

Financial Accounting for Undergraduates
3rd Edition by Wallace, Nelson, Christensen, and Ferris

Practice Quiz Solutions

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

Answer: a

2. Smith Company provides the following financial data:

	2017	2016	2015
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

Answer: d

Rationale: 2016: $\$3,580 / [(\$1,658 + \$1,858) / 2] = 2.0$
2017: $\$3,750 / [(\$1,505 + \$1,658) / 2] = 2.4$

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

Answer: *d*

Rationale: $(\$50,000 + \$260,000 - \$35,000)$

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?
- a. The Tempe Gift Shop is managing its inventory more effectively than its competitors.
 - b. The Tempe Gift Shop has too little inventory on hand.
 - c. The Tempe Gift Shop needs to increase sales and decrease the amount of inventory on hand.

Answer: *c*

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?

- a. \$1,500
- b. \$1,825
- c. \$4,450
- d. \$2,950
- e. \$2,625

Answer: *e*

Rationale: $(20 \text{ units @ } \$100) + (5 \text{ units @ } \$125)$

6. Smith & Sons sells old clocks. Using the information from Question 5, calculate the company's cost of goods sold using LIFO.
- a. \$2,950
 - b. \$2,625
 - c. \$4,450
 - d. \$1,825
 - e. \$1,500

Answer: a

Rationale: $(10 \text{ units @ } \$120) + (10 \text{ units @ } \$125) + (5 \text{ units @ } \$100)$

7. Smith & Sons sells old clocks. Using the information from Question 5, calculate the company's cost of goods sold using weighted-average cost.
- a. \$2,875.00
 - b. \$2,625.00
 - c. \$2,781.25
 - d. \$3,750.75
 - e. \$2,950.00

Answer: c

Rationale: $(\$2,000 + \$1,250 + \$1,200)/(20 + 10 + 10) = \111.25 per unit
 $(25 \text{ units @ } \$111.25) = \$2,781.25$

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?
- a. \$450
 - b. \$150
 - c. \$125
 - d. There is insufficient information to answer this question.

Answer: c

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?
- a. 8.0
 - b. 6.0
 - c. 5.0
 - d. 4.3
 - e. 6.9

Answer: *d*

Rationale: $(\$1,500,000 / [(\$400,000 + \$300,000) / 2])$

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?
- a. 182.5 days
 - b. 121.7 days
 - c. 91.3 days
 - d. 73.0 days

Answer: *a*

Rationale: $[365 \text{ days} / (\$900 / \$450)]$

11. The conservatism concept is best described as:
- a. The notion that a company will operate in the future
 - b. When in doubt, understate assets and sales revenue and overstate liabilities and expenses
 - c. Recording an asset on the balance sheet at an amount equal to what was paid for it
 - d. A company uses the same accounting methods from one period to the next

Answer: *b*