

CHAPTER 6

INVENTORIES

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
True-False Statements														
1.	1	C	8.	2	C	15.	3	K	^a 22.	7	C	^{sg} 29.	3	C
2.	1	C	9.	2	C	16.	3	C	^a 23.	7	K	^{sg} 30.	4	K
3.	1	K	10.	2	C	17.	4	K	^a 24.	8	K	^{sg} 31.	5	K
4.	1	K	11.	2	K	18.	4	K	^a 25.	8	K	^{sg,a} 32.	7	K
5.	1	K	12.	3	K	19.	5	C	^{sg} 26.	1	C	^{sg,a} 33.	8	K
6.	2	K	13.	3	K	20.	5	K	^{sg} 27.	2	K			
7.	2	K	14.	3	K	21.	6	C	^{sg} 28.	2	K			
Multiple Choice Questions														
34.	1	K	64.	2	K	94.	2	AP	124.	5	C	st 154.	3	K
35.	1	K	65.	2	AP	95.	2	AP	125.	5	C	^{sg} 155.	3	C
36.	1	K	66.	2	C	96.	2	AP	126.	5	AN	st 156.	4	K
37.	1	K	67.	2	K	97.	3	AP	127.	5	AN	^{sg} 157.	5	AN
38.	1	K	68.	2	K	98.	3	AP	128.	5	AN	st 158.	6	K
39.	1	K	69.	2	K	99.	3	AP	129.	5	C	^{sg,a} 159.	8	AP
40.	1	C	70.	2	K	100.	3	AP	130.	6	K	160.	9	K
41.	1	C	71.	2	C	101.	3	K	131.	6	K	161.	9	K
42.	1	C	72.	2	C	102.	3	C	132.	6	AP	162.	9	K
43.	1	K	73.	2	K	103.	3	C	133.	6	AP	163.	9	K
44.	1	C	74.	2	K	104.	3	C	134.	6	AP	164.	9	K
45.	1	C	75.	2	AP	105.	3	C	135.	6	AP	165.	9	K
46.	1	K	76.	2	AP	106.	2	K	^a 136.	7	AP	166.	9	K
47.	1	K	77.	3	AP	107.	2	K	^a 137.	7	AP	167.	9	K
48.	1	C	78.	2	AP	108.	3	C	^a 138.	7	AP	168.	9	K
49.	2	AP	79.	2	AP	109.	3	K	^a 139.	7	AP	169.	9	K
50.	2	AP	80.	2	AP	110.	3	K	^a 140.	7	AP	170.	9	K
51.	2	AP	81.	3	AP	111.	3	C	^a 141.	7	C	171.	9	K
52.	2	K	82.	2	AP	112.	3	AP	^a 142.	7	C	172.	9	K
53.	2	C	83.	2	AP	113.	3	AN	^a 143.	7	AP	173.	9	K
54.	2	C	84.	2	AP	114.	3	AN	^a 144.	8	C	174.	9	K
55.	2	AP	85.	2	AP	115.	3	K	^a 145.	8	C	175.	9	K
56.	2	K	86.	3	AP	116.	4	K	^a 146.	8	C	176.	9	K
57.	2	AP	87.	3	AP	117.	4	K	^a 147.	8	AP	177.	9	K
58.	2	AP	88.	2	AP	118.	4	K	^a 148.	8	AP	178.	9	K
59.	2	AP	89.	2	AP	119.	4	K	^a 149.	8	AP	179.	9	K
60.	2	AP	90.	2	AP	120.	4	K	st 150.	1	K			
61.	2	AP	91.	2	AP	121.	4	AP	^{sg} 151.	1	K			
62.	2	C	92.	2	AP	122.	4	AP	st 152.	2	K			
63.	2	K	93.	2	AP	123.	4	AP	^{sg} 153.	2	AP			

^{sg} This question also appears in the Study Guide.

st This question also appears in a self-test at the student companion website.

^a This question covers a topic in an appendix to the chapter.

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Brief Exercises														
180.	1	C	182.	2	AP	184.	2	AP	186.	2	K	188.	5	C
181.	2	AP	183.	2	AP	185.	2	AP	187.	4	AP	189.	6	AP
Exercises														
190.	2	AP	196.	2	AP	202.	4	AP	208.	6	AP	^a 214.	8	AP
191.	2	AP	197.	3	AP	203.	5	AN	209.	6	AP	^a 215.	8	AP
192.	2	AN	198.	3	E	204.	5	AP	^a 210.	7	AP			
193.	2	AP	199.	4	AN	205.	5	AN	^a 211.	7	AP			
194.	2	AP	200.	4	AP	206.	5	AN	^a 212.	8	AP			
195.	2	AP	201.	4	AP	207.	5	AN	^a 213.	8	AP			
Completion Statements														
216.	1	K	218.	2	K	220.	2	K	222.	3	K	224.	6	K
217.	1	K	219.	2	K	221.	3	K	223.	4	K	^a 225.	8	K
Matching Statements														
226.	6	K												
Short-Answer Essay														
227.	2	K	229.	5	K	231.	3		233.	5	K			
228.	3	K	230.	3	K	232.	4		234.	5	K			

SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	5.	TF	36.	MC	40.	MC	44.	MC	48.	MC	216.	C
2.	TF	26.	TF	37.	MC	41.	MC	45.	MC	150.	MC	217.	C
3.	TF	34.	MC	38.	MC	42.	MC	46.	MC	151.	MC		
4.	TF	35.	MC	39.	MC	43.	MC	47.	MC	180.	BE		
Learning Objective 2													
6.	TF	52.	MC	63.	MC	74.	MC	89.	MC	153.	MC	194.	Ex
7.	TF	53.	MC	64.	MC	75.	MC	90.	MC	181.	BE	195.	Ex
8.	TF	54.	MC	65.	MC	76.	MC	91.	MC	182.	BE	196.	Ex
9.	TF	55.	MC	66.	MC	78.	MC	92.	MC	183.	BE	218.	C
10.	TF	56.	MC	67.	MC	79.	MC	93.	MC	184.	BE	219.	C
11.	TF	57.	MC	68.	MC	80.	MC	94.	MC	185.	BE	220.	C
27.	TF	58.	MC	69.	MC	82.	MC	95.	MC	186.	BE	227.	SA
28.	TF	59.	MC	70.	MC	83.	MC	96.	MC	190.	Ex		
49.	MC	60.	MC	71.	MC	84.	MC	106.	MC	191.	Ex		
50.	MC	61.	MC	72.	MC	85.	MC	107.	MC	192.	Ex		
51.	MC	62.	MC	73.	MC	88.	MC	152.	MC	193.	Ex		
Learning Objective 3													
12.	TF	77.	MC	99.	MC	105.	MC	113.	MC	198.	Ex		
13.	TF	81.	MC	100.	MC	108.	MC	114.	MC	221.	C		
14.	TF	86.	MC	101.	MC	109.	MC	115.	MC	222.	C		
15.	TF	87.	MC	102.	MC	110.	MC	154.	MC	228.	SA		
16.	TF	97.	MC	103.	MC	111.	MC	155.	MC	230.	SA		
29.	TF	98.	MC	104.	MC	112.	MC	197.	Ex	231.	SA		

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SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE

Learning Objective 4													
17.	TF	116.	MC	119.	MC	122.	MC	187.	BE	201.	Ex	232.	SA
18.	TF	117.	MC	120.	MC	123.	MC	199.	Ex	202.	Ex		
30.	TF	118.	MC	121.	MC	156.	MC	200.	Ex	223.	C		
Learning Objective 5													
19.	TF	124.	MC	127.	MC	157.	MC	204.	Ex	207.	Ex	234.	SA
20.	TF	125.	MC	128.	MC	188.	BE	205.	Ex	229.	SA		
31.	TF	126.	MC	129.	MC	203.	Ex	206.	Ex	233.	SA		
Learning Objective 6													
21.	TF	131.	MC	133.	MC	135.	MC	189.	BE	209.	Ex		
130.	MC	132.	MC	134.	MC	158.	MC	208.	Ex	224.	C		
Learning Objective ^a 7													
^a 22.	TF	^a 32.	TF	^a 137.	MC	^a 139.	MC	^a 141.	MC	^a 143.	MC	^a 211.	Ex
^a 23.	TF	^a 136.	MC	^a 138.	MC	^a 140.	MC	^a 142.	MC	^a 210.	Ex		
Learning Objective ^a 8													
^a 24.	TF	^a 146.	MC	160.	MC	165.	MC	170.	MC	175.	MC	^a 212.	Ex
^a 25.	TF	^a 147.	MC	161.	MC	166.	MC	171.	MC	176.	MC	^a 213.	Ex
^a 33.	TF	^a 148.	MC	162.	MC	167.	MC	172.	MC	177.	MC	^a 214.	Ex
^a 144.	MC	^a 149.	MC	163.	MC	168.	MC	173.	MC	178.	MC	^a 215.	Ex
^a 145.	MC	^a 159.	MC	164.	MC	169.	MC	174.	MC	179.	MC	^a 225.	C

Note: TF = True-False BE = Brief Exercise C = Completion
 MC = Multiple Choice Ex = Exercise MA = Matching
 SA = Short-Answer Essay

CHAPTER LEARNING OBJECTIVES

1. **Determine how to classify inventory and inventory quantities.** Merchandisers need only one inventory classification, merchandise inventory, to describe the different items that make up total inventory. Manufacturers, on the other hand, usually classify inventory into three categories: finished goods, work in process, and raw materials. To determine inventory quantities, manufacturers (1) take physical inventory of goods on hand and (2) determine the ownership of goods in transit or on consignment.
2. **Explain the accounting for inventories, and apply the inventory cost flow methods.** The primary basis of accounting for inventories is cost. Cost of goods available for sale includes (a) cost of beginning inventory and (b) the cost of goods purchased. The inventory cost flow methods are specific identification, and three assumed cost flow methods—FIFO, LIFO, and average-cost.
3. **Explain the financial effects of the inventory cost flow assumptions.** Companies may allocate the cost of goods available for sale to cost of goods sold and ending inventory by specific identification or by a method based on an assumed cost flow. When prices are rising, the first-in, first-out (FIFO) method results in lower cost of goods sold and higher net income than the other methods. The reverse is true when prices are falling. In the balance sheet, FIFO results in an ending inventory that is closest to current value. Inventory under LIFO is the farthest from current value. LIFO results in the lowest income taxes.

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4. **Explain the lower-of-cost-or-market basis of accounting for inventories.** Companies use the lower-of-cost-or-market (LCM) basis when the current replacement cost (market) is less than cost. Under LCM, companies recognize the loss in the period in which the price decline occurs.
5. **Indicate the effects of inventory errors on the financial statements.** In the income statement of the current year: (a) An error in beginning inventory will have a reverse effect on net income. (b) An error in ending inventory will have a similar effect on net income. In the following period, its effect on net income for that period is reversed, and total net income for the two years will be correct. In the balance sheet, ending inventory errors will have the same effect on total assets and total owner's equity and no effect on liabilities.
6. **Compute and interpret the inventory turnover.** The inventory turnover is calculated as cost of goods sold divided by average inventory. It can be converted to average days in inventory by dividing 365 days by the inventory turnover.
- ^a7. **Apply the inventory cost flow methods to perpetual inventory records.** Under FIFO and a perpetual inventory system, companies charge to cost of goods sold the cost of the earliest goods on hand prior to each sale. Under LIFO and a perpetual system, companies charge to cost of goods sold the cost of the most recent purchase prior to sale. Under the moving-average (average cost) method and a perpetual system, companies compute a new average cost after each purchase.
- ^a8. **Describe the two methods of estimating inventories.** The two methods of estimating inventories are the gross profit method and the retail inventory method. Under the gross profit method, companies apply a gross profit rate to net sales to determine estimated cost of goods sold. They then subtract estimated cost of goods sold from cost of goods available for sale to determine the estimated cost of the ending inventory. Under the retail inventory method, companies compute a cost-to-retail ratio by dividing the cost of goods available for sale by the retail value of the goods available for sale. They then apply this ratio to the ending inventory at retail to determine the estimated cost of the ending inventory.

TRUE-FALSE STATEMENTS

1. Transactions that affect inventories on hand have an effect on both the balance sheet and the income statement.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

2. The more inventory a company has in stock, the greater the company's profit.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economic

3. Raw materials inventories are the goods that a manufacturer has completed and are ready to be sold to customers.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Resource Management, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

4. Goods that have been purchased FOB destination but are in transit, should be excluded from a physical count of goods.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. Goods out on consignment should be included in the inventory of the consignor.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

6. The specific identification method of costing inventories tracks the actual physical flow of the goods available for sale.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

7. Management may choose any inventory costing method it desires as long as the cost flow assumption chosen is consistent with the physical movement of goods in the company.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

8. The first-in, first-out (FIFO) inventory method results in an ending inventory valued at the most recent cost.

Ans: T, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

9. The expense recognition principle requires that the cost of goods sold be matched against the ending merchandise inventory in order to determine income.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

10. The specific identification method of inventory valuation is desirable when a company sells a large number of low-unit cost items.

Ans: F, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

11. If a company has no beginning inventory and the unit cost of inventory items does not change during the year, the value assigned to the ending inventory will be the same under LIFO and average cost flow assumptions.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

12. If the unit price of inventory is increasing during a period, a company using the LIFO inventory method will show less gross profit for the period, than if it had used the FIFO inventory method.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

13. If a company has no beginning inventory and the unit price of inventory is increasing during a period, the cost of goods available for sale during the period will be the same under the LIFO and FIFO inventory methods.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

14. A company may use more than one inventory costing method concurrently.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

15. Use of the LIFO inventory valuation method enables a company to report paper or phantom profits.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

16. If a company changes its inventory valuation method, the effect of the change on net income should be disclosed in the financial statements.

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Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

17. Under the lower-of-cost-or-market basis, market is defined as current replacement cost.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. Accountants believe that the write down from cost to market should **not** be made in the period in which the price decline occurs.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

19. An error that overstates the ending inventory will also cause net income for the period to be overstated.

Ans: T, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

20. If inventories are valued using the LIFO cost assumption, they should **not** be classified as a current asset on the balance sheet.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

21. Inventory turnover is calculated as cost of goods sold divided by ending inventory.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a22. If a company uses the FIFO cost assumption, the cost of goods sold for the period will be the same under a perpetual or periodic inventory system.

Ans: T, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

^a23. In applying the LIFO assumption in a perpetual inventory system, the cost of the units most recently purchased prior to sale is allocated first to the units sold.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

^a24. Under generally accepted accounting principles, management has the choice of physically counting inventory on hand at the end of the year or using the gross profit method to estimate the ending inventory.

Ans: F, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

^a25. The retail inventory method requires a company to value its inventory on the balance sheet at retail prices.

