sold
Jan. 1	Beginning inventory	60	\$71	\$ 4,260
May 5	Purchase	170	72	12,240
Nov. 3	Purchase	<u>70</u>	74	<u>5,180</u>
		<u>300</u>		<u>\$21,680</u>

Feedback:

105. Ending inventory = \$2,100; Cost of goods sold = \$29,310

Ending inventory:

Date	Transaction	Number of units	Unit cost	Ending Inventory
Nov. 3	Purchase	30	\$70	\$2,100

Cost of goods sold:

Date	Transaction	Number of units	Unit cost	Cost of Goods Sold
Jan. 1	Beginning inventory	30	\$70	\$ 2,100
May 5	Purchase	180	72	12,960
Nov. 3	Purchase	190	75	14,250
		400		\$29,310

Feedback:

106. Ending inventory = \$3,222 (rounded); cost of goods sold = \$40,278.

107. Ending inventory = \$1,130; Cost of goods sold = \$7,580

Ending inventory:

Date	Transaction	Number of units	Unit cost	Ending Inventory
May 5	Purchase	20	\$38	\$760
Nov. 3	Purchase	10	37	370
		30		\$1,130

Cost of goods sold:

Date	Transaction	Number of units	Unit cost	Cost of Goods Sold
Jan. 1	Beginning inventory	50	\$39	\$1,950
May 5	Purchase	80	38	3,040
Nov. 3	Purchase	70	37	2,590
		200		\$7,580

Feedback:

Inventory Costs	Higher total assets	Higher cost of goods sold	Higher net income
Rising	FIFO	LIFO	FIFO
Falling	LIFO	FIFO	LIFO

108.

Beginning inventory	\$ 50,000
Add: Purchases	210,000
Freight-in	40,000
Less: Purchase returns	(25,000)
Purchase discounts	(15,000)
Cost of goods available for sale	260,000

Less: Ending inventory	(55,000)
Cost of goods sold	\$205,000

109.

110. FIFO

111. LIFO

112. FIFO

113. FIFO

114. LIFO

115. FIFO

116. LIFO

117. LIFO

<u>February 9, 2012</u>		
Inventory	50,000	
Accounts Payable		50,000
<u>March 7, 2012</u>		
Accounts Receivable	70,000	
Sales Revenue		70,000
Cost of Goods Sold	50,000	
Inventory		50,000

118.

<u>March 3</u>		
Inventory	3,500	
Accounts Payable		3,500
<u>March 5</u>		
Inventory	200	
Cash		200
<u>March 6</u>		
Accounts Payable	500	
Inventory		500
<u>March 12</u>		
Accounts Payable	3,000	
Inventory		60
Cash		2,940
<u>March 30</u>		
Accounts Receivable	5,000	
Sales Revenue		5,000
Cost of Goods Sold	3,140	
Inventory		3,140

119.

<b>Company</b>	<b>Sales</b>	<b>Cost of goods sold</b>	<b>Gross profit<sup>a</sup></b>	<b>Operating expenses</b>	<b>Net income<sup>b</sup></b>
Lennon	\$8,000	<u>4,000</u>	\$4,000	\$3,000	\$1,000
Harrison	9,000	3,000	<u>6,000</u>	2,000	4,000
McCartney	8,000	3,000	5,000	<u>3,000</u>	2,000
Starr	7,000	2,000	5,000	3,000	<u>2,000</u>

120.

<sup>a</sup>. Gross profit = Sales revenue - Cost of goods sold

<sup>b</sup>. Net income = Gross profit - Operating expenses

121. a, e, c, d, b

Beasley, Inc.  
Multiple-step Income Statement  
For the year ended December 31, 2012

Sales revenue	\$300,000		
Cost of goods sold	125,000		
Gross profit			\$175,000
Salaries Expense	35,000		
Utilities Expense	41,000		
Advertising Expense	24,000		
Total operating expenses			100,000
Operating income			75,000
Interest expense			12,000
Income before income taxes			63,000
Income tax expense			38,000
Net income			\$ 25,000

122.

123.

124. Ending inventory = \$3,500.

Cost of Goods Sold	500		
Inventory			500

Feedback: Ending inventory =  $(100 \times \$25) + (50 \times \$20) = \$3,500$ .

Feedback: Write-down =  $\$4,000$  (total cost) -  $\$3,500$  (LCM) =  $\$500$ .

125. Ending inventory = \$1,551

Cost of Goods Sold	69		
Inventory			69

Feedback: Ending inventory =  $(10 \times \$30) + (18 \times \$40) + (12 \times \$23) + (15 \times \$17) = \$1,551$ .

Feedback: Write-down =  $\$1,620$  (total cost) -  $\$1,551$  (LCM) =  $\$69$ .

