

**Chapter 7– Financial Accounting, 5<sup>th</sup> Edition by Dyckman, Hanlon, Magee, & Pfeiffer**

**Practice Quiz**

**Topic: Inventory Costing Methods**

**LO: 2**

1. Purity Lamps, Inc. reports the following in its purchase journal and inventory ledger:

		<u>Units</u>	<u>Cost</u>
Beginning Inventory		1,600	56,000
Purchases	1	1,900	70,300
	2	1,100	43,450
	3	1,500	60,000

Ending inventory for Purity was 2,000 units.

What is Purity's cost of ending inventory assuming FIFO?

- a. \$70,800
- b. \$80,000
- c. \$70,000
- d. \$79,750

**Topic: Inventory Costing Methods**

**LO: 2**

2. Purity Lamps, Inc. reports the following in its purchase journal and inventory ledger:

		<u>Units</u>	<u>Cost</u>
Beginning Inventory		1,600	56,000
Purchases	1	1,900	70,300
	2	1,100	43,450
	3	1,500	60,000

Ending inventory for Purity was 2,000 units.

What is Purity's cost of ending inventory assuming LIFO?

- a. \$70,800
- b. \$70,000
- c. \$79,500
- d. \$80,000

**Topic: Inventory Turnover Analysis**

**LO: 5**

3. Smith Company provides the following financial data:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
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 2015 and 2016, respectively?

- a. 2.939 and 3.656
- b. 1.830 and 2.159
- c. 2.159 and 2.492
- d. 2.036 and 2.371

**Topic: Lower of Cost of Market**

**LO: 3**

4. The following data refer to Barton Company's ending inventory.

<u>Item code</u>	<u>Quantity</u>	<u>Unit Cost</u>	<u>Unit Market</u>
Small	110	\$54	\$57
Medium	410	47	43
Large	590	43	39
Extra-Large	190	53	63

Determine the ending inventory amount by applying the lower of cost or market rule to each item of inventory.

- a. \$50,700
- b. \$56,650
- c. \$60,650
- d. \$58,880

**Topic: Average Inventory Days Outstanding**

**LO: 5**

5. Assume that Overland Company has inventory levels of \$356,345 and \$367,345 in 2012 and 2016, respectively. Also assume that cost of goods sold for 2016 is \$1,000,000. What is the average inventory days outstanding for Overland?

- a. 2.8 days
- b. 131 days
- c. 132 days
- d. 134 days

**Topic: Inventory Costs and the Financial Statements**

**LO: 1**

6. As a retailer, which of the following percentages is the most attractive to you?
- Operating income as a percentage of net sales equal to 35%
  - Cost of sales as a percentage of net sales equal to 65%
  - Gross profit of 35%
  - All three have the same attractiveness

**Topic: Financial Statement Effects of Inventory Costing**

**LO: 4, 5**

7. Assume that two companies operate in an inflationary environment. In a situation where all other things are equal except that one company uses LIFO and one company uses FIFO, which of the following statements is true?
- The company using FIFO will have a higher inventory turnover.
  - The company using LIFO will have a higher inventory turnover.
  - Inventory valuation methods do not affect inventory turnover.
  - Inventory turnover will be the same for both companies.

**Topic: LIFO Liquidation**

**LO: 6**

8. All of the following statements are true regarding LIFO liquidation except:
- LIFO liquidation lowers gross profit.
  - LIFO liquidation results when there is a decline in inventory quantities, i.e., you sell more than what you buy in current period.
  - The older costs in the LIFO layer liquidated are matched with current sales dollars.
  - Previously ignored holding gains are included in income as old LIFO layers are liquidated.

**Topic: Cost of Goods Sold**

**LO: 1**

9. Yang Imports reports net sales of \$675,000, gross profit of \$225,000, and net income of \$15,000. The company's cost of goods sold is:
- \$450,000
  - \$435,000
  - \$465,000
  - \$885,000

**Topic: Cost of Merchandise to be Purchased**

**LO: 1, 5**

**10.** The January 1, 2016 beginning inventory for Everest Supply Company was \$290,000.

Projections are that sales growth will be strong during 2016, so the company wants to have an ending inventory on December 31, 2016 of \$360,000. If net sales for 2016 are projected to be \$1,600,000, and the gross profit rate is expected to be 30%, what cost of merchandise should be purchased during 2016?

- a. \$1,480,000
- b. \$1,120,000
- c. \$1,190,000
- d. \$1,050,000