

**Financial Accounting for Undergraduates**  
**3<sup>rd</sup> Edition by Wallace, Nelson, Christensen, and Ferris**

**Practice Quiz**

**Chapter 6. Accounting for Inventory**

1. When raw material costs are increasing, which inventory costing method will produce the highest gross profit?
  - a. FIFO
  - b. LIFO
  - c. Weighted-average cost
  - d. Not able to determine

2. Smith Company provides the following financial data:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Revenues.....	9,252	8,453	8,000
Cost of goods sold.....	3,750	3,580	3,400
Gross profit.....	5,502	4,873	4,600
Inventories.....	1,505	1,658	1,858

What is the inventory turnover for 2016 and 2017, respectively?

- a. 2.9 and 3.7
  - b. 1.8 and 2.2
  - c. 2.2 and 2.5
  - d. 2.0 and 2.4
3. Smith & Sons has beginning inventory of \$50,000, purchases of \$260,000 and ending inventory is \$35,000. What is the company's cost of goods sold?
  - a. \$245,000
  - b. \$345,000
  - c. \$175,000
  - d. \$275,000

4. The Tempe Gift Shop's days' sales in inventory ratio for the current year is 60 days. Similar gift shops have a days' sales in inventory ratio for the current year of 30 days. Which of the following statements is valid?
- The Tempe Gift Shop is managing its inventory more effectively than its competitors.
  - The Tempe Gift Shop has too little inventory on hand.
  - The Tempe Gift Shop needs to increase sales and decrease the amount of inventory on hand.

5. Smith & Sons sells old clocks. The company had the follow transactions:

April 1, Beginning Inventory:	20 clocks @ \$100 each = \$2,000
April 10, Purchase:	10 clocks @ \$125 each = \$1,250
April 20, Purchase:	10 clocks @ \$120 each = \$1,200
April 25, Sales of inventory	25 clocks @ \$500

What is the company's cost of goods sold using FIFO?

- \$1,500
  - \$1,825
  - \$4,450
  - \$2,950
  - \$2,625
6. Smith & Sons sells old clocks. Using the information from Question 5, calculate the company's cost of goods sold using LIFO.
- \$2,950
  - \$2,625
  - \$4,450
  - \$1,825
  - \$1,500
7. Smith & Sons sells old clocks. Using the information from Question 5, calculate the company's cost of goods sold using weighted-average cost.
- \$2,875.00
  - \$2,625.00
  - \$2,781.25
  - \$3,750.75
  - \$2,950.00

8. Smith & Sons has been selling clocks for \$500 each that had cost \$150. By year end, the replacement cost of the clocks had declined to \$125, and consequently, the company decided to reduce its selling price to \$450. At what value should the company's inventory of clocks be valued at on December 31, its year end?
- \$450
  - \$150
  - \$125
  - There is insufficient information to answer this question.
9. Smith & Sons has beginning inventory of \$400,000, ending inventory of \$300,000, cost of goods sold of \$1,500,000, and sales revenue of \$2,400,000. What is the company's inventory turnover?
- 8.0
  - 6.0
  - 5.0
  - 4.3
  - 6.9
10. Smith & Sons has beginning inventory of \$300, ending inventory of \$600, cost of goods sold of \$900, and sales revenue of \$1,200. What is the company's days' sales in inventory?
- 182.5 days
  - 121.7 days
  - 91.3 days
  - 73.0 days
11. The conservatism concept is best described as:
- The notion that a company will operate in the future
  - When in doubt, understate assets and sales revenue and overstate liabilities and expenses
  - Recording an asset on the balance sheet at an amount equal to what was paid for it
  - A company uses the same accounting methods from one period to the next