Ans: F, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26. Finished goods are a classification of inventory for a manufacturer that are completed and ready for sale.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

27. Under the FIFO method, the costs of the earliest units purchased are the first charged to cost of goods sold.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

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28. The cost of goods available for sale consists of the beginning inventory plus the cost of goods purchased.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

29. In a period of falling prices, the LIFO method results in a lower cost of goods sold than the FIFO method.

Ans: T, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

30. The lower-of-cost-or-market basis is an example of the accounting concept of conservatism.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

31. Inventories are reported in the current assets section of the balance sheet immediately below receivables.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a32. In a perpetual inventory system, the cost of goods sold under the FIFO method is based on the cost of the latest goods on hand during the period.

Ans: F, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a33. The gross profit method is based on the assumption that the rate of gross profit remains constant from one year to the next.

Ans: T, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	T	11.	T	16.	T	21.	F	26.	T	31.	T
2.	F	7.	F	12.	T	17.	T	^a 22.	T	27.	T	^a 32.	F
3.	F	8.	T	13.	T	18.	F	^a 23.	T	28.	T	^a 33.	T
4.	T	9.	F	14.	T	19.	T	^a 24.	F	29.	T		
5.	T	10.	F	15.	F	20.	F	^a 25.	F	30.	T		

MULTIPLE CHOICE QUESTIONS

34. Inventories affect
- only the balance sheet.
 - only the income statement.
 - both the balance sheet and the income statement.
 - neither the balance sheet nor the income statement.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

35. Inventory is
- reported under the classification of Property, Plant, and Equipment on the balance sheet.
 - often reported as a miscellaneous expense on the income statement.
 - reported as a current asset on the balance sheet.
 - generally valued at the price for which the goods can be sold.

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Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

36. Items waiting to be used in production are considered to be
- raw materials.
 - work in progress.
 - finished goods.
 - merchandise inventory.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

37. In a manufacturing business, inventory that is ready for sale is called
- raw materials inventory.
 - work in process inventory.
 - finished goods inventory.
 - store supplies inventory.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

38. The factor which determines whether or not goods should be included in a physical count of inventory is
- physical possession.
 - legal title.
 - management's judgment.
 - whether or not the purchase price has been paid.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

39. If goods in transit are shipped FOB destination
- the seller has legal title to the goods until they are delivered.
 - the buyer has legal title to the goods until they are delivered.
 - the transportation company has legal title to the goods while the goods are in transit.
 - no one has legal title to the goods until they are delivered.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

40. An auto manufacturer would classify vehicles in various stages of production as
- finished goods.
 - merchandise inventory.
 - raw materials.
 - work in process.

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

41. Which of the following should be included in the physical inventory of a company?
- Goods held on consignment from another company.
 - Goods in transit to another company shipped FOB shipping point.
 - Goods in transit from another company shipped FOB shipping point.
 - Both b and c above.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Internal Controls

42. Manufacturers usually classify inventory into all the following general categories **except**
- work in process

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- b. finished goods
- c. merchandise inventory
- d. raw materials

Ans: C, LO: 1, Blooms Taxonomy: C, Difficulty: Easy, AACSB: Analytic, AICPA BB: Critical Thinking, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

43. Freight terms of FOB shipping point mean that the
- a. seller must debit freight out.
 - b. buyer must bear the freight costs.
 - c. goods are placed free on board at the buyer's place of business.
 - d. seller must bear the freight costs.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Internal Controls

44. For companies that use a perpetual inventory system, all of the following are purposes for taking a physical inventory **except**
- a. to check the accuracy of the records.
 - b. to determine the amount of wasted raw materials.
 - c. to determine losses due to employee theft.
 - d. to determine ownership of the goods.

Ans: D, LO: 1, Blooms Taxonomy: C, Difficulty: Easy, AACSB: Analytic, AICPA BB: Critical Thinking, AICPA FN: Measurement, AICPA PC: Problem solving, IMA: Internal Controls

45. Fetherston Company's goods in transit at December 31 include:

sales made

- (1) FOB destination
- (2) FOB shipping point

purchases made

- (3) FOB destination
- (4) FOB shipping point

Which items should be included in Fetherston's inventory at December 31?

- a. (2) and (3)
- b. (1) and (4)
- c. (1) and (3)
- d. (2) and (4)

Ans: B, LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

46. The term "FOB" denotes
- a. free on board.
 - b. freight on board.
 - c. free only (to) buyer.
 - d. freight charge on buyer.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economic

47. Under a consignment arrangement, the
- a. consignor has ownership until goods are sold to a customer.
 - b. consignor has ownership until goods are shipped to the consignee.
 - c. consignee has ownership when the goods are in the consignee's possession.
 - d. consigned goods are included in the inventory of the consignee.

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

6 - 10 Test Bank for Accounting Principles, Eleventh Edition

48. As a result of a thorough physical inventory, Horace Company determined that it had inventory worth \$320,000 at December 31, 2014. This count did not take into consideration the following facts: Herschel Consignment currently has goods worth \$47,000 on its sales floor that belong to Horace but are being sold on consignment by Herschel. The selling price of these goods is \$75,000. Horace purchased \$22,000 of goods that were shipped on December 27. FOB destination, that will be received by Horace on January 3. Determine the correct amount of inventory that Horace should report.
- \$320,000.
 - \$340,000.
 - \$367,000.
 - \$387,000.

Ans: C, LO: 1, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$320,000 + \$47,000 = \$367,000$

49. Partridge Bookstore had 500 units on hand at January 1, costing \$9 each. Purchases and sales during the month of January were as follows:

<u>Date</u>	<u>Purchases</u>	<u>Sales</u>
Jan. 14		375 @ \$14
17	250 @ \$10	
25	250 @ \$11	
29		260 @ \$16

Partridge does not maintain perpetual inventory records. According to a physical count, 365 units were on hand at January 31.

The cost of the inventory at January 31, under the FIFO method is:

- \$3,285.
- \$3,650.
- \$3,900.
- \$4,015.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(250 \times \$11) + [(365 - 250) \times \$10] = \$3,900$

50. Partridge Bookstore had 500 units on hand at January 1, costing \$9 each. Purchases and sales during the month of January were as follows:

<u>Date</u>	<u>Purchases</u>	<u>Sales</u>
Jan. 14		375 @ \$14
17	250 @ \$10	
25	250 @ \$11	
29		260 @ \$16

Partridge does not maintain perpetual inventory records. According to a physical count, 365 units were on hand at January 31.

The cost of the inventory at January 31, under the LIFO method is:

- \$3,285.
- \$3,650.
- \$3,900.
- \$4,015.

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Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $365 \times \$9 = \$3,285$

51. Nick's Place recorded the following data:

<u>Date</u>	<u>Units</u>			<u>Unit Cost</u>
	<u>Received</u>	<u>Sold</u>	<u>On Hand</u>	
1/1 Inventory			600	\$2.50
1/8 Purchased	1,000		1,600	3.00
1/12 Sold		1,200	300	

The weighted average unit cost of the inventory at January 31 is:

- \$2.50.
- \$2.75.
- \$2.81.
- \$3.400.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: $(600 \times \$2.50) + (1,000 \times \$3.00) \div 1,600 = \$2.81$

52. Inventoriable costs include all of the following **except** the
- freight costs incurred when buying inventory.
 - costs of the purchasing and warehousing departments.
 - cost of the beginning inventory.
 - cost of goods purchased.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

53. Beginning inventory plus the cost of goods purchased equals
- cost of goods sold.
 - cost of goods available for sale.
 - net purchases.
 - total goods purchased.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

54. Cost of goods sold is computed from the following equation:
- beginning inventory – cost of goods purchased + ending inventory.
 - sales – cost of goods purchased + beginning inventory – ending inventory.
 - sales + gross profit – ending inventory + beginning inventory.
 - beginning inventory + cost of goods purchased – ending inventory.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

55. A company just starting in business purchased three merchandise inventory items at the following prices. First purchase \$64; Second purchase \$76; Third purchase \$68. If the company sold two units for a total of \$200 and used FIFO costing, the gross profit for the period would be
- \$56.
 - \$60.
 - \$62.
 - \$68.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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6 - 12 Test Bank for Accounting Principles, Eleventh Edition

Solution: $\$200 - (\$64 + \$76) = \60

56. The LIFO inventory method assumes that the cost of the latest units purchased are
- the last to be allocated to cost of goods sold.
 - the first to be allocated to ending inventory.
 - the first to be allocated to cost of goods sold.
 - not allocated to cost of goods sold or ending inventory.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

57. A company just starting business made the following four inventory purchases in June:

June 1	150 units	\$ 390
June 10	200 units	585
June 15	200 units	630
June 28	150 units	510
		<u>510</u>
		<u>\$2,115</u>

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand. Using the LIFO inventory method, the value of the ending inventory on June 30 is

- \$683.
- \$825.
- \$1,290.
- \$1,432.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$390 + [(\$585 \div 200) \times 100] = \683

58. A company just starting business made the following four inventory purchases in June:

June 1	150 units	\$ 390
June 10	200 units	585
June 15	200 units	630
June 28	150 units	510
		<u>510</u>
		<u>\$2,115</u>

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand. Using the FIFO inventory method, the amount allocated to cost of goods sold for June is

- \$683.
- \$825.
- \$1,290.
- \$1,432.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$510 + [(\$630 \div 200) \times 100] = \825 ; $\$2,115 - \$825 = \$1,290$

59. A company just starting business made the following four inventory purchases in June:

June 1	150 units	\$ 390
June 10	200 units	585
June 15	200 units	630
June 28	150 units	510
		<u>510</u>
		<u>\$2,115</u>

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A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand. Using the average-cost method, the amount allocated to the ending inventory on June 30 is

- \$683.
- \$755.
- \$825.
- \$1,360.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$2,115 \div 700 = 3.02$; $250 \times 3.02 = \$755$

60. A company just starting business made the following four inventory purchases in June:

June 1	150 units	\$ 390
June 10	200 units	585
June 15	200 units	630
June 28	150 units	510
		<u>\$2,115</u>

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand.

The inventory method which results in the highest gross profit for June is

- the FIFO method.
- the LIFO method.
- the weighted average unit cost method.
- not determinable.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

61. A company purchased inventory as follows:

150 units at \$5
350 units at \$6

The average unit cost for inventory is

- \$5.00.
- \$5.50.
- \$5.70.
- \$6.00.

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[(150 \times \$5) + (350 \times \$6)] \div 500 = \$5.70$

62. Which of the following items will increase inventoriable costs for the buyer of goods?

- Purchase returns and allowances granted by the seller
- Purchase discounts taken by the purchaser
- Freight charges paid by the seller
- Freight charges paid by the purchaser

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

63. Inventoriable costs may be thought of as a pool of costs consisting of which two elements?

- The cost of beginning inventory and the cost of ending inventory
- The cost of ending inventory and the cost of goods purchased during the year

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6 - 14 Test Bank for Accounting Principles, Eleventh Edition

- c. The cost of beginning inventory and the cost of goods purchased during the year
- d. The difference between the costs of goods purchased and the cost of goods sold during the year

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

64. The cost of goods available for sale is allocated between
- a. beginning inventory and ending inventory.
 - b. beginning inventory and cost of goods on hand.
 - c. ending inventory and cost of goods sold.
 - d. beginning inventory and cost of goods purchased.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

65. Indrisano's Used Cars uses the specific identification method of costing inventory. During March, Indrisano purchased three cars for \$12,000, \$14,400, and \$19,200, respectively. During March, two cars are sold for a total of \$34,600. Indrisano determines that at March 31, the \$14,400 car is still on hand. What is Indrisano's gross profit for March?
- a. \$1,000.
 - b. \$3,400.
 - c. \$4,200.
 - d. \$8,200.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$34,600 - (\$12,000 + \$19,200) = \$3,400$

66. Of the following companies, which one would **not** likely employ the specific identification method for inventory costing?
- a. Music store specializing in organ sales
 - b. Farm implement dealership
 - c. Antique shop
 - d. Hardware store

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

67. A problem with the specific identification method is that
- a. inventories can be reported at actual costs.
 - b. management can manipulate income.
 - c. matching is not achieved.
 - d. the lower-of-cost-or-market basis cannot be applied.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: None, IMA: Business Economic

68. The selection of an appropriate inventory cost flow assumption for an individual company is made by
- a. the external auditors.
 - b. the SEC.
 - c. the internal auditors.
 - d. management.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

69. Which one of the following inventory methods is often impractical to use?
- a. Specific identification
 - b. LIFO

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- c. FIFO
- d. Average cost

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economic

70. Which of the following is **not** a common cost flow assumption used in costing inventory?
- a. First-in, first-out
 - b. Middle-in, first-out
 - c. Last-in, first-out
 - d. Average cost

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

71. The accounting principle that requires that the cost flow assumption be consistent with the physical movement of goods is
- a. called the expense recognition principle.
 - b. called the consistency principle.
 - c. nonexistent; that is, there is no accounting requirement.
 - d. called the physical flow assumption.

Ans: C, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

72. Which of the following statements is true regarding inventory cost flow assumptions?
- a. A company may use more than one costing method concurrently.
 - b. A company must comply with the method specified by industry standards.
 - c. A company must use the same method for domestic and foreign operations.
 - d. A company may never change its inventory costing method once it has chosen a method.

Ans: A, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

73. Which of the following statements is correct with respect to inventories?
- a. The FIFO method assumes that the costs of the earliest goods acquired are the last to be sold.
 - b. It is generally good business management to sell the most recently acquired goods first.
 - c. Under FIFO, the ending inventory is based on the latest units purchased.
 - d. FIFO seldom coincides with the actual physical flow of inventory.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

74. The cost of goods available for sale is allocated to the cost of goods sold and the
- a. beginning inventory.
 - b. ending inventory.
 - c. cost of goods purchased.
 - d. gross profit.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

75. At May 1, 2014, Kibbee Company had beginning inventory consisting of 200 units with a unit cost of \$7. During May, the company purchased inventory as follows:

800 units at \$7
600 units at \$8

6 - 16 Test Bank for Accounting Principles, Eleventh Edition

The company sold 1,000 units during the month for \$12 per unit. Kibbee uses the average cost method. The average cost per unit for May is

- a. \$7.000.
- b. \$7.375.
- c. \$7.500.
- d. \$8.000.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $[(200 \times \$7) + (800 \times \$7) + (600 \times \$8)] \div 1,600 = \$7,375$

76. At May 1, 2014, Kibbee Company had beginning inventory consisting of 200 units with a unit cost of \$7. During May, the company purchased inventory as follows:

800 units at \$7
600 units at \$8

The company sold 1,000 units during the month for \$12 per unit. Kibbee uses the average cost method. The value of Kibbee's inventory at May 31, 2014 is

- a. \$3,000.
- b. \$4,425.
- c. \$4,500.
- d. \$7,500.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(200 + 800 + 600) - 1,000 = 600$; $600 \times \$7,375 = \$4,425$

77. At May 1, 2014, Kibbee Company had beginning inventory consisting of 200 units with a unit cost of \$7. During May, the company purchased inventory as follows:

800 units at \$7
600 units at \$8

The company sold 1,000 units during the month for \$12 per unit. Kibbee uses the average cost method. Kibbee's gross profit for the month of May is

- a. \$4,625.
- b. \$4,571.
- c. \$4,000.
- d. \$4,500.

