Identical units are purchased on the following three dates and at the respective costs:

June 1 at $10
June 2 at $15
July 4 at $20

The company sells two units during the period. Conclude which inventory items are sold first and which unit remains in ending inventory if the company is using the FIFO cost flow assumption.

Your answer is correct!

- The June 1 at $10 and the June 2 at $15 are both sold; the July 4 unit remains in ending inventory.

- The June 1 at $10 is sold; the June 2 at $15 and the July 4 at $20 remain in ending inventory.

- The June 2 at $15 and the July 4 at $20 are both sold; the June 1 at $10 remains in ending inventory.
Which statement(s) below correctly describe(s) the relationship of cost of goods sold and ending inventory? (Check all that apply.)

- Cost of goods sold plus ending inventory will equal the total goods available for sale.
- Cost of goods available for sale must be allocated between cost of goods sold and ending inventory.
- Cost of goods sold plus goods available for sale will equal total goods in ending inventory.
- Cost of goods sold will equal total ending inventory.

Your answer is correct!
Match the cost flow assumption on the left with its definition on the right.

<table>
<thead>
<tr>
<th>assumption</th>
<th>definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIFO</td>
<td>Assumes costs flow in the order incurred</td>
</tr>
<tr>
<td>LIFO</td>
<td>Assumes costs flow in the reverse order incurred</td>
</tr>
<tr>
<td>Weighted Average</td>
<td>Assumes costs flow at an average of the costs available</td>
</tr>
<tr>
<td>Specific Identification</td>
<td>Assumes costs flow can be specifically matched with the physical flow of items</td>
</tr>
</tbody>
</table>
The correct answer is shown

Show your understanding of the ownership of goods in transit by completing the following statement. If goods are shipped FOB shipping point, then the **purchaser** (purchaser/seller) is responsible for paying freight charges and the **seller** (purchaser/seller) will not include the merchandise in their inventory.

Your answer is correct!
Assume that J-Mart uses a perpetual weighted average inventory system. During the period, it sold 14 units. Calculate the dollar value of its cost of goods sold for the period.

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Units</th>
<th>Cost per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning</td>
<td>10</td>
<td>$12</td>
<td>$120</td>
</tr>
<tr>
<td>Jan 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
<td>$150</td>
</tr>
<tr>
<td>Jan 30</td>
<td>Purchase</td>
<td>10</td>
<td>$18</td>
<td>$180</td>
</tr>
<tr>
<td>Feb 8</td>
<td>Sale</td>
<td>14</td>
<td>$30</td>
<td>$420</td>
</tr>
</tbody>
</table>

Your answer is correct! $210
Recount the methods used to assign costs to inventory and cost of goods sold under both a perpetual and a periodic system. (Check all that apply.)

- Last-in, first-out
- Weighted average
- Last-in, last-out
- Specific identification
- First-in, last-out
- First-in, first-out

Your answer is correct!
Assume that Toy-Cars Inc. uses a periodic specific identification inventory system. Its ending inventory consists of 2 cars from beginning inventory, 4 cars from the Jan. 5 purchase, and 10 cars from the Jan. 30 purchase. Calculate the dollar value of its ending inventory, based on the information provided below.

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beg. Inventory</td>
<td>10</td>
<td>$12</td>
</tr>
<tr>
<td>Jan 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
</tr>
<tr>
<td>Jan 30</td>
<td>Purchase</td>
<td>10</td>
<td>$18</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $160
- $264
- $450
- $186
Assume that Q-Mart uses a periodic FIFO inventory system. During the period, it sold 14 units. Calculate the dollar value of its cost of goods sold for the period.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Beginning Inventory</td>
<td>10</td>
<td>$12</td>
</tr>
<tr>
<td>Jan. 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
</tr>
<tr>
<td>Jan. 30</td>
<td>Purchase</td>
<td>10</td>
<td>$18</td>
</tr>
<tr>
<td>Feb. 8</td>
<td>Sale</td>
<td>14 units</td>
<td></td>
</tr>
</tbody>
</table>

Your answer is correct! $180
Review the steps below that apply LCM to individual items of inventory. Place them in the correct order of occurrence.