126. Cost of goods sold = \$140,000; inventory turnover ratio = 5.6 times; average days in inventory = 65.2 days

127. 25%

February 9, 2012

Purchases	50,000		
Accounts Payable			50,000

March 7, 2012

Accounts Receivable	70,000		
Sales Revenue			70,000

128.

<u>March 3</u>		
Purchases	3,500	
Accounts Payable		3,500
<u>March 5</u>		
Freight-In	200	
Cash		200
<u>March 6</u>		
Accounts Payable	500	
Purchase Returns		500
<u>March 12</u>		
Accounts Payable	3,000	
Purchase Discounts		60
Cash		2,940
<u>March 29</u>		
Accounts Receivable	5,000	
Sales Revenue		5,000
<u>March 31</u>		
Cost of Goods Sold	3,140	
Purchase Returns	500	
Purchase Discounts	60	
Inventory (ending)	0	
Inventory (beginning)		0
Purchases		3,500
Freight-In		200

129.

130. 2012

Cost of goods sold is overstated by \$8,000.

Gross profit is understated by \$8,000.

2013

Cost of goods sold is understated by \$8,000.

Gross profit is overstated by \$8,000.

131. 2012

Cost of goods sold is understated by \$6,000.

Gross profit is overstated by \$6,000.

2013

Cost of goods sold is overstated by \$6,000.

Gross profit is understated by \$6,000.

132. 2012

Total assets are understated by \$5,000.

Retained earnings is understated by \$5,000.

2013

Total assets are stated correctly.

Retained earnings is stated correctly.

133. 2012

Total assets are overstated by \$9,000.

Retained earnings is overstated by \$9,000.

2013

Total assets are stated correctly.

Retained earnings is stated correctly.



134. The balance of cost of goods sold in the income statement represents the cost of inventory sold during the period. Cost of goods sold is an expense. The balance of inventory in the balance sheet represents the cost of inventory not sold by the end of the reporting period. Inventory is an asset.

135. The three most common inventory cost flow assumptions are FIFO (first-in, first-out), LIFO (last-in, first-out), and average cost. These methods provide assumptions as to which inventory units are sold, whereas the specific identification method matches or identifies each unit of inventory with its actual cost.

136. Since FIFO assumes the first purchases sell first, the amount it reports for ending inventory (in the *balance sheet*) better approximates the current cost of inventory. LIFO assumes the last purchases are sold first, reporting the most recent inventory cost in cost of goods sold (in the *income statement*). Thus, LIFO more realistically matches the current costs of inventory needed to produce current revenues.

137. A multiple-step income statement reports multiple levels of profitability. Gross profit equals sales revenue minus cost of goods sold. Operating income equals gross profit minus operating expenses. Income before income taxes equals operating income plus non-operating revenues and minus non-operating expenses. Net income equals all revenues minus all expenses.

138. Firms are required to report the falling value of inventory but not allowed to report the increasing value of inventory. Conservative accounting implies that there is more potential harm to users of financial statements if estimated *gains* turn out to be wrong than if estimated *losses* turn out to be wrong. Therefore, companies typically do not report estimated gains.

139.

140.

141.

142.

143.

144.

145.

146.

147.

148.

149.

150.

151.

152.

153.

154.

155.

156.

157.

158.

159.

160.

161.

162.

163.

164.  
165.  
166.  
167.  
168.  
169.  
170.  
171.  
172.  
173.  
174.  
175.  
176.  
177.  
178.  
179.  
180.  
181.  
182.  
183.  
184.  
185.  
186.  
187.  
188.  
189.  
190.  
191.  
192.  
193.

# Ch6 Summary

<u>Category</u>	<u># of Questions</u>
AACSB: Analytic	73
AACSB: Reflective Thinking	120
AICPA: Critical Thinking	37
AICPA: Decision Making	13
AICPA: Measurement	81
AICPA: Reporting	62
Blooms: Analysis	72
Blooms: Application	26
Blooms: Comprehension	69
Blooms: Knowledge	24
Blooms: Synthesis	2
Difficulty: Easy	33
Difficulty: Hard	47
Difficulty: Medium	114
Learning Objective: 06-01 Trace the flow of inventory costs from manufacturing companies to merchandising companies.	27
Learning Objective: 06-02 Calculate cost of goods sold.	19
Learning Objective: 06-03 Determine the cost of goods sold and ending inventory using different inventory cost methods.	39
Learning Objective: 06-04 Explain the financial statement effects and tax effects of inventory cost flow assumptions.	37
Learning Objective: 06-05 Record inventory transactions using a perpetual inventory system.	34
Learning Objective: 06-06 Prepare a multiple-step income statement.	20
Learning Objective: 06-07 Apply the lower-of-cost-or-market method for inventories.	17
Learning Objective: 06-08 Analyze management of inventory using the inventory turnover ratio and gross profit ratio.	15
Learning Objective: 06-09 Record inventory transactions using a periodic inventory system.	17
Spiceland - Chapter 06	198