Ans: A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $[(200 \times \$7) + (800 \times \$7) + (600 \times \$8)] \div 1,600 = \$7,375$; $1,000 \times (12 - \$7,375) = \$4,625$

78. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2014 are as follows:

	<u>Units</u>	<u>Per unit price</u>	<u>Total</u>
Balance, 1/1/14	200	\$5.00	\$1,000
Purchase, 1/15/14	100	5.30	530
Purchase, 1/28/14	100	5.50	550

An end of the month (1/31/14) inventory showed that 160 units were on hand. How many units did the company sell during January, 2014?

- a. 60
- b. 160
- c. 200
- d. 240

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Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(200 + 100 + 100) - 160 = 240$

79. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2014 are as follows:

	<u>Units</u>	<u>Per unit price</u>	<u>Total</u>
Balance, 1/1/14	200	\$5.00	\$1,000
Purchase, 1/15/14	100	5.30	530
Purchase, 1/28/14	100	5.50	550

An end of the month (1/31/14) inventory showed that 160 units were on hand. If the company uses FIFO, what is the value of the ending inventory?

- a. \$800
- b. \$832
- c. \$848
- d. \$868

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$550 + [(160 - 100) \times \$5.30] = \$868$

80. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2014 are as follows:

	<u>Units</u>	<u>Per unit price</u>	<u>Total</u>
Balance, 1/1/14	200	\$5.00	\$1,000
Purchase, 1/15/14	100	5.30	530
Purchase, 1/28/14	100	5.50	550

An end of the month (1/31/14) inventory showed that 160 units were on hand. If the company uses LIFO, what is the value of the ending inventory?

- a. \$800
- b. \$832
- c. \$848
- d. \$868

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $160 \times \$5.00 = \800

81. Effie Company uses a periodic inventory system. Details for the inventory account for the month of January, 2014 are as follows:

	<u>Units</u>	<u>Per unit price</u>	<u>Total</u>
Balance, 1/1/14	200	\$5.00	\$1,000
Purchase, 1/15/14	100	5.30	530
Purchase, 1/28/14	100	5.50	550

An end of the month (1/31/14) inventory showed that 160 units were on hand. If the company uses FIFO and sells the units for \$10 each, what is the gross profit for the month?

- a. \$1,120
- b. \$1,188
- c. \$1,532
- d. \$1,600

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6 - 18 Test Bank for Accounting Principles, Eleventh Edition

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$1,000 + [(240 - 200) \times \$5.30] = 1,212; (240 \times \$10) - \$1,212 = \$1,188$

82. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method.

Under the FIFO method, the December 31 inventory is valued at

- a. \$28,000.
- b. \$32,267.
- c. \$32,960.
- d. \$36,800.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $4000 \times \$7.00 = \$28,000$

83. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. What is the cost of goods available for sale?

- a. \$169,200
- b. \$178,000
- c. \$206,000
- d. \$325,000

Ans: C, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(10,000 \times \$9.20) + (9,000 \times \$8.00) + (6,000 \times \$7.00) = \$206,000$

84. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. Under the LIFO method, cost of goods sold is

- a. \$28,000.
- b. \$169,200.
- c. \$173,040.
- d. \$178,000.

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Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $4,000 \times \$9.20 = \$36,800$; $\$206,000 - \$36,800 = \$169,200$

85. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. The weighted-average cost per unit is

- \$8.00.
- \$8.01.
- \$8.24.
- \$9.30.

Ans: C, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $[(10,000 \times \$9.20) + (9,000 \times \$8.00) + (6,000 \times \$7.00)] \div 25,000 = \8.24

86. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. If the company uses FIFO, what is the gross profit for the period?

- \$95,000
- \$99,266
- \$99,960
- \$103,800

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$206,000 - (4,000 \times \$7.00) = \$178,000$; $[(25,000 - 4,000) \times 13] - \$178,000 = \$95,000$

87. Eneri Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.20
Purchases: June 18	9,000	8.00
November 8	6,000	7.00

A physical inventory on December 31 shows 4,000 units on hand. Eneri sells the units for \$13 each. The company has an effective tax rate of 20%. Eneri uses the periodic inventory method. What is the difference in taxes if LIFO rather than FIFO is used?

- \$1,760 additional taxes
- \$992 additional taxes
- \$786 additional taxes
- \$992 tax savings

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6 - 20 Test Bank for Accounting Principles, Eleventh Edition

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $[(25,000 - 4,000) \times \$13] - \$169,200 = \$103,800$; $[\$103,800 - \$95,000] \times .20 = \$1,760$

88. Priscilla has the following inventory information.

July 1	Beginning Inventory	20 units at \$19	\$ 380
7	Purchases	70 units at \$20	1,400
22	Purchases	10 units at \$23	<u>230</u>
			\$2,010

A physical count of merchandise inventory on July 31 reveals that there are 35 units on hand. Using the average-cost method, the value of ending inventory is

- a. \$680.
- b. \$704.
- c. \$723.
- d. \$730.

Ans: B, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$2,010 \div 100 = \20.10 ; $\$20.10 \times 35 = \704

89. Priscilla has the following inventory information.

July 1	Beginning Inventory	20 units at \$19	\$ 380
7	Purchases	70 units at \$20	1,400
22	Purchases	10 units at \$23	<u>230</u>
			\$2,010

A physical count of merchandise inventory on July 31 reveals that there are 35 units on hand. Using the FIFO inventory method, the amount allocated to cost of goods sold for July is

- a. \$1,280.
- b. \$1,287.
- c. \$1,306.
- d. \$1,330.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$230 + [(35 - 10) \times \$20] = \$730$; $\$2,010 - \$730 = \$1,280$

90. Priscilla has the following inventory information.

July 1	Beginning Inventory	20 units at \$19	\$ 380
7	Purchases	70 units at \$20	1,400
22	Purchases	10 units at \$23	<u>230</u>
			\$2,010

A physical count of merchandise inventory on July 31 reveals that there are 35 units on hand. Using the LIFO inventory method, the amount allocated to cost of goods sold for July is

- a. \$1,280.
- b. \$1,287.
- c. \$1,306.
- d. \$1,330.

Ans: D, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$380 + [(35 - 20) \times \$20] = \$680$; $\$2,010 - \$680 = \$1,330$

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91. Moroni Industries has the following inventory information.
- | | | |
|--------|---------------------|--------------------|
| July 1 | Beginning Inventory | 40 units at \$120 |
| 5 | Purchases | 240 units at \$112 |
| 14 | Sale | 160 units |
| 21 | Purchases | 120 units at \$115 |
| 30 | Sale | 140 units |

Assuming that a periodic inventory system is used, what is the amount allocated to ending inventory on a LIFO basis?

- \$11,500
- \$11,520
- \$33,960
- \$33,980

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $40 + 240 + 120 - (160 + 140) = 100$; $(40 \times \$120) + [(100 - 40) \times \$112] = \$11,520$

92. Moroni Industries has the following inventory information.
- | | | |
|--------|---------------------|--------------------|
| July 1 | Beginning Inventory | 40 units at \$120 |
| 5 | Purchases | 240 units at \$112 |
| 14 | Sale | 160 units |
| 21 | Purchases | 120 units at \$115 |
| 30 | Sale | 140 units |

Assuming that a periodic inventory system is used, what is the amount allocated to ending inventory on a FIFO basis?

- \$11,500
- \$11,520
- \$33,960
- \$33,980

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $40 + 240 + 120 - (160 + 140) = 100$; $100 \times \$115 = \$11,500$

93. Netta Shutters has the following inventory information.
- | | | |
|--------|-----------|--------------------|
| Nov. 1 | Inventory | 30 units @ \$8.00 |
| 8 | Purchase | 120 units @ \$8.30 |
| 17 | Purchase | 60 units @ \$8.40 |
| 25 | Purchase | 90 units @ \$8.80 |

A physical count of merchandise inventory on November 30 reveals that there are 90 units on hand. Assume a periodic inventory system is used. Cost of goods sold (rounded to the nearest dollar) under the average-cost method is

- \$1,740.
- \$1,772.
- \$1,778.
- \$1,794.

Ans: B, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(30 \times \$8.00) + (120 \times \$8.30) + (60 \times \$8.40) + (90 \times 8.80) = \$2,532$; $\$2,532 \div (30 + 120 + 60 + 90) = \8.44 ; $(300 - 90) \times \$8.44 = \$1,772$

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6 - 22 Test Bank for Accounting Principles, Eleventh Edition

94. Netta Shutters has the following inventory information.

Nov. 1	Inventory	30 units @ \$8.00	
8	Purchase	120 units @	\$8.30
17	Purchase	60 units @ \$8.40	
25	Purchase	90 units @ \$8.80	

A physical count of merchandise inventory on November 30 reveals that there are 90 units on hand. Assume a periodic inventory system is used. Ending inventory under FIFO is

- a. \$738.
- b. \$792.
- c. \$1,740.
- d. \$1,794.

Ans: B, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $90 \times \$8.80 = \792

95. Netta Shutters has the following inventory information.

Nov. 1	Inventory	30 units @ \$8.00	
8	Purchase	120 units @ \$8.30	
17	Purchase	60 units @ \$8.40	
25	Purchase	90 units @ \$8.80	

A physical count of merchandise inventory on November 30 reveals that there are 90 units on hand. Assume a periodic inventory system is used. Ending inventory under LIFO is

- a. \$738.
- b. \$792.
- c. \$1,740.
- d. \$1,794.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(30 \times \$8.00) + (60 \times \$8.30) = \$738$

96. Netta Shutters has the following inventory information.

Nov. 1	Inventory	30 units @ \$8.00	
8	Purchase	120 units @ \$8.30	
17	Purchase	60 units @ \$8.40	
25	Purchase	90 units @ \$8.80	

A physical count of merchandise inventory on November 30 reveals that there are 90 units on hand. Assume a periodic inventory system is used. Assuming that the specific identification method is used and that ending inventory consists of 20 units from each of the three purchases and 30 units from the November 1 inventory, cost of goods sold is

- a. \$1,740.
- b. \$1,772.
- c. \$1,782.
- d. \$1,794.

Ans: C, LO: 2, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(30 \times \$8.00) + (20 \times \$8.30) + (20 \times \$8.40) + (20 \times \$8.80) = \$750$; $\$2,532 - \$750 = \$1,782$

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97. Romanoff Industries had the following inventory transactions occur during 2014:

		<u>Units</u>	<u>Cost/unit</u>
2/1/14	Purchase	54	\$45
3/14/14	Purchase	93	\$47
5/1/14	Purchase	66	\$49

The company sold 150 units at \$70 each and has a tax rate of 30%. Assuming that a periodic inventory system is used, what is the company's gross profit using LIFO? (rounded to whole dollars)

- \$3,318
- \$3,552
- \$6,948
- \$7,182

Ans: A, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(66 \times \$49) + [(150 - 66) \times \$47] = \$7,182$; $(150 \times \$70) - \$7,182 = \$3,318$

98. Romanoff Industries had the following inventory transactions occur during 2014:

		<u>Units</u>	<u>Cost/unit</u>
2/1/14	Purchase	54	\$45
3/14/14	Purchase	93	\$47
5/1/14	Purchase	66	\$49

The company sold 150 units at \$70 each and has a tax rate of 30%. Assuming that a periodic inventory system is used, what is the company's after-tax income using LIFO? (rounded to whole dollars)

- \$2,323
- \$2,486
- \$3,318
- \$3,552

Ans: A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(150 \times \$70) - \$7,182 = \$3,318$; $\$3,318 \times (1 - .30) = \$2,323$

99. Romanoff Industries had the following inventory transactions occur during 2014:

		<u>Units</u>	<u>Cost/unit</u>
2/1/14	Purchase	54	\$45
3/14/14	Purchase	93	\$47
5/1/14	Purchase	66	\$49

The company sold 150 units at \$70 each and has a tax rate of 30%. Assuming that a periodic inventory system is used, what is the company's gross profit using FIFO? (rounded to whole dollars)

- \$3,318
- \$3,552
- \$6,948
- \$7,182

Ans: B, LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(54 \times \$45) + (93 \times \$47) + [(150 - 147) \times \$49] = \$6,948$; $(150 \times \$70) - \$6,948 = \$3,552$

FOR INSTRUCTOR USE ONLY

6 - 24 Test Bank for Accounting Principles, Eleventh Edition

100. Romanoff Industries had the following inventory transactions occur during 2014:

		<u>Units</u>	<u>Cost/unit</u>
2/1/14	Purchase	54	\$45
3/14/14	Purchase	93	\$47
5/1/14	Purchase	66	\$49

The company sold 150 units at \$70 each and has a tax rate of 30%. Assuming that a periodic inventory system is used, what is the company's after-tax income using FIFO? (rounded to whole dollars)

- a. \$2,322
- b. \$2,486
- c. \$3,318
- d. \$3,552

Ans: B, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(150 \times \$70) - \$6,948 = \$3,552$; $\$3,552 \times (1 - .30) = \$2,486$

101. Companies adopt different cost flow methods for each of the following reasons **except**

- a. balance sheet effects.
- b. cost effects.
- c. income statements effects.
- d. tax effects.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

102. In periods of rising prices, the inventory method which results in the inventory value on the balance sheet that is closest to current cost is the

- a. FIFO method.
- b. LIFO method.
- c. average-cost method.
- d. tax method.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

103. Two companies report the same cost of goods available for sale but each employs a different inventory costing method. If the price of goods has increased during the period, then the company using

- a. LIFO will have the highest ending inventory.
- b. FIFO will have the highest cost of good sold.
- c. FIFO will have the highest ending inventory.
- d. LIFO will have the lowest cost of goods sold.

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

104. If companies have identical inventoriable costs but use different inventory flow assumptions when the price of goods have **not** been constant, then the

- a. cost of goods sold of the companies will be identical.
- b. cost of goods available for sale of the companies will be identical.
- c. ending inventory of the companies will be identical.
- d. net income of the companies will be identical.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

FOR INSTRUCTOR USE ONLY

105. In a period of increasing prices, which inventory flow assumption will result in the lowest amount of income tax expense?
- FIFO
 - LIFO
 - Average Cost
 - Income tax expense for the period will be the same under all assumptions.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

106. The specific identification method of costing inventories is used when the
- physical flow of units cannot be determined.
 - company sells large quantities of relatively low cost homogeneous items.
 - company sells large quantities of relatively low cost heterogeneous items.
 - company sells a limited quantity of high-unit cost items.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

107. The specific identification method of inventory costing
- always maximizes a company's net income.
 - always minimizes a company's net income.
 - has no effect on a company's net income.
 - may enable management to manipulate net income.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

108. The managers of Constantine Company receive performance bonuses based on the net income of the firm. Which inventory costing method are they likely to favor in periods of declining prices?
- LIFO
 - Average Cost
 - FIFO
 - Physical inventory method

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

109. In periods of inflation, phantom or paper profits may be reported as a result of using the
- perpetual inventory method.
 - FIFO costing assumption.
 - LIFO costing assumption.
 - periodic inventory method.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

110. Selection of an inventory costing method by management does **not** usually depend on
- the fiscal year end.
 - income statement effects.
 - balance sheet effects.
 - tax effects.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

111. In a period of rising prices, the costs allocated to ending inventory may be understated in the
- average-cost method.

