

**STUDY GUIDE QUESTIONS****PART 1 True/False**

For each of the following statements, circle T if the statement is true and F if the statement is false.

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|---|---|---|
| T | F | 1. A periodic inventory system gives the manager current inventory information.   |
| T | F | 2. If the perpetual inventory system is used, an account titled Cost of Goods Sold is included in the general ledger.   |
| T | F | 3. When merchandise purchased FOB destination is in the hands of the carrier, it should be counted as part of the ending inventory of the buyer.                |
| T | F | 4. A periodic inventory system is practical for a typical used-car dealer.  |
| T | F | 5. The quantity of merchandise on hand must be determined so that the cost of goods sold can be accurately calculated and reported on the financial statements. |
| T | F | 6. The balance of the ending merchandise inventory appears on both the income statement and the balance sheet for the same fiscal period.                       |
| T | F | 7. The first-in, first-out inventory valuation method assumes that the items on hand are the last ones purchased.   |
| T | F | 8. The market value of the goods on hand is always higher than the original cost.   |
| T | F | 9. Of the four inventory methods, FIFO will result in the lowest net income during periods of rising prices.  |
| T | F | 10. One advantage of using the same inventory method consistently is that it allows owners to compare financial statements from one period to the next.         |

**PART 2 Completion—Language of Business**

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- The inventory system that requires a physical count and then attaches a value to that count is called a(n) \_\_\_\_\_ inventory system.
- The accounting principle that requires that a particular accounting procedure, once adopted, not be changed from one fiscal period to another fiscal period is called \_\_\_\_\_.

3. A method of inventory valuation that requires that the actual cost of each individual item in the ending inventory be used is called the \_\_\_\_\_ method.
4. The process of assigning costs to goods sold based on the flow-of-cost assumption that units are sold in the order in which they were acquired is called the \_\_\_\_\_ method.
5. A method of determining the cost of the ending inventory that is influenced by the number of items involved in each purchase of goods for resale is called the \_\_\_\_\_ method.
6. A modification of the weighted-average-cost method used for computing the average cost of a perpetual inventory is called \_\_\_\_\_.
7. The process of assigning costs to goods sold based on the flow-of-cost assumption that units sold are recorded at the costs of the most recently acquired units is called \_\_\_\_\_.
8. The inventory system that keeps a running balance of the inventory on hand and the current cost of each item is called the \_\_\_\_\_ system.
9. The \_\_\_\_\_ rule states that if there is a difference between the cost price and the market price of goods, the lower price is used for determining the value of the ending inventory.

### PART 3 Inventory Methods

For each numbered item, choose the matching term and write the identifying letter in the answer column.

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|---|---|
| <ol style="list-style-type: none"> <li>1. Method that best matches costs and revenues for the same period.</li> <li>2. Method that yields the lowest net income during a period of rising prices.</li> <li>3. Method that places greater emphasis on the prices at which large purchases were made than on the prices at which smaller purchases were made.</li> <li>4. Method based on the flow-of-cost assumption that the cost of goods sold most clearly reflects its replacement cost.</li> <li>5. Method based on the flow-of-cost assumption that units are sold in the order in which they were acquired.</li> <li>6. Method that is ideal for the sale of high-priced, low-volume merchandise.</li> <li>7. Method of evaluating inventory by which the firm determines the cost per unit by averaging the cost of all units available for sale during a period.</li> <li>8. Method that presents the most realistic figure for the balance sheet.</li> <li>9. Method by which the firm can determine the actual cost of each item sold.</li> </ol> | <ol style="list-style-type: none"> <li>A. Specific identification method</li> <li>B. Weighted-average-cost method</li> <li>C. First-in, first-out method</li> <li>D. Last-in, first-out method</li> </ol> |
|---|---|

### PART 4 Cost of Goods Sold Items

Determine the missing amounts:

	Company		
	A	B	C
Beginning inventory	\$ 61,200	\$ —	\$ —
Delivered cost of purchases		183,600	
Goods available for sale	510,000	465,120	
Ending inventory			354,960
Inventory increase (decrease)	20,400	( 36,720)	( 30,600)
Cost of goods sold			948,600

**PART 5     Calculating Inventory**

Southwestern Crafts has the following record of item no. 22025 for the month of April:

Apr. 1	Beginning inventory	22 units @ \$18.20	=	\$ 400.40
7	Purchase	23 units @ 18.40	=	423.20
10	Purchase	18 units @ 18.90	=	340.20
18	Purchase	14 units @ 19.40	=	271.60
27	Purchase	<u>17 units</u> @ 19.30	=	<u>328.10</u>
		<u>94 units</u> @		<u>\$1,763.50</u>

At the end of the month there were thirty units on hand; sixty-four units were sold at \$41.50 each. Based on the above information, determine the following:

- \_\_\_\_\_ 1. The value of the ending inventory using the first-in, first-out method.
- \_\_\_\_\_ 2. The value of the ending inventory using the weighted-average-cost method. (Round to two decimal places.)
- \_\_\_\_\_ 3. The value of the ending inventory using the last-in, first-out method.
- \_\_\_\_\_ 4. The date of the purchase that will have the greatest impact on the weighted-average-cost method.
- \_\_\_\_\_ 5. The amount of the cost of goods sold using the first-in, first-out method.
- \_\_\_\_\_ 6. The amount of the gross sales.
- \_\_\_\_\_ 7. The amount of the gross profit using the first-in, first-out method.
- \_\_\_\_\_ 8. The amount of the cost of goods sold using the last-in, first-out method.
- \_\_\_\_\_ 9. The amount of the gross profit using the last-in, first-out method.