1. List the number of units of each product.
2. List the cost of each item.
3. List the market price of each item.
4. Compute total cost and total market value for each item.
5. Compare recorded cost of each inventory item with its replacement cost. List lower of cost or market.
6. Adjust inventory downward when market is less than cost.

Your answer is correct!
ABC Co. uses a perpetual inventory system and uses the LIFO cost flow assumption. Calculate the dollar value of its cost of goods sold for the sale made on Jan. 10.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>8 @ $12 = $96</td>
</tr>
<tr>
<td>Jan 5</td>
<td>Purchase</td>
<td>12 @ $15 = $180</td>
</tr>
<tr>
<td>Jan 10</td>
<td>Sale</td>
<td>11 units x $50 each</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $141
- $198
- $165
- $550

You selected: $165

Challenge
Assume that J-Mart uses a perpetual weighted average inventory system. During the period, it had two sales. Calculate the average cost per unit on hand as of June 8 when it made its first sale.

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Quantity</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 1</td>
<td>Beginning Inventory</td>
<td>10 units</td>
<td>$12/unit</td>
</tr>
<tr>
<td>Jun 5</td>
<td>Purchase</td>
<td>10 units</td>
<td>$15/unit</td>
</tr>
<tr>
<td>Jun 8</td>
<td>Sale</td>
<td>6 units</td>
<td></td>
</tr>
<tr>
<td>Jun 28</td>
<td>Purchase</td>
<td>10 units</td>
<td>$18/unit</td>
</tr>
<tr>
<td>Jun 30</td>
<td>Sale</td>
<td>8 units</td>
<td></td>
</tr>
</tbody>
</table>

Your answer is correct!

- $13.50/unit
- $15/unit
- $10/unit
- $33/unit
Assume that Q-Mart uses a periodic LIFO inventory system. During the period, it sold 14 units. Calculate the dollar value of its cost of goods sold for the period.

Jan. 1 | Beginning Inventory | 10 @ $12
Jan. 5 | Purchase | 10 @ $15
Jan. 30 | Purchase | 10 @ $18
Feb. 8 | Sale | 14 units

Your answer is correct!

- $150
- $180
- $210
- $240

OK
Estimates of inventory are not usually required when a company uses a perpetual (FIFO/LIFO/periodic/perpetual) inventory system because they would presumably have updated inventory data.
Assume that three identical units are purchased separately on the following three dates and at the respective costs:

June 1 at $10
June 2 at $15
July 4 at $20

The company sells two units during the period. Conclude which inventory items are sold first and which unit remains in ending inventory if the company is using the LIFO perpetual cost flow assumption.

Your answer is correct!

- The June 1 at $10 and the June 2 at $15 are both sold; the July 4 unit remains in ending inventory.
- The June 1 at $10 is sold; the June 2 at $15 and the July 4 at $20 remains in ending inventory.
- The June 2 at $15 and the July 4 at $20 are both sold; the June 1 at $10 remains in ending inventory.
Sparky's *incorrectly* included inventory that was on consignment in its ending inventory count. Consequently, the ending inventory was overstated on the balance sheet. Explain how this error will effect this year's income statement. (Check all that apply.)

- Your answer is correct!
  - This year's net income will be too high.
  - This year's cost of goods sold will be too high.
  - This year's net income will be too low.
  - This year's cost of goods sold will be too low.
Assume that Widgets, Inc. uses a perpetual specific identification inventory system. During the period, it sold 4 units from beginning inventory, 8 units from the Jan. 5 purchase, and 2 units from the Jan. 30 purchases. Calculate the dollar value of its cost of goods sold for the period.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10 @ $12</td>
</tr>
<tr>
<td>Jan 5</td>
<td>Purchase</td>
<td>10 @ $15</td>
</tr>
<tr>
<td>Jan 30</td>
<td>Purchase</td>
<td>10 @ $18</td>
</tr>
<tr>
<td>Feb 8</td>
<td>Sale</td>
<td>14 units</td>
</tr>
</tbody>
</table>

Your answer is correct!