FOR INSTRUCTOR USE ONLY

6 - 26 Test Bank for Accounting Principles, Eleventh Edition

- b. FIFO method.
- c. gross profit method.
- d. LIFO method.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

112. The accountant at Almira Company is figuring out the difference in income taxes the company will pay depending on the choice of either FIFO or LIFO as an inventory costing method. The tax rate is 30% and the FIFO method will result in income before taxes of \$8,190. The LIFO method will result in income before taxes of \$7,290. What is the difference in tax that would be paid between the two methods?
- a. \$270.
 - b. \$630.
 - c. \$900.
 - d. Cannot be determined from the information provided.

Ans: A, LO: 3, Bloom: AP, Difficulty: Hard, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(\$8,190 - \$7,290) \times .30 = \$270$

113. The accountant at Cedric Company has determined that income before income taxes amounted to \$7,000 using the FIFO costing assumption. If the income tax rate is 30% and the amount of income taxes paid would be \$315 greater if the LIFO assumption were used, what would be the amount of income before taxes under the LIFO assumption?
- a. \$5,950
 - b. \$7,000
 - c. \$7,315
 - d. \$8,050

Ans: D, LO: 3, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $\$7,000 + (\$315 \div .30) = \$8,050$

114. The manager of Brick Company is given a bonus based on income before income taxes. Net income, after taxes, is \$11,200 for FIFO and \$9,800 for LIFO. The tax rate is 30%. The bonus rate is 20%. How much higher is the manager's bonus if FIFO is adopted instead of LIFO?
- a. \$84
 - b. \$2,800
 - c. \$400
 - d. \$420

Ans: C, LO: 3, Bloom: AN, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(\$11,200 - \$9,800) \times .20 = \$280$; $\$280 \div (1 - .30) = \400

115. The consistent application of an inventory costing method is essential for
- a. conservatism.
 - b. accuracy.
 - c. comparability.
 - d. efficiency.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

116. Which costing method cannot be used to determine the cost of inventory items before lower-of-cost-or-market is applied?

FOR INSTRUCTOR USE ONLY

- a. Specific identification
- b. FIFO
- c. LIFO
- d. All of these methods can be used.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

117. Inventory is reported in the financial statements at
- a. cost.
 - b. market.
 - c. the higher-of-cost-or-market.
 - d. the lower-of-cost-or-market.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

118. The lower-of-cost-or-market basis of valuing inventories is an example of
- a. comparability.
 - b. the cost principle.
 - c. conservatism.
 - d. consistency.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

119. Under the lower-of-cost-or-market basis in valuing inventory, market is defined as
- a. current replacement cost.
 - b. selling price.
 - c. historical cost plus 10%.
 - d. selling price less markup.

Ans: A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

120. The lower-of-cost-or-market (LCM) basis may be used with all of the following methods **except**
- a. average cost.
 - b. FIFO.
 - c. LIFO.
 - d. The LCM basis may be used with all of these.

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

121. Alfalfa Company developed the following information about its inventories in applying the lower-of-cost-or-market (LCM) basis in valuing inventories:

<u>Product</u>	<u>Cost</u>	<u>Market</u>
A	\$112,000	\$120,000
B	80,000	76,000
C	155,000	162,000

If Alfalfa applies the LCM basis, the value of the inventory reported on the balance sheet would be

- a. \$343,000.
- b. \$347,000.
- c. \$358,000.
- d. \$362,000.

6 - 28 Test Bank for Accounting Principles, Eleventh Edition

Ans: A, LO: 4, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$112,000 + \$76,000 + \$155,000 = \$343,000$

122. Switzer, Inc. has 8 computers which have been part of the inventory for over two years. Each computer cost \$600 and originally retailed for \$900. At the statement date, each computer has a current replacement cost of \$400. What value should Switzer, Inc., have for the computers at the end of the year?
- \$2,400.
 - \$3,200.
 - \$4,800.
 - \$7,200.

Ans: B, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$400 \times 8 = \$3,200$

123. Switzer, Inc. has 8 computers which have been part of the inventory for over two years. Each computer cost \$600 and originally retailed for \$900. At the statement date, each computer has a current replacement cost of \$400. How much loss should Switzer, Inc., record for the year?
- \$1,600.
 - \$2,400.
 - \$3,200.
 - \$4,000.

Ans: A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$600 - \$400) \times 8 = \$1,600$

124. Othello Company understated its inventory by \$20,000 at December 31, 2014. It did not correct the error in 2014 or 2015. As a result, Othello's owner's equity was:
- understated at December 31, 2014, and overstated at December 31, 2015.
 - understated at December 31, 2014, and properly stated at December 31, 2015.
 - overstated at December 31, 2014, and overstated at December 31, 2015.
 - understated at December 31, 2014, and understated at December 31, 2015.

Ans: B, LO: 5, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

125. Understating beginning inventory will understate
- assets.
 - cost of goods sold.
 - net income.
 - owner's equity.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

126. An error in the physical count of goods on hand at the end of a period resulted in a \$15,000 overstatement of the ending inventory. The effect of this error in the current period is

	<u>Cost of Goods Sold</u>	<u>Net Income</u>
a.	Understated	Understated
b.	Overstated	Overstated
c.	Understated	Overstated
d.	Overstated	Understated

Ans: C, LO: 5, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

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127. If beginning inventory is understated by \$13,000, the effect of this error in the current period is

	<u>Cost of Goods Sold</u>	<u>Net Income</u>
a.	Understated	Understated
b.	Overstated	Overstated
c.	Understated	Overstated
d.	Overstated	Understated

Ans: C, LO: 5, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

128. A company uses the periodic inventory method and the beginning inventory is overstated by \$7,000 because the ending inventory in the previous period was overstated by \$7,000. The amounts reflected in the current end of the period balance sheet are

	<u>Assets</u>	<u>Owner's Equity</u>
a.	Overstated	Overstated
b.	Correct	Correct
c.	Understated	Understated
d.	Overstated	Correct

Ans: B, LO: 5, Bloom: AN, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

129. Overstating ending inventory will overstate all of the following **except**

- assets.
- cost of goods sold.
- net income.
- owner's equity.

Ans: B, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

130. Disclosures about inventory should include each of the following **except** the

- basis of accounting.
- costing method.
- quantity of inventory.
- major inventory classifications.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

131. Days in inventory is calculated by dividing

- the inventory turnover by 365 days.
- average inventory by 365 days.
- 365 days by the inventory turnover.
- 365 days by average inventory.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

132. The following information is available for Everett Company at December 31, 2014: beginning inventory \$80,000; ending inventory \$120,000; cost of goods sold \$1,050,000; and sales \$1,800,000. Everett's inventory turnover in 2014 is

- 8.7 times.
- 10.5 times.
- 13.2 times.
- 18 times.

6 - 30 Test Bank for Accounting Principles, Eleventh Edition

Ans: B, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$1,050,000 \div [(\$80,000 + \$120,000) \div 2] = 10.5$

133. The following information was available for Pete Company at December 31, 2014: beginning inventory \$90,000; ending inventory \$70,000; cost of goods sold \$984,000; and sales \$1,350,000. Pete's inventory turnover in 2014 was
- 10.9 times.
 - 12.3 times.
 - 14.1 times.
 - 16.9 times.

Ans: B, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$984,000 \div [(\$90,000 + \$70,000) \div 2] = 12.3$

134. The following information was available for Pete Company at December 31, 2014: beginning inventory \$90,000; ending inventory \$70,000; cost of goods sold \$984,000; and sales \$1,350,000. Pete's days in inventory in 2014 was
- 21.6 days.
 - 25.9 days.
 - 29.7 days.
 - 33.5 days.

Ans: C, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$984,000 \div [(\$90,000 + \$70,000) \div 2] = 12.3$; $365 \div 12.3 = 29.7$

135. Delmar Company had beginning inventory of \$90,000, ending inventory of \$110,000, cost of goods sold of \$600,000, and sales of \$960,000. Delmar's days in inventory is:
- 38.0 days.
 - 54.3 days.
 - 60.8 days.
 - 67.5 days.

Ans: C, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$600,000 \div [(\$90,000 + \$110,000) \div 2] = 6$; $365 \div 6 = 60.8$

- ^a136. During July, the following purchases and sales were made by Big Dan Company. There was no beginning inventory. Big Dan Company uses a perpetual inventory system.

	<u>Purchases</u>		<u>Sales</u>
July 3	40 units @ \$12	July 13	50 units
11	40 units @ \$13	22	20 units
20	20 units @ \$15		

Under the FIFO method, the cost of goods sold for each sale is:

	<u>July 13</u>	<u>July 22</u>
a.	\$600	\$240
b.	610	260
c.	650	260
d.	750	300

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(40 \times \$12) + [(50 - 40) \times \$13] = \$610$; $20 \times \$13 = \260

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- ^a137. During July, the following purchases and sales were made by Big Dan Company. There was no beginning inventory. Big Dan Company uses a perpetual inventory system.

<u>Purchases</u>		<u>Sales</u>	
July 3	40 units @ \$12	July 13	50 units
11	40 units @ \$13	22	20 units
20	20 units @ \$15		

Under the LIFO method, the cost of goods sold for each sale is:

	<u>July 13</u>	<u>July 22</u>
a.	\$600	\$240
b.	640	300
c.	650	300
d.	750	260

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(40 \times \$13) + [(50 - 40) \times \$12] = \$640$; $20 \times \$15 = \300

- ^a138. Pappy's Staff has the following inventory information.

July 1	Beginning Inventory	20 units at \$90
5	Purchases	120 units at \$92
14	Sale	80 units
21	Purchases	60 units at \$95
30	Sale	56 units

Assuming that a perpetual inventory system is used, what is the ending inventory on a FIFO basis?

- \$5,848
- \$5,860
- \$6,068
- \$6,346

Ans: C, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(20 + 120 + 60) - (80 + 56) = 64$; $(60 \times \$95) + [(64 - 60) \times \$92] = \$6,068$

- ^a139 Pappy's Staff Junkets has the following inventory information.

July 1	Beginning Inventory	20 units at \$90
5	Purchases	120 units at \$92
14	Sale	80 units
21	Purchases	60 units at \$95
30	Sale	56 units

Assuming that a perpetual inventory system is used, what is the ending inventory on a LIFO basis?

- \$5,848
- \$5,860
- \$6,068
- \$6,346

Ans: B, LO: 7, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(20 \times \$90) + (40 \times \$92) + [(64 - 60) \times \$95] = \$5,860$

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6 - 32 Test Bank for Accounting Principles, Eleventh Edition

- ^a140. Langer Company has the following inventory information.
- | | | |
|--------|---------------------|------------------|
| July 1 | Beginning Inventory | 10 units at \$90 |
| 5 | Purchases | 60 units at \$92 |
| 14 | Sale | 40 units |
| 21 | Purchases | 30 units at \$95 |
| 30 | Sale | 28 units |

Assuming that a perpetual inventory system is used, what is the ending inventory (round all calculations to nearest dollar) under the moving-average cost method?

- a. \$2,930
- b. \$2,966
- c. \$2,986
- d. \$3,054

Ans: C, LO: 7, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

141. A new average cost is computed each time a purchase is made in the
- a. average-cost method.
 - b. moving-average cost method.
 - c. weighted-average cost method.
 - d. All of these choices are correct.

Ans: B, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

- ^a142. When valuing ending inventory under a perpetual inventory system, the
- a. valuation using the LIFO assumption is the same as the valuation using the LIFO assumption under the periodic inventory system.
 - b. moving average requires that a new average be computed after every sale.
 - c. valuation using the FIFO assumption is the same as under the periodic inventory system.
 - d. earliest units purchased during the period using the LIFO assumption are allocated to the cost of goods sold when units are sold.

Ans: C, LO: 7, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a143. Sawyer Company uses the perpetual inventory system and the moving-average method to value inventories. On August 1, there were 10,000 units valued at \$30,000 in the beginning inventory. On August 10, 20,000 units were purchased for \$6 per unit. On August 15, 24,000 units were sold for \$12 per unit. The amount charged to cost of goods sold on August 15 was
- a. \$30,000.
 - b. \$108,000.
 - c. \$120,000.
 - d. \$144,000.

Ans: C, LO: 7, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economic

Solution: $[\$30,000 + (20,000 \times \$6)] \div 30,000 = \$5$; $24,000 \times 5 = \$120,000$

- ^a144. Under the gross profit method, each of the following items are estimated **except** for the
- a. cost of ending inventory.
 - b. cost of goods sold.
 - c. cost of goods purchased.
 - d. gross profit.

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Ans: C, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a145. Under the retail inventory method, the estimated cost of ending inventory is computed by multiplying the cost-to-retail ratio by
- net sales.
 - goods available for sale at retail.
 - goods purchased at retail.
 - ending inventory at retail.

Ans: D, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a146. Inventories are estimated
- more frequently under a periodic inventory system than a perpetual inventory system.
 - using the wholesale inventory method.
 - more frequently under a perpetual inventory system than the periodic inventory system.
 - using the net method.

Ans: A, LO: 8, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

- ^a147. Clooney Department Store estimates inventory by using the retail inventory method. The following information was developed:

	<u>At Cost</u>	<u>At Retail</u>
Beginning inventory	\$360,000	\$ 750,000
Goods purchased	900,000	1,350,000
Net sales		1,400,000

The estimated cost of the ending inventory is

- \$280,000.
- \$336,000.
- \$420,000.
- \$466,667.

Ans: C, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $[\$360,000 + \$900,000] \div (\$750,000 + \$1,350,000) = .60; (\$2,100,000 - \$1,400,000) \times .60 = \$420,000$

- ^a148. Turturro Department Store utilizes the retail inventory method to estimate its inventories. It calculated its cost to retail ratio during the period at 75%. Goods available for sale at retail amounted to \$600,000 and goods were sold during the period for \$420,000. The estimated cost of the ending inventory is
- \$135,000.
 - \$180,000.
 - \$315,000.
 - \$450,000.

Ans: A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $(\$600,000 - \$420,000) \times .75 = \$135,000$

- ^a149. TB Nelson Company prepares monthly financial statements and uses the gross profit method to estimate ending inventories. Historically, the company has had a 40% gross profit rate. During June, net sales amounted to \$180,000; the beginning inventory on June 1 was \$54,000; and the cost of goods purchased during June amounted to \$90,000. The estimated cost of TB Nelson Company's inventory on June 30 is

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6 - 34 Test Bank for Accounting Principles, Eleventh Edition

- a. \$21,600.
- b. \$36,000.
- c. \$72,000.
- d. \$126,000.

