

Chapter 7—Reporting and Analyzing Inventory

Practice Quiz

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
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

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?

- 2.939 and 3.656
 - 1.830 and 2.159
 - 2.159 and 2.492
 - 2.036 and 2.371
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.

- \$50,700
 - \$56,650
 - \$60,650
 - \$58,880
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?

- 2.8 days
- 131 days
- 132 days
- 134 days

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
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.
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.
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
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?
- \$1,480,000
 - \$1,120,000
 - \$1,190,000
 - \$1,050,000