$210
$204
$140
$246
Assume that J-Mart uses a periodic weighted average inventory system. During the period, it sold 14 units. Calculate the dollar value of its cost of goods sold for the period.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Quantity</th>
<th>Price per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Beginning Inventory</td>
<td>15</td>
<td>$12</td>
<td>$180</td>
</tr>
<tr>
<td>Jan. 5</td>
<td>Purchase</td>
<td>5</td>
<td>$15</td>
<td>$75</td>
</tr>
<tr>
<td>Jan. 30</td>
<td>Purchase</td>
<td>10</td>
<td>$18</td>
<td>$180</td>
</tr>
<tr>
<td></td>
<td>Total goods available for sale</td>
<td>30 units</td>
<td></td>
<td>$435</td>
</tr>
<tr>
<td>Feb. 8</td>
<td>Sale</td>
<td>14 units</td>
<td>$30</td>
<td>$420</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $180
- $420
- $232
- $203

Correct Answer: $203
Assume that Q-Mart uses a perpetual FIFO inventory system. During the period, it sold 12 units. Calculate the dollar value of its cost of goods sold for the period.

<table>
<thead>
<tr>
<th>Jan 1</th>
<th>Beginning Inventory</th>
<th>10 @ $12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 5</td>
<td>Purchase</td>
<td>10 @ $15</td>
</tr>
<tr>
<td>Jan 30</td>
<td>Purchase</td>
<td>10 @ $18</td>
</tr>
<tr>
<td>Feb 8</td>
<td>Sale</td>
<td>12 units</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $240
- $150
- $210
- $140

OK
Assume that Wally World uses a *periodic* weighted average inventory system. During the period, it had two sales. Calculate the weighted average cost per unit on hand as of June 30 when it figured its cost of goods sold for the month.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Quantity</th>
<th>Cost per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun. 1</td>
<td>Beginning Inventory</td>
<td>8</td>
<td>$12</td>
</tr>
<tr>
<td>Jun. 5</td>
<td>Purchase</td>
<td>12</td>
<td>$15</td>
</tr>
<tr>
<td>Jun. 28</td>
<td>Purchase</td>
<td>10</td>
<td>$18</td>
</tr>
<tr>
<td>Jun. 8</td>
<td>Sale</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Jun. 30</td>
<td>Sale</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

Your answer is correct! $15.20/unit
Recall that computers and technology have made the perpetual (periodic/perpetual) inventory costing system affordable and timely.
Explain the inventory and cost of goods sold relationship by selecting the **correct** formula below.

- **Your answer is correct!**

1. Beginning inventory + Ending inventory = Cost of goods sold.
2. **Beginning inventory + Net purchases - Ending inventory = Cost of goods sold.**
4. Beginning inventory + Cost of goods sold = Ending inventory.
Storm Windows Company understated their ending inventory during their first year of operations by $2,000. What is the effect of this error at the end of the year? Select all answers which apply.

- $2,000 overstatement of net income.
- $2,000 understatement of net income.
- $2,000 overstatement of cost of goods sold.
- $2,000 understatement of cost of goods sold.

Your answer is correct!
Many companies choose to use LIFO inventory costing during periods of rising purchase costs because reported cost of goods sold will be highest (lowest/highest). This means that income taxes paid will be lower (lower/higher) than if the company used FIFO or weighted average inventory costing.
True or false: If Dogs R Us overstates ending inventory on the balance sheet, then total equity on the balance sheet will be overstated as well.

Your answer is correct!

False

True
Identify the safeguards that companies implement to protect their inventory. (Check all that apply.)

Your answer is correct!

- Allow all warehouse personnel to order inventory.
- Control access to inventory records.
- Insure inventory against loss or damage.
- Implement security measures, such as cameras.
- Restrict access to inventory.
- Match inventory received with purchase orders.
Determine which of the following statements is **correct** regarding the relationship of ending inventory and beginning inventory.