Ans: B, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $\$54,000 + \$90,000 = \$144,000$; $\$144,000 - (\$180,000 \times .60) = \$36,000$

150. Goods in transit should be included in the inventory of the buyer when the
- a. public carrier accepts the goods from the seller.
 - b. goods reach the buyer.
 - c. terms of sale are FOB destination.
 - d. terms of sale are FOB shipping point.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

151. Inventory items on an assembly line in various stages of production are classified as
- a. Finished goods.
 - b. Work in process.
 - c. Raw materials.
 - d. Merchandise inventory.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

152. The cost flow method that often parallels the actual physical flow of merchandise is the
- a. FIFO method.
 - b. LIFO method.
 - c. average-cost method.
 - d. gross profit method.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

153. Goodman Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	10,000	\$9.00
Purchases: June 18	9,000	8.20
November 8	6,000	7.00

A physical inventory on December 31 shows 6,000 units on hand. Under the FIFO method, the December 31 inventory is

- a. \$42,000.
- b. \$49,200.
- c. \$49,392.
- d. \$54,000.

Ans: A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: $6,000 \times \$7.00 = \$42,000$

154. In a period of inflation, the cost flow method that results in the lowest income taxes is the
- a. FIFO method.
 - b. LIFO method.
 - c. average-cost method.
 - d. gross profit method.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

155. In a period of rising prices, FIFO will have
- lower net income than LIFO.
 - lower cost of goods sold than LIFO.
 - lower income tax expense than LIFO.
 - lower net purchases than LIFO.

Ans: B, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

156. Under the LCM approach, the market value is defined as
- FIFO cost.
 - LIFO cost.
 - current replacement cost.
 - selling price.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

157. Penny Company made an inventory count on December 31, 2014. During the count, one of the clerks made the error of counting an inventory item twice. For the balance sheet at December 31, 2014, the effects of this error are

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
a.	overstated	understated	overstated
b.	understated	no effect	understated
c.	overstated	no effect	overstated
d.	overstated	overstated	understated

Ans: C, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

158. The inventory turnover is computed by dividing cost of goods sold by
- beginning inventory.
 - ending inventory.
 - average inventory.
 - 365 days.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

- ^a159. H. Hunter Company's records indicate the following information for the year:

Merchandise inventory, 1/1	\$ 550,000
Purchases	2,250,000
Net sales	3,200,000

On December 31, a physical inventory determined that ending inventory of \$500,000 was in the warehouse. H. Hunter's gross profit on sales has remained constant at 30%. H. Hunter suspects some of the inventory may have been taken by some new employees. At December 31, what is the estimated cost of missing inventory?

- \$60,000
- \$100,000
- \$150,000
- \$1,340,000

Ans: A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution: $(\$550,000 + \$2,250,000) - (\$3,200,000 \times .70) = \$560,000$; $\$560,000 - \$500,000 = \$60,000$

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160. The requirements for accounting for and reporting of inventories under IFRS, compared to GAAP, tend to be more
- detailed.
 - rules-based.
 - principles-based.
 - full of disclosure requirements.

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

161. The major IFRS requirements related to accounting for and reporting inventories are
- the same as GAAP.
 - the same as GAAP with a couple of exceptions.
 - completely different from GAAP.
 - not comparable to GAAP.

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

162. Inventory accounting under IFRS differs from GAAP in regard to
- neither the use of LIFO nor lower-of-cost-or-market.
 - the use of LIFO but not lower-of-cost-or-market.
 - the use of lower-of-cost-or-market but not LIFO.
 - the use of LIFO and lower-of-cost-or-market.

IFRS: Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

163. Under GAAP, companies can choose which inventory system?

	<u>LIFO</u>	<u>FIFO</u>
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	Yes	No

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

164. Under IFRS, companies can choose which inventory system?

	<u>LIFO</u>	<u>FIFO</u>
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

165. GAAP's definition for inventory and provision of guidelines for inventory accounting, as compared to IFRS are:

	<u>Definitions for Inventory</u>	<u>Guidelines for inventory accounting</u>
a.	essentially similar	more detailed
b.	essentially different	more detailed
c.	essentially similar	less detailed
d.	essentially different	less detailed

IFRS: Ans: A, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

166. Inventories are defined by IFRS as
- held-for-sale in the ordinary course of business.
 - in the process of production for sale in the ordinary course of business.
 - in the form of materials or supplies to be consumed in the production process or in the providing of services.
 - all of the above.

IFRS: Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

167. Specific Identification can be used for inventory valuation under

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

168. Specific Identification must be used for inventory valuation where the inventory items are not interchangeable under

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

169. GAAP's provision for ownership of goods (goods-in-transit or consigned goods), as well as which costs to include in inventory, as compared to IFRS are:

<u>Ownership of goods</u>	<u>Costs to include in inventory</u>
a. essentially similar	essentially similar
b. essentially different	essentially different
c. essentially similar	essentially different
d. essentially different	essentially similar

IFRS: Ans: A, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

170. The only acceptable cost flow assumptions under IFRS are

- FIFO and LIFO.
- FIFO and average.
- LIFO and average.
- FIFO, LIFO and average.

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

171. LIFO can be used

- under neither GAAP nor IFRS.
- under IFRS but not GAAP.
- under GAAP but not IFRS.
- under both GAAP and IFRS.

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

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172. The requirement that companies use the same cost flow assumption of all goods of a similar nature is found in

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

173. IFRS defines market for lower-of-cost-or market as

- net realizable value.
- estimated selling price in the ordinary course of business.
- replacement cost.
- replacement cost less costs of disposal.

IFRS: Ans: A, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

174. GAAP defines market for lower-of-cost-or market essentially as

- net realizable value.
- estimated selling price in the ordinary course of business.
- replacement cost.
- replacement cost less costs of disposal.

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

175. Inventory written down under lower-of-cost-or market may be written back up to original cost in a subsequent period under

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: D, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

176. The option to value inventory at fair value exists under

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

177. Certain agricultural and mineral products can be reported at net realizable value under

<u>GAAP</u>	<u>IFRS</u>
a. Yes	No
b. Yes	Yes
c. No	No
d. No	Yes

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

178. The convergence issue that will be most difficult to resolve in the area of inventory accounting is:
- FIFO.
 - LIFO.
 - ownership of goods.
 - costs to include in inventory.

IFRS: Ans: B, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

179. The specific identification method
- cannot be used under GAAP.
 - cannot be used under IFRS.
 - must be used under IFRS if the inventory items can be specifically identified.
 - must be used under IFRS if it would result in the lowest net income.

IFRS: Ans: C, LO: 9, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
34.	c	55.	b	76.	b	97.	a	118.	c	^a 139.	b	160.	c
35.	c	56.	c	77.	a	98.	a	119.	a	^a 140.	c	161.	b
36.	a	57.	a	78.	d	99.	b	120.	d	^a 141.	b	162.	d
37.	c	58.	c	79.	d	100.	b	121.	a	^a 142.	c	163.	b
38.	b	59.	b	80.	a	101.	b	122.	b	^a 143.	c	164.	c
39.	a	60.	a	81.	b	102.	a	123.	a	^a 144.	c	165.	a
40.	d	61.	c	82.	a	103.	c	124.	b	^a 145.	d	166.	d
41.	c	62.	d	83.	c	104.	b	125.	b	^a 146.	a	167.	b
42.	c	63.	c	84.	b	105.	b	126.	c	^a 147.	c	168.	d
43.	b	64.	c	85.	c	106.	d	127.	c	^a 148.	a	169.	a
44.	d	65.	b	86.	a	107.	d	128.	b	^a 149.	b	170.	b
45.	b	66.	d	87.	a	108.	a	129.	b	150.	d	171.	c
46.	a	67.	b	88.	b	109.	b	130.	c	151.	b	172.	d
47.	a	68.	d	89.	a	110.	a	131.	c	152.	a	173.	a
48.	c	69.	a	90.	d	111.	d	132.	b	153.	a	174.	c
49.	c	70.	b	91.	b	112.	a	133.	b	154.	b	175.	d
50.	a	71.	c	92.	a	113.	d	134.	c	155.	b	176.	c
51.	c	72.	a	93.	b	114.	c	135.	c	156.	c	177.	b
52.	b	73.	c	94.	b	115.	c	^a 136	b	157.	c	178.	b
53.	b	74.	b	95.	a	116.	d	^a 137	b	158.	c	179.	c
54.	d	75.	b	96.	c	117.	d	^a 138	c	^a 159.	a		

BRIEF EXERCISES

BE 180

Waegelein Company identifies the following items for possible inclusion in the physical inventory. Indicate whether each item should be included or excluded from the inventory taking.

- Goods shipped on consignment by Waegelein to another company.
- Goods in transit from a supplier shipped FOB destination.
- Goods shipped via common carrier to a customer with terms FOB shipping point.

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6 - 40 Test Bank for Accounting Principles, Eleventh Edition

4. Goods held on consignment from another company.

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 180 (3 min.)

1. Included
2. Excluded
3. Excluded
4. Excluded

BE 181

In the first month of operations, Mordica Company made three purchases of merchandise in the following sequence: (1) 200 units at \$6, (2) 300 units at \$7, and (3) 400 units at \$9. Assuming there are 300 units on hand, compute the cost of the ending inventory under (1) the FIFO method and (2) the LIFO method. Mordica uses a periodic inventory system.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 181 (5 min.)

1. FIFO
 $300 \times \$9 = \$2,700$
2. LIFO
 $200 \times \$6 = \$1,200$
 $100 \times \$7 = \underline{700}$
 $\underline{\underline{\$1,900}}$

BE 182

Flaherty Company had beginning inventory on May 1 of \$12,000. During the month, the company made purchases of \$40,000 but returned \$2,000 of goods because they were defective. At the end of the month, the inventory on hand was valued at \$15,500.

Calculate cost of goods available for sale and cost of goods sold for the month.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 182 (4 min.)

Beginning inventory	\$12,000
Net purchases (\$40,000 – \$2,000)	<u>+38,000</u>
Goods available for sale	\$50,000
Ending inventory	<u>– 15,500</u>
Cost of goods sold	<u><u>\$34,500</u></u>

BE 183

Shellhammer Company's inventory records show the following data for the month of September:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, September 1	100	\$3.34
Purchases: September 8	450	3.50
September 18	350	3.70

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A physical inventory on September 30 shows 200 units on hand. Calculate the value of ending inventory and cost of goods sold if the company uses FIFO inventory costing and a periodic inventory system.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 183 (4 min.)

Ending inventory of 200 units: $200 \times \$3.70 = \740

Cost of goods sold:

Units available for sale $(100 + 450 + 350) = 900$

Units sold $900 - 200 = 700$

$100 \times \$3.34 =$	\$ 334
$450 \times \$3.50 =$	1,575
$150 \times \$3.70 =$	<u>555</u>
Cost of goods sold	<u>\$2,464</u>

BE 184

Shellhammer Company's inventory records show the following data for the month of September:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, September 1	100	\$3.34
Purchases: September 8	450	3.50
September 18	350	3.70

A physical inventory on September 30 shows 200 units on hand. Calculate the value of ending inventory and cost of goods sold if the company uses LIFO inventory costing and a periodic inventory system.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 184 (4 min.)

Ending inventory: $(100 \text{ units} \times \$3.34) + (100 \text{ units} \times \$3.50) = \$684$

Cost of goods sold: $(350 \text{ units} \times \$3.70) + (350 \text{ units} \times \$3.50) = \$2,520$

BE 185

Shellhammer Company's inventory records show the following data for the month of September:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, September 1	100	\$3.34
Purchases: September 8	450	3.50
September 18	350	3.70

A physical inventory on September 30 shows 200 units on hand. Calculate the value of the ending inventory and cost of goods sold if the company uses weighted average inventory costing and a periodic inventory system. Round cost per unit to 2 decimal places and ending inventory and cost of goods sold to the nearest dollar.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 185 (4 min.)

Weighted average cost per unit:

Cost of goods available for sale = \$3,204
 Units available for sale 900
 $\$3,204 \div 900 = \3.56
 Ending inventory: $200 \times \$3.56 = \712
 Cost of goods sold: $700 \times \$3.56 = \$2,492$

BE 186

The following accounts are included in the ledger of Wainwright Company:

Advertising expense
 Freight-in
 Inventory
 Purchases
 Purchase returns and allowances
 Sales revenue
 Sales returns and allowances

Which of the accounts would be included in calculating cost of goods sold?

Ans: N/A, LO: 2, Bloom: K, Difficulty: Medium, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Solution 186 (3 min.)

Freight-in
 Inventory
 Purchases
 Purchase returns and allowances

BE 187

The Vogelson Company accumulates the following cost and market data at December 31.

<u>Inventory Categories</u>	<u>Cost Data</u>	<u>Market Data</u>
Camera	\$11,000	\$9,900
Camcorders	7,800	8,500
DVDs	14,000	12,000

What is the lower-of-cost-or-market value of the inventory?

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 187 (5 min.)

<u>Inventory Categories</u>	<u>Cost Data</u>	<u>Market Data</u>	<u>Lower-of-cost-or-market value</u>
Camera	\$11,000	\$9,900	\$9,900
Camcorders	7,800	8,500	7,800
DVDs	14,000	12,000	12,000
			<u>\$29,700</u>

BE 188

Garner Supply Company reports net income of \$120,000 in 2014. The ending inventory did not include goods valued at \$7,000 that Garner had consigned to Sharif's Gift Shop.

- (1) What is the correct net income for 2014?
- (2) What impact will this error have on the balance sheet at 12/31/14?

Ans: N/A, LO: 5, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 188 (4 min.)

- (1) If ending inventory is understated by \$7,000, cost of goods sold will be overstated and net income will be understated by \$7,000. The correct net income is \$127,000.
- (2) On the balance sheet, both inventory and owner's equity will be understated by \$7,000.

BE 189

At December 31, 2014, the following information was available for Deen Company: ending inventory \$22,600; beginning inventory \$21,400; cost of goods sold \$171,000; and sales revenue \$430,000.

Calculate the inventory turnover and days in inventory for Deen.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 189 (4 min.)

Inventory Turnover = $\$171,000 \div [(\$21,400 + \$22,600) \div 2] = 7.8$ times

Days in Inventory = $365 \div 7.8 = 46.8$ days

EXERCISES**Ex. 190**

The following information is available for Yancey Company:

Beginning inventory	600 units at \$4
First purchase	900 units at \$6
Second purchase	500 units at \$7.20

Assume that Yancey uses a periodic inventory system and that there are 700 units left at the end of the month.

Instructions

Compute the cost of ending inventory under the

- (a) FIFO method.
- (b) LIFO method.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 190 (7 min.)

(a) FIFO Ending Inventory Cost:

$$\begin{array}{r} 500 \times \$7.20 = \$3,600 \\ 200 \times \$6 = \quad 1,200 \\ \hline \underline{\$4,800} \end{array}$$

(b) LIFO Ending Inventory Cost:

$$\begin{array}{r} 600 \times \$4 = \quad \$2,400 \\ 100 \times \$6 = \quad \quad 600 \\ \hline \underline{\$3,000} \end{array}$$

Ex. 191

The following information is available for Yancey Company:

Beginning inventory	600 units at \$4
First purchase	900 units at \$6
Second purchase	500 units at \$7.20

Assume that Waldrip uses a periodic inventory system and that there are 700 units left at the end of the month.

