

Chapter 7 – Financial & Managerial Accounting for Decision Makers, 2nd Edition
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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:

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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>2013</u> | <u>2012</u> | <u>2011</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 2012 and 2013, 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 2013, respectively. Also assume that cost of goods sold for 2013 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?
- a. Operating income as a percentage of net sales equal to 35%
 - b. Cost of sales as a percentage of net sales equal to 65%
 - c. Gross profit of 35%
 - d. 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?
- a. The company using FIFO will have a higher inventory turnover.
 - b. The company using LIFO will have a higher inventory turnover.
 - c. Inventory valuation methods do not affect inventory turnover.
 - d. 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:
- a. LIFO liquidation lowers gross profit.
 - b. LIFO liquidation results when there is a decline in inventory quantities, i.e., you sell more than what you buy in current period.
 - c. The older costs in the LIFO layer liquidated are matched with current sales dollars.
 - d. 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:
- a. \$450,000
 - b. \$435,000
 - c. \$465,000
 - d. \$885,000

Topic: Cost of Merchandise to be Purchased

LO: 1, 5

10. The January 1, 2013 beginning inventory for Everest Supply Company was \$290,000. Projections are that sales growth will be strong during 2013, so the company wants to have an ending inventory on December 31, 2013 of \$360,000. If net sales for 2013 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 2013?
- a. \$1,480,000
 - b. \$1,120,000
 - c. \$1,190,000
 - d. \$1,050,000