- Your answer is correct!
- The ending inventory of the previous period is the ending inventory of the current period.
- The beginning inventory of the current period is the beginning inventory of the previous period.
- The ending inventory of the previous period is the beginning inventory of the current period.
- The beginning inventory of the previous period is the ending inventory of the current period.
In 2010, ending inventory is overstated by $2,000. Explain the effect on cost of goods sold, gross profit and net income in years 2010 and 2011. Select all answers that apply.

- Net income in the next year, 2011, will not be affected by the error.
- Gross profit in the current year, 2010, will be overstated.
- Cost of goods sold in the following year, 2011, will be overstated.
- Net income in the next year, 2011, will be overstated.
- Gross profit in the next year, 2011, will be understated.
- Cost of goods sold in the current year, 2010, will be understated.
- Cost of goods sold in the current year, 2010, will be overstated.
Toy Mart has inventory that was destroyed by fire. Apply the gross profit method to estimate their ending inventory assuming the following information.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods available at cost</td>
<td>$75,000</td>
</tr>
<tr>
<td>Goods available at retail selling prices</td>
<td>$100,000</td>
</tr>
<tr>
<td>Goods sold at retail prices</td>
<td>$60,000</td>
</tr>
<tr>
<td>Gross profit ratio</td>
<td>25%</td>
</tr>
<tr>
<td>Cost of ending inventory</td>
<td>?</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $30,000
- $15,000
- $40,000
Which of the costs below would be included in the recorded cost of merchandise inventory? (Check all that apply.)

- Insurance costs
- Freight costs
- Storage costs
- Selling costs
- Invoice cost

Your answer is correct!
Assuming purchase costs are rising in a periodic inventory system, determine which of the statements below are correct regarding the cost of goods sold under FIFO, LIFO and weighted average cost flow methods. (Check all that apply.)

- Companies using FIFO will report the highest gross profit and net income.
- Companies using FIFO will report the smallest cost of goods sold.
- Companies using FIFO will pay higher taxes than companies using LIFO, assuming all else being equal.
- Companies using LIFO will report the smallest cost of goods sold.
- Weighted average cost of goods sold will be between FIFO and LIFO costs of goods sold.
Identify the statement below that best describes the consistency concept as it applies to inventory costing.

Your answer is correct!

- A company should use the same accounting methods period after period, so that financial statements are comparable.

A company must use the same inventory costing method to value different categories of inventory.

A company should adopt the same accounting period from one year to the next, so that financial statements can be compared.

A company should record the same historical cost for merchandise purchased at the end of the year as it did at the beginning of the year.

A company should record all expenses in the same period that revenue was earned and reported.
Identify the ways in which lower of cost or market can be applied to merchandise inventory. (Check all that apply.)

Your answer is correct!

- It can be applied to individual sales departments.
- It can be applied to the inventory as a whole.
- It can be applied to major categories of items.
- It can be applied to each item individually.
Recall the kind of business that would use the specific identification method of inventory costing.

Your answer is correct!

A car dealership

A department store

A grocery store
Why would the physical count of inventory be different than what is shown in perpetual inventory records? (Check all that apply.)

- Events such as errors
- Events such as damage
- Events such as theft
- Events such as loss
- Events such as sales discounts

Your answer is correct!
Recall the formula for figuring Days' Sales in Inventory.

Your answer is correct!

\[
\text{Ending inventory/Average inventory}) \times 365
\]

\[
\text{Ending inventory/Cost of goods sold}) \times 365
\]

\[
\text{Ending inventory/Gross profit}) \times 365
\]
Which of the following statements correctly explains what the inventory turnover ratio assesses.

Your answer is correct!

The inventory turnover ratio assesses how quickly a company is selling its merchandise, so that it can generate cash to pay debts.

The inventory turnover ratio assesses the company's ability to generate a profit from the sales of its inventory.
There are advantages to using each of the four inventory costing methods. Identify the statements below that are correct regarding these advantages. (Check all that apply.)