Instructions

Compute each of the following under the average-cost method:

- (a) Cost of ending inventory.
 (b) Cost of goods sold.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 7, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 191 (7 min.)Average cost/unit = \$5.70 ($\$11,400 \div 2,000$)

$$\begin{array}{r} 600 \times \$4 = \quad \$ 2,400 \\ 900 \times \$6 = \quad \quad 5,400 \\ \underline{500 \times \$7.20 = \quad 3,600} \\ \underline{2,000} \quad \quad \underline{\$11,400} \end{array}$$

- (a) Cost of ending inventory = \$3,990 ($700 \times \5.70)
 (b) Cost of goods sold = \$7,410 ($1,300 \times \5.70) or $\$11,400 - \$3,990$

Ex. 192

Shanrock Company uses the periodic inventory method and had the following inventory information available:

		<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1/1	Beginning Inventory	100	\$4	\$ 400
1/20	Purchase	400	\$6	2,400
7/25	Purchase	200	\$7	1,400
10/20	Purchase	300	\$8	2,400
		<u>1,000</u>		<u>\$6,600</u>

A physical count of inventory on December 31 revealed that there were 400 units on hand.

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Instructions

Answer the following independent questions and show computations supporting your answers.

1. Assume that the company uses the FIFO method. The value of the ending inventory at December 31 is \$_____.
2. Assume that the company uses the Average-Cost method. The value of the ending inventory on December 31 is \$_____.
3. Assume that the company uses the LIFO method. The value of the ending inventory on December 31 is \$_____.
4. Determine the difference in the amount of income that the company would have reported if it had used the FIFO method instead of the LIFO method. Would income have been greater or less?

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 192 (20 min.)

1. FIFO: Ending inventory \$3,100

300 units @ \$8	=	\$2,400
<u>100 units @ \$7</u>	=	<u>700</u>
400 units		<u>\$3,100</u>

2. Average Cost: Ending inventory \$2,640

$$\$6,600 \div 1,000 = \$6.60 \text{ per unit} \times 400 \text{ units} = \underline{\$2,640}$$

3. LIFO: Ending Inventory \$2,200

100 units @ \$4	=	\$ 400
<u>300 units @ \$6</u>	=	<u>1,800</u>
400 units		<u>\$2,200</u>

4. FIFO: Cost of goods sold \$3,500

100 units @ \$4	=	\$ 400
400 units @ \$6	=	2,400
<u>100 units @ \$7</u>	=	<u>700</u>
600 units		<u>\$3,500</u>

- LIFO: Cost of goods sold \$4,400

300 units @ \$8	=	\$2,400
200 units @ \$7	=	1,400
<u>100 units @ \$6</u>	=	<u>600</u>
600 units		<u>\$4,400</u>

Income would have been \$900 (\$4,400 vs. \$3,500) *greater* if the company used FIFO instead of LIFO.

Ex. 193

Lester Company sells many products. Hackenberry is one of its popular items. Below is an analysis of the inventory purchases and sales of Hackenberry for the month of March. Lester Company uses the periodic inventory system.

		Purchases		Sales	
		Units	Unit Cost	Units	Selling Price/Unit
3/1	Beginning inventory	100	\$40		
3/3	Purchase	60	\$50		
3/4	Sales			70	\$80

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6 - 46 Test Bank for Accounting Principles, Eleventh Edition

3/10	Purchase	200	\$55		
3/16	Sales			80	\$90
3/19	Sales			60	\$90
3/25	Sales			40	\$90
3/30	Purchase	40	\$65		

Instructions

- (a) Using the FIFO assumption, calculate the amount charged to cost of goods sold for March. (Show computations)
- (b) Using the weighted average method, calculate the amount assigned to the inventory on hand on March 31. (Show computations)
- (c) Using the LIFO assumption, calculate the amount assigned to the inventory on hand on March 31. (Show computations)

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 193 (20 min.)

		<u>Purchases</u>		<u>Sales</u>	
		<u>Units</u>	<u>Unit Cost</u>	<u>Units</u>	<u>Selling Price/Unit</u>
3/1	Beginning inventory	100	\$40		
3/3	Purchase	60	\$50		
3/4	Sales			70	\$80
3/10	Purchase	200	\$55		
3/16	Sales			80	\$90
3/19	Sales			60	\$90
3/25	Sales			40	\$90
3/30	Purchase	<u>40</u>	\$60		
		<u>400</u>		<u>250</u>	

- (a) Using FIFO - the earliest units purchased were the first sold.

3/1	100	@	\$40	=	\$ 4,000
3/3	60	@	50	=	3,000
3/10	<u>90</u>	@	55	=	<u>4,950</u>
	250 units				<u>\$11,950</u> = the cost of goods sold

- (b) Calculate the weighted average unit cost:

$\$20,400 \div 400 = \51
 $\$51 \times \text{units in ending inventory (400 available less 250 sold = 150)}$
 $\$51 \times 150 = \$7,650$

- (c) There are 150 units in ending inventory. They are comprised of the first units purchased when LIFO is assumed.

3/1	100	@	\$40	=	\$4,000
3/3	<u>50</u>	@	\$50	=	<u>2,500</u>
	150 units				<u>\$6,500</u> = ending inventory

Ex. 194

Gray Company uses the periodic inventory system to account for inventories. Information related to Gray Company's inventory at October 31 is given below:

October	1	Beginning inventory	400 units @ \$9.80 =	\$ 3,920
	8	Purchase	800 units @ \$10.40 =	8,320

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16	Purchase	600	units @ \$10.80 =	6,480
24	Purchase	<u>200</u>	units @ \$11.80 =	<u>2,360</u>
	Total units and cost	<u>2,000</u>	units	<u>\$21,080</u>

Instructions

- Show computations to value the ending inventory using the FIFO cost assumption if 550 units remain on hand at October 31.
- Show computations to value the ending inventory using the weighted-average cost method if 550 units remain on hand at October 31.
- Show computations to value the ending inventory using the LIFO cost assumption if 550 units remain on hand at October 31.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 194 (20 min.)

- 550 units in ending inventory.

Under FIFO, the units remaining in inventory are the ones purchased most recently.

10/24	200	units @ \$11.80 =	\$2,360
10/16	<u>350</u>	units @ 10.80 =	<u>3,780</u>
	<u>550</u>	units	<u>\$6,140</u>

- 550 units in ending inventory.

Under average cost method, the weighted average cost per unit must be computed.

$$\begin{aligned} \$21,080 \div 2,000 \text{ units} &= \$10.54 \\ 550 \text{ units} \times \$10.54 &= \$5,797 \end{aligned}$$

- 550 units in ending inventory.

Under LIFO, the units remaining are the ones purchased earliest.

10/1	400	units @ \$9.80 =	\$3,920
10/8	<u>150</u>	units @ 10.40 =	<u>1,560</u>
	<u>550</u>	units	<u>\$5,480</u>

Ex. 195

Ford Co. uses a periodic inventory system. Its records show the following for the month of May, in which 75 units were sold.

	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
May 1 Inventory	35	\$ 8	\$ 280
15 Purchases	30	12	360
24 Purchases	<u>40</u>	13	<u>520</u>
Totals	<u>105</u>		<u>\$1,160</u>

Instructions

Compute the ending inventory at May 31 and cost of goods sold using the FIFO and LIFO methods. Prove the amount allocated to cost of goods sold under each method.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 195 (20 min.)

	FIFO	
Beginning inventory (35 X \$8)		\$280

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6 - 48 Test Bank for Accounting Principles, Eleventh Edition

Purchases		
May 15 (30 X \$12).....	\$360	
May 24 (40 X \$13).....	<u>520</u>	880
Cost of goods available for sale.....		1,160
Less: Ending inventory (30 X \$13).....		<u>390</u>
Cost of goods sold.....		<u>\$770</u>

Proof			
<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
5/1	35	\$ 8	\$280
5/15	30	12	360
5/24	10	13	<u>130</u>
			<u>\$ 770</u>

	LIFO	
Cost of goods available for sale.....		\$1,160
Less: Ending inventory (30 X \$8).....		<u>240</u>
Cost of goods sold.....		<u>\$ 920</u>

Proof			
<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
5/24	40	\$13	\$520
5/15	30	12	360
5/1	5	8	<u>40</u>
			<u>\$920</u>

Ex. 196

Washington Bottom Company reports the following for the month of June.

	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
June 1 Inventory	300	\$5	\$1,500
12 Purchase	450	6	2,700
23 Purchase	750	8	6,000
30 Inventory	180		

Instructions

- Compute the cost of the ending inventory and the cost of goods sold under (1) FIFO and (2) LIFO.
- Compute the cost of the ending inventory and the cost of goods sold using the average-cost method.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 196 (20 min.)

(a)	FIFO	
Beginning inventory (300 X \$5)		\$1,500
Purchases		
June 12 (450 X \$6).....	\$2,700	
June 23 (750 X \$8).....	<u>6,000</u>	8,700
Cost of goods available for sale.....		10,200
Less: Ending inventory (180 X \$8).....		<u>1,440</u>

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Cost of goods sold	<u>\$8,760</u>
LIFO	
Cost of goods available for sale	\$10,200
Less: Ending inventory (180 X \$5)	<u>900</u>
Cost of goods sold	<u>\$9,300</u>

(b)	Cost of Goods	Total Units	Weighted Average
	Available for Sale ÷	Available for Sale =	Unit Cost
	\$10,200	1,500	\$6.80
	Ending inventory (180 X \$6.80)	\$1,224	
	Cost of goods sold (1,320 X \$6.80)	8,976	

Ex. 197

Queen Company is in the electronics industry and the price it pays for inventory is decreasing.

Instructions

Indicate which inventory method will:

- provide the highest ending inventory.
- provide the highest cost of goods sold.
- result in the highest net income.
- result in the lowest income tax expense.
- produce the most stable earnings over several years.

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Quantitative Methods

Solution 197 (4 min.)

- LIFO
- FIFO
- LIFO
- FIFO
- Average cost

Ex. 198

Vance Company reported the following summarized annual data at the end of 2014:

Sales revenue	\$1,000,000
Cost of goods sold*	<u>600,000</u>
Gross margin	400,000
Operating expenses	<u>250,000</u>
Income before income taxes	<u>\$ 150,000</u>

*Based on an ending FIFO inventory of \$250,000.

The income tax rate is 40%. The controller of the company is considering a switch from FIFO to LIFO. He has determined that on a LIFO basis, the ending inventory would have been \$180,000.

Instructions

- Restate the summary information on a LIFO basis.
- What effect, if any, would the proposed change have on Vance's income tax expense, net income, and cash flows?

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6 - 50 Test Bank for Accounting Principles, Eleventh Edition

(c) If you were an owner of this business, what would your reaction be to this proposed change?

Ans: N/A, LO: 3, Bloom: E, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 198 (25 min.)

(a) Restate to a LIFO basis:

Sales revenue	\$1,000,000
Cost of goods sold*	<u>670,000</u>
Gross margin	330,000
Operating expenses	<u>250,000</u>
Income before income taxes	<u>\$ 80,000</u>

*Ending inventory would be \$70,000 less ($\$250,000 - \$180,000 = \$70,000$) under LIFO, thereby increasing cost of goods by \$70,000.

(b) The taxes on the FIFO basis would be:

$\$150,000 \times .40 = \$60,000$

Leaving Net Income of \$90,000 ($\$150,000 - \$60,000 = \$90,000$).

The taxes on the LIFO basis would be:

$\$80,000 \times .40 = \$32,000$

Leaving Net Income of \$48,000 ($\$80,000 - \$32,000 = \$48,000$).

Switching to the LIFO basis will result in \$28,000 less income tax expense and less net income of \$42,000. The cash effect is \$28,000 ($\$60,000 - \$32,000 = \$28,000$) saved in taxes if LIFO were used.

(c) Owners of the business may favor the LIFO basis since more cash will be available for use in the business. LIFO results in more cash being retained in the business since less is paid out for income taxes.

Ex. 199

Compute the lower-of-cost-or-market valuation for Gantner Company's total inventory based on the following:

<u>Inventory Categories</u>	<u>Cost Data</u>	<u>Market Data</u>
A	\$18,000	\$16,900
B	13,900	14,600
C	21,000	20,500

Ans: N/A, LO: 4, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 199 (5 min.)

<u>Inventory Categories</u>	<u>Cost Data</u>	<u>Market Data</u>	<u>LCM</u>
A	\$18,000	\$16,900	\$16,900
B	13,900	14,600	13,900
C	21,000	20,500	<u>20,500</u>
Total Valuation			<u>\$51,300</u>

Ex. 200

The controller of Alt Company is applying the lower-of-cost-or-market basis of valuing its ending inventory. The following information is available:

	<u>Cost</u>	<u>Market</u>
Lawnmowers:		
Self-propelled	\$14,800	\$17,000
Push type	<u>19,000</u>	<u>18,000</u>
Total	<u>33,800</u>	<u>35,000</u>
Snowblowers:		
Manual	29,800	31,000
Self-start	<u>19,000</u>	<u>21,000</u>
Total	<u>48,800</u>	<u>52,000</u>
Total inventory	<u>\$82,600</u>	<u>\$87,000</u>

Instructions

Compute the value of the ending inventory by applying the lower-of-cost-or-market basis.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Quantitative Methods

Solution 200 (15 min.)

	<u>Lower-of-cost-or-market</u>
Lawnmowers:	
Self-propelled	\$14,800
Push type	18,000
Snowblowers:	
Manual	29,800
Self-start	<u>19,000</u>
Total inventory	<u>\$81,600</u>

Ex. 201

Nolen Company is preparing the annual financial statements dated December 31, 2014. Information about inventory stocked for regular sale follows:

<u>Item</u>	<u>Quantity on Hand</u>	<u>Unit Cost When Acquired</u>	<u>Replacement Cost (market) at year end</u>
A	50	\$20	\$19
B	100	45	45
C	20	59	62
D	40	40	36

Instructions

Compute the valuation for the December 31, 2014, inventory using the lower-of-cost-or-market basis.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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Solution 201 (10 min.)

<u>Item</u>	<u>Units</u>	<u>Lower of Cost or Market</u>	<u>Extension</u>
A	50	\$19	\$ 950
B	100	45	4,500
C	20	59	1,180
D	40	36	1,440
			<u>\$8,070</u>

Ex. 202

Foley Company applied FIFO to its inventory and got the following results for its ending inventory.

DVRs	140 units at a cost per unit of \$59
DVD players	210 units at a cost per unit of \$75
iPods	175 units at a cost per unit of \$80

The cost of purchasing units at year-end was DVRs \$71, DVD players \$68, and iPods \$78.

Instructions

Determine the amount of ending inventory at lower-of-cost-or-market.

Ans: N/A, LO: 4, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 202 (10 min.)

	<u>Cost</u>	<u>Market</u>	<u>Lower of Cost or Market:</u>
DVRs	\$ 8,260	\$ 9,940	\$ 8,260
DVD players	15,750	14,280	14,280
IPods	14,000	13,650	13,650
Total inventory	<u>\$38,010</u>	<u>\$37,870</u>	<u>\$36,190</u>

Ex. 203

Morton Watch Company reported the following income statement data for a 2-year period.

	<u>2014</u>	<u>2015</u>
Sales revenue	<u>\$260,000</u>	<u>\$320,000</u>
Cost of goods sold		
Beginning inventory	32,000	44,000
Cost of goods purchased	<u>193,000</u>	<u>225,000</u>
Cost of goods available for sale	225,000	269,000
Ending inventory	<u>44,000</u>	<u>57,000</u>
Cost of goods sold	<u>181,000</u>	<u>212,000</u>
Gross profit	<u>\$ 79,000</u>	<u>\$108,000</u>

Morton uses a periodic inventory system. The inventories at January 1, 2014, and December 31, 2015, are correct. However, the ending inventory at December 31, 2014, was overstated \$5,000.

Instructions

- (a) Prepare correct income statement data for the 2 years.
- (b) What is the cumulative effect of the inventory error on total gross profit for the 2 years?

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 203 (15 min.)

(a)

	<u>2014</u>	<u>2015</u>
Sales revenue	<u>\$260,000</u>	<u>\$320,000</u>
Cost of goods sold		
Beginning inventory	32,000	39,000
Cost of goods purchased	<u>193,000</u>	<u>225,000</u>
Cost of goods available for sale	225,000	264,000
Ending inventory (\$44,000 – \$5,000)	<u>39,000</u>	<u>57,000</u>
Cost of goods sold	<u>186,000</u>	<u>207,000</u>
Gross profit	<u>\$ 74,000</u>	<u>\$113,000</u>

(b) The cumulative effect on total gross profit for the two years is zero as shown below:

Incorrect gross profits:	\$79,000 + \$108,000 = \$187,000
Correct gross profits:	\$74,000 + \$113,000 = <u>187,000</u>
Difference	<u>\$ 0</u>

Ex. 204

Wellington Company reported net income of \$60,000 in 2014 and \$80,000 in 2015. However, ending inventory was overstated by \$7,000 in 2014.

Instructions

Compute the correct net income for Wellington Company for 2014 and 2015.

Ans: N/A, LO: 5, Bloom: AP, Difficulty: Medium, Min: 6, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 204 (6 min.)

2014 correct net income = \$53,000 (\$60,000 – \$7,000)
 2015 correct net income = \$87,000 (\$80,000 + \$7,000)

Ex. 205

For each of the independent events listed below, analyze the impact on the indicated items at the end of the current year by placing the appropriate code letter in the box under each item.

- Code: O = item is overstated
 U = item is understated
 NA = item is not affected

Events	Items			
	Assets	Owner's Equity	Cost of Goods Sold	Net Income
1. A physical count of goods on hand at the end of the current year resulted in some goods				

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6 - 54 Test Bank for Accounting Principles, Eleventh Edition

being counted twice.				
2. The ending inventory in the previous period was overstated.				
3. Goods purchased on account in December of the current year and shipped FOB shipping point were recorded as purchases, but were not included in the count of goods on hand on December 31 because they had not arrived by December 31.				
4. Goods purchased on account in December of the current year and shipped FOB destination were recorded as purchases, but were not included in the count of goods on hand on December 31 because they had not arrived by December 31.				
5. The internal auditors discovered that the ending inventory in the previous period was understated \$17,000 and that the ending inventory in the current period was overstated \$27,000.				

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 205 (20 min.)

Events	Items			
	Assets	Owner's Equity	Cost of Goods Sold	Net Income
1.	O	O	U	O
2.	NA	NA	O	U
3.	U	U	O	U
4.	NA	U	O	U
5.	O	O	U	O

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Ex. 206

Baden's Hardware Store prepared the following analysis of cost of goods sold for the previous three years:

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning inventory 1/1	\$40,000	\$18,000	\$25,000
Cost of goods purchased	<u>50,000</u>	<u>55,000</u>	<u>70,000</u>
Cost of goods available for sale	90,000	73,000	95,000
Ending inventory 12/31	<u>18,000</u>	<u>25,000</u>	<u>40,000</u>
Cost of goods sold	<u>\$72,000</u>	<u>\$48,000</u>	<u>\$55,000</u>

Net income for the years 2013, 2014, and 2015 was \$70,000, \$60,000, and \$55,000, respectively. Since net income was consistently declining, Mr. Baden hired a new accountant to investigate the cause(s) for the declines.

The accountant determined the following:

1. Purchases of \$25,000 were not recorded in 2013.
2. The 2013 December 31 inventory should have been \$24,000.
3. The 2014 ending inventory included inventory costing \$5,000 that was purchased FOB destination and in transit at year end.
4. The 2015 ending inventory did not include goods costing \$4,000 that were shipped on December 29 to Sampson Plumbing Company, FOB shipping point. The goods were still in transit at the end of the year.

Instructions

Determine the correct net income for each year. (Show all computations.)

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Hard, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 206 (25 min.)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beginning inventory 1/1	\$ 40,000	\$24,000	\$20,000
Cost of goods purchased	(1) <u>75,000</u>	<u>55,000</u>	<u>70,000</u>
Cost of goods available for sale	115,000	79,000	90,000
Ending inventory 12/31	(2) <u>24,000</u>	(3) <u>20,000</u>	<u>40,000</u>
Cost of goods sold	<u>\$ 91,000</u>	<u>\$59,000</u>	<u>\$50,000</u>

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Income previously reported	\$70,000	\$60,000	\$55,000
Add: Prior cost of goods sold	72,000	48,000	55,000
Less: Revised cost of goods sold	<u>(91,000)</u>	<u>(59,000)</u>	<u>(50,000)</u>
Corrected Net Income	<u>\$51,000</u>	<u>\$49,000</u>	<u>\$60,000</u>

- | | |
|---------------------------------|----------|
| (1) Additional purchases | \$25,000 |
| (2) Additional ending inventory | \$6,000 |
| (3) Less ending inventory | \$5,000 |

Ex. 207

Galena Pharmacy reported cost of goods sold as follows:

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6 - 56 Test Bank for Accounting Principles, Eleventh Edition

	<u>2014</u>	<u>2015</u>
Beginning inventory	\$ 54,000	\$ 64,000
Cost of goods purchased	<u>847,000</u>	<u>891,000</u>
Cost of goods available for sale	901,000	955,000
Ending inventory	<u>64,000</u>	<u>55,000</u>
Cost of goods sold	<u>\$837,000</u>	<u>\$900,000</u>

Jim Holt, the bookkeeper, made two errors:

- (1) 2014 ending inventory was overstated by \$7,000.
- (2) 2015 ending inventory was understated by \$16,000.

Instructions

Assuming the errors had not been corrected, indicate the dollar effect that the errors had on the items appearing on the financial statements listed below. Also indicate if the amounts are overstated (O) or understated (U).

	<u>2014</u>		<u>2015</u>	
	<u>Amount</u>	<u>Overstated/ Understated</u>	<u>Amount</u>	<u>Overstated/ Understated</u>
Total assets	\$ _____	_____	\$ _____	_____
Owner's equity	\$ _____	_____	\$ _____	_____
Cost of goods sold	\$ _____	_____	\$ _____	_____
Net income	\$ _____	_____	\$ _____	_____

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 207 (20 min.)

	<u>2014</u>		<u>2015</u>	
	<u>Amount</u>	<u>Overstated/ Understated</u>	<u>Amount</u>	<u>Overstated/ Understated</u>
Total assets	\$7,000	O	\$16,000	U
Owner's equity	\$7,000	O	\$16,000	U
Cost of goods sold	\$7,000	U	\$23,000	O
Net income	\$7,000	O	\$23,000	U

Correct cost of goods sold:

	<u>2014</u>	<u>2015</u>
Beginning inventory	\$ 54,000	\$ 57,000
Cost of goods purchased	<u>847,000</u>	<u>891,000</u>
Cost of goods available for sale	901,000	948,000
Ending inventory	<u>57,000</u>	<u>71,000</u>
Cost of goods sold	<u>\$844,000</u>	<u>\$877,000</u>

Ex. 208

This information is available for Eaton's Photo Corporation for 2014 and 2015.

	<u>2014</u>	<u>2015</u>
Beginning inventory	\$ 200,000	\$ 300,000
Ending inventory	300,000	380,000

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Cost of goods sold	1,150,000	1,330,000
Sales revenue	1,600,000	1,900,000

Instructions

Calculate inventory turnover, days in inventory, and gross profit rate for Eaton's Photo Corporation for 2014 and 2015. Comment on any trends.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 208 (20 min.)

	2014	2015
Inventory	<u>\$1,150,000</u>	<u>\$1,330,000</u>
turnover	$(\$200,000 + \$300,000) \div 2$	$(\$300,000 + \$380,000) \div 2$
	$\frac{\$1,150,000}{\$250,000} = 4.6$	$\frac{\$1,330,000}{\$340,000} = 3.9$
Days in inventory	$\frac{365}{4.6} = 79.3$ days	$\frac{365}{3.9} = 93.6$ days
Gross profit rate	$\frac{\$1,600,000 - \$1,150,000}{\$1,600,000} = .28$	$\frac{\$1,900,000 - \$1,330,000}{\$1,900,000} = .30$

The inventory turnover decreased by approximately 15% from 2014 to 2015 while the days in inventory increased by 18% over the same time period. Both of these changes would be considered negative since it's better to have a higher inventory turnover and lower days in inventory. However, Eaton's Photo gross profit rate increased by 7% from 2014 to 2015, which is a positive sign.

Ex. 209

The following information is available for Heller Company:

Beginning inventory	\$ 60,000
Cost of goods sold	640,000
Ending inventory	100,000
Sales revenue	1,000,000

Instructions

Compute each of the following:

- Inventory turnover.
- Days in inventory.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution 209 (5 min.)

(a) Inventory turnover:	$\frac{\$640,000}{(\$60,000 + \$100,000) \div 2} = \frac{\$640,000}{\$80,000} = 8.0$
(b) Days in inventory:	$\frac{365}{8.0} = 45.6$ days

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^aEx. 210

Winsor Company uses the perpetual inventory system and the LIFO method. The following information is available for the month of May:

May 1	Beginning inventory	20 units @ \$5
10	Purchase	20 units @ \$8
15	Sales	15 units
18	Purchase	10 units @ \$9
21	Sales	15 units
30	Purchase	10 units @ \$10

Instructions

Prepare a schedule to show cost of goods sold and the value of the ending inventory for the month of May.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 210 (10 min.)Cost of goods sold:

May 15 sale	15 units × \$8	=	\$120	
May 21 sale	10 units × \$9	=	90	
	<u>5 units × \$8</u>	=	<u>40</u>	
	<u>30 units</u>		<u>\$250</u>	Cost of goods sold

Ending inventory:

May 1	20 units × \$5	=	\$100	
May 30	<u>10 units × \$10</u>	=	<u>100</u>	
	<u>30 units</u>		<u>\$200</u>	Ending inventory

^aEx. 211

Norris Company uses the perpetual inventory system and had the following purchases and sales during March.

		<u>Purchases</u>		<u>Sales</u>	
		<u>Units</u>	<u>Unit Cost</u>	<u>Units</u>	<u>Selling Price/Unit</u>
3/1	Beginning inventory	100	\$40		
3/3	Purchase	60	\$50		
3/4	Sales			70	\$80
3/10	Purchase	200	\$55		
3/16	Sales			80	\$90
3/19	Purchase	40	\$60		
3/25	Sales			120	\$90

Ex. 211 (Cont.)**Instructions**

Using the inventory and sales data above, calculate the value assigned to cost of goods sold in March and to the ending inventory at March 31 using (a) FIFO and (b) LIFO.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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^aSolution 211 (20 min.)a) FIFO

<u>Date</u>	<u>Purchases</u>	<u>Sales</u>	<u>Balance</u>
3/1			(100 @ \$40) \$4,000
3/3	(60 @ \$50) \$3,000		(100 @ \$40) (60 @ \$50) \$7,000
3/4		(70 @ \$40) \$2,800	(30 @ \$40) (60 @ \$50) \$4,200
3/10	(200 @ \$55) \$11,000		(30 @ \$40) (60 @ \$50) (200 @ \$55) \$15,200
3/16		(30 @ \$40) (50 @ \$50) \$3,700	(10 @ \$50) (200 @ \$55) \$11,500
3/19	(40 @ \$60) \$2,400		(10 @ \$50) (200 @ \$55) (40 @ \$60) \$13,900
3/25		(10 @ \$50) (110 @ \$55) \$6,550	(90 @ \$55) (40 @ \$60) \$7,350
March cost of goods sold = <u>\$13,050</u> (\$2,800 + \$3,700 + \$6,550)			
March 31 inventory = <u>\$7,350</u>			

b) LIFO

<u>Date</u>	<u>Purchases</u>	<u>Sales</u>	<u>Balance</u>
3/1			(100 @ \$40) \$4,000
3/3	(60 @ \$50) \$3,000		(100 @ \$40) (60 @ \$50) \$7,000
3/4		(60 @ \$50) (10 @ \$40) \$3,400	(90 @ \$40) \$3,600
3/10	(200 @ \$55) \$11,000		(90 @ \$40) (200 @ \$55) \$14,600
3/16		(80 @ \$55) \$4,400	(90 @ \$40) (120 @ \$55) \$10,200
3/19	(40 @ \$60) \$2,400		(90 @ \$40) (120 @ \$55) (40 @ \$60) \$12,600
3/25		(40 @ \$60) (80 @ \$55) \$6,800	(90 @ \$40) (40 @ \$55) \$5,800

March cost of goods sold = \$14,600 (\$3,400 + \$4,400 + \$6,800)

March 31 inventory = \$5,800

^aEx. 212

Shoemaker Department Store prepares monthly financial statements but only takes a physical count of merchandise inventory at the end of the year. The following information has been developed for the month of July:

	<u>At Cost</u>	<u>At Retail</u>
Beginning inventory	\$ 30,000	\$ 50,000
Merchandise purchases	99,000	150,000

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6 - 60 Test Bank for Accounting Principles, Eleventh Edition

The net sales for July amounted to \$142,000.

Instructions

Use the retail inventory method to estimate the ending inventory at cost for July. Show all computations to support your answer.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Hard, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 212 (10 min.)

	<u>At Cost</u>	<u>At Retail</u>
Beginning inventory	\$ 30,000	\$ 50,000
Merchandise purchases	<u>99,000</u>	<u>150,000</u>
Goods available for sale	<u>\$129,000</u>	200,000
Net sales		<u>142,000</u>
(1) Ending inventory at retail		<u>\$ 58,000</u>
(2) Cost to retail ratio = 64.5% ($\$129,000 \div \$200,000$).		
(3) Ending inventory at cost = ($\$58,000 \times 64.5\%$) = <u>\$37,410.</u>		

^aEx. 193

Agler Company suffered a loss of its inventory on March 28 due to a fire in its warehouse. As a basis for filing a claim with its insurance company, Agler Company developed the following information:

March net sales through March 28	\$350,000
Beginning Inventory, March 1	100,000
Merchandise purchases through March 28	180,000

The company has experienced an average gross profit rate of 35% in the past and this rate appears to be appropriate in the current period.