- **Your answer is almost correct!**
  - **FIFO** assigns an amount to cost of goods sold on the income statement that approximates its current replacement cost.
  - **Weighted average** tends to smooth out erratic changes in costs.
  - **Missed!**
  - **FIFO** assigns an amount to inventory on the balance sheet that approximates its current cost.
  - **FIFO** assigns an amount to inventory on the balance sheet that approximates its current cost.
  - **LIFO** mimics the actual flow of goods for most businesses.
Q-mart failed to include inventory that was kept in a separate warehouse in its 12/31 end-of-the-period inventory count. Consequently, the ending inventory on 12/31 was understated on the balance sheet. Explain how this error will effect the current year's income statement. (Check all that apply.)

- Your answer is correct!

- The current year's net income will be too low.
- The current year's cost of goods sold will be too low.
- The current year's net income will be too high.
- This current year's cost of goods sold will be too high.

Challenge OK
Recall the formula for figuring a company's inventory turnover ratio.

- Your answer is correct!

\[
\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Gross profit}}
\]

\[
\text{Inventory turnover} = \frac{\text{Merchandise Inventory}}{\text{Average inventory}}
\]

\[
\text{Inventory turnover} = \frac{\text{Merchandise Inventory}}{\text{Cost of goods sold}}
\]

\[
\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}
\]
Assume that Widgets, Inc. uses a perpetual FIFO inventory system. During the period, it sold 12 units on credit to one customer. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting *all* of the correct items below. (Check all that apply.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Description</th>
<th>Quantity</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10 @ $12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 5</td>
<td>Purchase</td>
<td>10 @ $15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug 8</td>
<td>Sale</td>
<td>12 units x $60 each</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Cost of Goods Sold is debited for $150.
Merchandise Inventory is credited for $720.
Cost of Goods Sold is debited for $720.
Accounts Receivable is debited for $720.
Sales is credited for $720.
Merchandise Inventory is credited for $150.
Sales is debited for $720.
Purchases is credited for $150.

Cost of goods sold is computed as $150 (10x$12)+2x$15].
Determine which of the following statements is correct regarding consigned goods.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Correct Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consigned goods should be included in the consignee's inventory.</td>
<td></td>
</tr>
<tr>
<td>Consigned goods are owned by the consignee.</td>
<td></td>
</tr>
<tr>
<td>Consigned goods should be included in the consignor's inventory.</td>
<td>✓</td>
</tr>
<tr>
<td>Consigned goods are located on the premises of the consignor where customers can see the product.</td>
<td></td>
</tr>
</tbody>
</table>
Assuming purchase costs are rising, determine which of the statements below are correct regarding the cost of goods sold under FIFO, LIFO and weighted average cost flow methods. (Check all that apply.)

- Companies using FIFO will report the highest gross profit and net income.
- Companies using FIFO will report the smallest cost of goods sold.
- Companies using FIFO will pay higher taxes than companies using LIFO, assuming all else being equal.
- Companies using LIFO will report the smallest cost of goods sold.
- Weighted average cost of goods sold will be between FIFO and LIFO costs of goods sold.
The principle prescribes that the notes to the financial statements describe the change, its justification, and its effect on income.
Recall the four inventory costing methods used to assign costs to inventory and cost of goods sold under the periodic inventory system. (Check all that apply.)

- Weighted average
- Last-in, first-out
- Last-in, last-out
- First-in, first-out
- Specific identification

Your answer is correct!
Apply the retail inventory method to estimate ending inventory for XYZ Co., assuming the following information.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods available at retail selling prices</td>
<td>$100,000</td>
</tr>
<tr>
<td>Goods sold at retail prices</td>
<td>$60,000</td>
</tr>
<tr>
<td>Cost of goods sold is</td>
<td>70% of retail</td>
</tr>
<tr>
<td>Cost of ending inventory</td>
<td>?</td>
</tr>
</tbody>
</table>

Your answer is correct!

- $28,000
- $40,000
- $42,000

OK
Assuming purchase costs are declining, determine which statements below correctly describe what happens to cost of goods sold under FIFO, LIFO and weighted average cost flow methods. (Check all that apply.)