Instructions

Using the gross profit method, prepare an estimate of the cost of the inventory destroyed by fire on March 28. Show all computations in good form.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 213 (10 min.)

Net sales	\$350,000
Less: Estimated gross profit ($\$350,000 \times 35\%$)	<u>122,500</u>
Estimated cost of goods sold	<u>\$227,500</u>
Beginning inventory	\$100,000
Merchandise purchases	<u>180,000</u>
Goods available for sale	280,000
Less: Estimated cost of goods sold	<u>227,500</u>
Estimated cost of ending inventory destroyed by fire	<u>\$ 52,500</u>

^aEx. 214

The inventory of Columbo Company was destroyed by fire on April 1. From an examination of the accounting records, the following data for the first three months of the year are obtained:

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Sales Revenue	\$185,000
Sales Returns and Allowances	5,000
Purchases	110,000
Freight-In	3,500
Purchase Returns and Allowances	4,000

Instructions

Determine the merchandise lost by fire, assuming a beginning inventory of \$50,000 and a gross profit rate of 40% on net sales.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 214 (10 min.)

Net Sales (\$185,000 – \$5,000)	\$180,000
Less: Estimated gross profit (40% × \$180,000)	<u>72,000</u>
Estimated cost of goods sold	<u>\$108,000</u>
Beginning inventory	\$ 50,000
Cost of goods purchased (\$110,000 – \$4,000 + \$3,500)	<u>109,500</u>
Cost of goods available for sale	159,500
Less: Estimated cost of good sold	<u>108,000</u>
Estimated cost of merchandise lost	<u>\$ 51,500</u>

^aEx. 215

Talkington Rae Company reports goods available for sale at cost, \$76,800. Beginning inventory at retail is \$40,000 and goods purchased during the period at retail were \$80,000. Sales for the period amounted to \$85,000.

Instructions

Determine the estimated cost of the ending inventory using the retail inventory method.

Ans: N/A, LO: 8, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

^aSolution 215 (10 min.)

	<u>At Cost</u>	<u>At Retail</u>
Beginning inventory		\$ 40,000
Goods purchased		<u>80,000</u>
Goods available for sale	\$76,800	120,000
Net sales		<u>85,000</u>
Ending inventory		<u>\$ 35,000</u>

First calculate the cost to retail ratio.

$$\$76,800 \div \$120,000 = 64\%$$

Apply this ratio to the ending inventory at retail.

$$\$35,000 \times .64 = \$22,400$$

\$22,400 is the estimated cost of the ending inventory.

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COMPLETION STATEMENTS

216. Accounting for inventories is important because inventories affect the _____ section of the balance sheet and the _____ section on the income statement.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

217. In a manufacturing company, goods that are ready to be sold to customers are referred to as _____, whereas in a merchandising company they are generally referred to as _____.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

218. The cost of goods purchased during a period plus the beginning inventory is the amount of goods _____ during the period.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

219. Inventoriable costs are allocated to _____ and cost of goods _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

220. It is generally recognized that a major objective of accounting for inventory is the proper determination of _____.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

221. The _____ method tracks the actual physical flow of each unit of inventory available for sale; however, management may be able to manipulate _____ by using this method.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

222. If the unit cost of inventory has continuously increased, the _____, first-out inventory valuation method will result in a higher valued ending inventory than if the _____, first-out method had been used.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

223. The lower-of-cost-or-market basis of accounting for inventories should be applied when the _____ cost of the goods is lower than its cost.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

224. _____ is calculated as cost of goods sold divided by average inventory.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

225. Two widely used methods of estimating inventories are the _____ method and the _____ method.

Ans: N/A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economic

ANSWERS TO COMPLETION STATEMENTS

- | | |
|--|--------------------------------------|
| 216. current assets, cost of goods sold | 221. specific identification, income |
| 217. finished goods, merchandise inventory | 222. first-in, last-in |

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- | | |
|-----------------------------|--|
| 218. available for sale | 223. replacement |
| 219. ending inventory, sold | 224. Inventory turnover |
| 220. net income | ^a 225. gross profit, retail inventory |

MATCHING

226. Match the items below by entering the appropriate code letter in the space provided.

- | | |
|-----------------------------------|--------------------------------------|
| A. Merchandise Inventory | F. First-in, first-out (FIFO) method |
| B. Work in process | G. Last-in, first-out (LIFO) method |
| C. FOB shipping point | H. Average-cost method |
| D. FOB destination | I. Inventory turnover |
| E. Specific identification method | J. Current replacement cost |

- ___ 1. Measures the number of times the inventory sold during the period.
- ___ 2. Tracks the actual physical flow for each inventory item available for sale.
- ___ 3. Goods that are only partially completed in a manufacturing company.
- ___ 4. Cost of goods sold consists of the most recent inventory purchases.
- ___ 5. Goods ready for sale to customers by retailers and wholesalers.
- ___ 6. Title to the goods transfers when the public carrier accepts the goods from the seller.
- ___ 7. Ending inventory valuation consists of the most recent inventory purchases.
- ___ 8. The same unit cost is used to value ending inventory and cost of goods sold.
- ___ 9. Title to goods transfers when the goods are delivered to the buyer.
- ___ 10. The amount that would be paid at the present time to acquire an identical item.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

Answers to Matching

- | | |
|------|-------|
| 1. I | 6. C |
| 2. E | 7. F |
| 3. B | 8. H |
| 4. G | 9. D |
| 5. A | 10. J |

SHORT-ANSWER ESSAY QUESTIONS

S-A E 227

FIFO and LIFO are the two most common cost flow assumptions made in costing inventories. The amounts assigned to the same inventory items on hand may be different under each cost flow assumption. If a company has no beginning inventory, explain the difference in ending inventory values under the FIFO and LIFO cost bases when the price of inventory items purchased during the period have been (1) increasing, (2) decreasing, and (3) remained constant.

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6 - 64 Test Bank for Accounting Principles, Eleventh Edition

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 227

The FIFO method determines the ending inventory by the cost of the most recent purchase. The LIFO method determines the ending inventory by the cost of the earliest purchase. Therefore, if the FIFO method is used and the prices during the period are increasing, the ending inventory under FIFO will be greater than under LIFO. Likewise, if the FIFO method is used and the prices during the period are decreasing, the ending inventory under FIFO will be less than under LIFO. If prices remain constant and the company has no beginning inventory, then there will be no difference in ending inventory.

S-A E 228

In a period of rising prices, the inventory reported in Crawford Company's balance sheet is close to the current cost of the inventory. Breland Company's inventory is considerably below its current cost. Identify the inventory cost flow method being used by each company. Which company has probably been reporting the higher gross profit?

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 228

Crawford Company is using the FIFO method of inventory costing, and Breland Company is using the LIFO method. Under FIFO, the latest goods purchased remain in inventory. Thus, the inventory on the balance sheet should be close to current costs. The reverse is true of the LIFO method. Crawford Company will have the higher gross profit because cost of goods sold will include a higher proportion of goods purchased at earlier (lower) costs.

S-A E 229

Errors occasionally occur when physically counting inventory items on hand. Identify the financial statement effects of an overstatement of the ending inventory in the current period. If the error is not corrected, how does it affect the financial statements for the following year?

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 229

The overstatement of ending inventory will cause cost of goods sold to be understated. Consequently, net income for the period will be overstated. The effect on the balance sheet is that assets and owner's equity will be overstated. The subsequent period will have an overstatement of beginning inventory. This will cause cost of goods sold to be overstated and net income to be understated, counterbalancing the overstatement of income in the prior period.

S-A E 230

A survey of major U.S. companies revealed that 77% of those companies used either LIFO or FIFO cost flow methods, while 19% used average cost, and only 4% used other methods.

Required:

Provide brief, yet concise responses to the following questions.

- a. Why are LIFO and FIFO so popular?

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- b. Since computers and inventory management software are readily available, why aren't more companies using specific identification?

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 230

- a. FIFO and LIFO are based on cost flow assumptions that may be unrelated to the physical flow of goods. The reasons for using one of these methods involve the effects on the income statement, balance sheet, and taxes that the company must pay.

In periods of rising prices (inflation), LIFO provides for a lower net income, thus resulting in a lower tax liability. LIFO reflects the most realistic cost of goods sold (the most recent or highest costs). However, the cost of inventory on the balance sheet is distorted because it consists of the earliest or lowest costs.

In periods of rising prices, FIFO provides for the most realistic ending inventory cost on the balance sheet (using the most recent or highest costs). On the income statement, FIFO represents the least realistic cost of goods sold because the amount consists of the earliest or lowest costs. This makes net income higher, which is good for the external financial statements but it thus results in a higher tax liability. In periods of falling prices, opposite results apply.

- b. With computers and inventory management software, it would appear that the specific identification method would be the most popular because it matches the actual cost of each item sold to its selling price. However, using computers to keep up with the information does not eliminate some of the problems with using specific identification.

One problem is an ethical one. A major disadvantage of the specific identification method is that management may be able to manipulate net income. For example, it can boost net income by selling units purchased at a low cost, or reduce net income by selling units purchased at a high cost. As long as customers receive the units they demand, they are indifferent when the company bought them. This manipulation means that net income is not objectively measured.

Another problem is that the costs of maintaining a specific identification system may outweigh the benefits of using such a method. As mentioned in part a, financial statement and tax effects of using FIFO and LIFO are more beneficial to companies than simply being able to match the actual cost of a unit to its selling price.

S-A E 231

Your former college roommate is opening a new retail store and asks you "Which inventory costing method should I use?"

What is your response? Include a comparison of the tax effect, balance sheet effect, and income statement effect for FIFO versus LIFO.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 231

It is always good to hear from you and you have certainly asked a very good question. Since the consistency principle requires that you adopt accounting methods and stay with them (until there is need for a proper change), it is very important to consider the options before starting a business.

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I suggest that you consider one of the three cost flow assumptions—Average, First-In, First-Out (FIFO), or Last-In, First-Out (LIFO). These methods are based on the assumption of cost flows instead of the actual physical flow of goods.

The effects on the income statement, balance sheet, and tax returns depend on whether your company experiences rising prices or falling prices.

Here is a summary of the effects for each inventory method, for companies that experience rising prices (the opposite will be true for falling prices).

Inventory Method	Tax Effect	Income Statement Effect	Balance Sheet Effect
Average	Falls between FIFO and LIFO	Falls between FIFO and LIFO	Falls between FIFO and LIFO
FIFO	Highest net income, thus highest taxes	Highest net income. Thus more attractive for external financial reporting	Most realistic ending inventory because latest costs are matched to ending inventory
LIFO	Lowest net income, thus lowest taxes (works best if constant levels of inventory units are maintained)	Lowest net income (If you use LIFO for tax purposes, you must also use it for external financial reporting.)	Most unrealistic ending inventory because the earliest costs are matched to ending inventory

S-A E 232

Robert Tingle is studying for the next accounting mid-term examination. What should Robert know about (a) departing from the cost basis of accounting for inventories and (b) the meaning of "market" in the lower-of-cost-or-market method?

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economic

Solution 232

Robert should know the following:

- A departure from the cost basis of accounting for inventories is justified when the value of the goods is lower than its cost. The writedown to market should be recognized in the period in which the price decline occurs.
- Market means current replacement cost, not selling price. For a merchandising company, market is the cost at the present time from the usual suppliers in the usual quantities.

S-A E 233 (Ethics)

Glenda Good and Danny Rock are department managers in the house wares and shoe departments, respectively, for Litwins, a large department store. Danny has observed Glenda taking inventory from her own department home, apparently without paying for it. He hesitates confronting Glenda because he is due to be promoted, and needs Glenda's recommendation. He also does not want to notify the company management directly, because he doesn't want an ethics investigation on his record, believing that it will give him a "goody-goody" image. This week, Glenda tried on several pairs of expensive running shoes in his department before finding a pair that suited her. She did not, however, buy them. That very pair was missing this morning.

Litwins recently replaced its old periodic inventory system with a perpetual inventory system using scanners and bar codes. In addition, the annual inventory is to be replaced by a monthly inventory conducted by an independent firm. On hearing the news of the changes, Danny relaxes. "The system will catch Glenda now," he says to himself.

Required:

1. Is Danny's attitude justified? Why or why not?
2. What, if any, action should Danny take now?

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Decision Modeling, AICPA PC: Professional Demeanor, IMA: Internal Controls

Solution 233

1. Danny's attitude is not justified. The system will only be able to detect that merchandise is missing, not to determine who took it.
2. Danny should notify his superiors at once. He has knowledge of what may be criminal acts, and by concealing them, he is very close to becoming a party to the acts. Danny's apparent fear of not being promotable because of a "goody-goody" image seems unjustified. It would seem more likely that Danny's refusal to accept unethical (and illegal) acts by others would make him a more valuable manager. He may even be jeopardizing his career with Litwins if someone else reports Glenda's actions. The resulting investigation may implicate Danny because of his failure to notify the proper authorities in a timely manner.

S-A E 234 (Communication)

Frank Jeffries, a new employee of Stine Company, recorded \$1,000 in consigned goods received as part of the firm's inventory. The goods were received one day after the end of the fiscal period, but Frank reasoned that the goods should be included in inventory sooner because Stine paid the freight. The mistake was brought to his attention by the purchasing department who said the goods should not have been recorded as Stine inventory at all. Frank told Sara Janik, the purchasing supervisor, that nobody needed to worry, because the mistake would cancel itself out the following month. In Frank opinion, there was no reason to get everyone excited over nothing, especially since it was monthly, and not annual, financial statements that were affected. Sara Janik has reported the problem to the accounting department.

Required:

You are Frank's supervisor. Write a memo to Frank explaining why the error should have been corrected.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Communications, IMA: FSA

Solution 234

M E M O

TO: Frank Jeffries, Accounting Department

FROM: Mary Farr, Supervisor

DATE: March 12, 2014

It has come to my attention that \$1,000 in consigned goods were included in the inventory reported in our January financial statements. You were informed that this amount should be removed from inventory, which you did not do, apparently believing that February's entries would correct the error.

The error would have been corrected in February if it were only a matter of your recording inventory in the wrong month. January's inventory and expenses would have been overstated, and February's understated, but the net effect would have been zero. Since the \$1,000 is a fairly large amount, however, that still would not have been appropriate.

The error you made, however, was to enter into inventory goods that the company did not own, and will not own. Consigned goods are owned by the consignors until purchased by customers. We only provide our shops for the consignors to sell their goods, and we collect a fee for doing so.

Please correct the error at once. We may need to notify some of the other departments of the error as well. Please arrange to meet with me in my office as soon as possible to discuss the matter.

(signature)