- Companies using LIFO will pay higher taxes than companies using FIFO, assuming all else being equal.
- Companies using FIFO will report the highest gross profit and net income.
- Weighted average cost of goods sold will be between FIFO and LIFO costs of goods sold.
- Companies using LIFO will report the highest ending inventory on their balance sheets (as compared to companies using FIFO or weighted average.)
- Companies using FIFO will report the smallest cost of goods sold (compared to companies using LIFO or weighted average.)
- In a situation where prices are declining, companies using LIFO will report the smallest cost of goods sold.
Sometimes companies must estimate ending inventory. Review the reasons given below for estimating inventory and choose all of the correct responses. (Check all that apply.)

- Fire destroyed the inventory warehouse.
- The store was flooded.
- Interim financial statements need to be prepared.
- Taking a physical count is too tedious.

Your answer is correct!
Which statement below is **correct** regarding the purpose of taking a physical inventory count? (Check all that apply.)

- The physical count is used to determine if there has been any theft, loss, damage or errors in inventory.
- The physical count is used to adjust the Inventory account balance to the actual inventory available.
- The physical count is used to determine if customers are paying within the discount period.
- The physical count of inventory is optional under U.S. GAAP and required under IFRS.
- The physical count is used to determine if management needs to reassign sales responsibilities.

Your answer is correct!
There exist advantages of using each of the four inventory costing methods in a periodic inventory system. Identify the statements below that are correct regarding these advantages. (Check all that apply.)

- FIFO assigns an amount to cost of goods sold on the income statement that approximates its current replacement cost.
- Weighted average tends to smooth out erratic changes in costs.
- FIFO assigns an amount to inventory on the balance sheet that approximates its current cost.
- LIFO mimics the actual flow of goods for most businesses.
Information about Q-mart's inventory appears in the following table. When LCM is applied to the whole inventory, the Merchandise Inventory account must be adjusted from the $1,700 recorded cost down to the $1,620 market amount. Demonstrate the required adjusting entry by choosing the correct answer below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Units</th>
<th>Cost/Unit</th>
<th>Market/Unit</th>
<th>Total Cost</th>
<th>Total Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bikes:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bike A</td>
<td>10</td>
<td>$50</td>
<td>$52</td>
<td>$500</td>
<td>$520</td>
</tr>
<tr>
<td>Bike B</td>
<td>20</td>
<td>$30</td>
<td>$28</td>
<td>$600</td>
<td>$560</td>
</tr>
<tr>
<td>Scooters:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scooter A</td>
<td>10</td>
<td>$10</td>
<td>$9</td>
<td>$100</td>
<td>$90</td>
</tr>
<tr>
<td>Scooter B</td>
<td>25</td>
<td>$20</td>
<td>$18</td>
<td>$500</td>
<td>$450</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td>$1,700</td>
<td>$1,620</td>
</tr>
</tbody>
</table>

Debit Merchandise Inventory $80.

Debit Cost of Goods Sold $80.

Credit Cost of Goods Sold $80.

Credit Loss on Inventory $80.
Summarize the similarities of U.S. GAAP and IFRS in regards to inventory by selecting the correct statements below. (Check all that apply.)

- IFRS does not allow the use of the weighted average cost flow assumption.
- Under both accounting systems, merchandise inventory includes the cost of bringing items to a salable condition and location.
- Under both systems, the FIFO cost flow assumption is allowed to be used.
- Under both accounting systems, merchandise inventory includes all items that a company owns and holds for sale.
Assume that Widgets, Inc. uses a periodic specific identification inventory system. During the period, it sold 3 units on credit to one customer. The sale included one item from the beginning inventory and 2 items from the May 5 purchase. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting all of the correct items below. (Check all that apply.)

Jan. 1  Beginning Inventory  10 @ $12  
May 5  Purchase  10 @ $15  
Aug. 8  Sale  3 units x $60 each  

Your answer is correct!

- Accounts Receivable is debited for $180.
- Purchases is credited for $42.
- Sales is debited for $180.
- Sales is credited for $180.
- Accounts Receivable is credited for $180.
Assume that Widgets, Inc. uses a perpetual specific identification inventory system. During the period, it sold 3 units on credit to one customer. The sale included one item from the beginning inventory and 2 items from the May 5 purchase. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting all of the correct items below. (Check all that apply.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Description</th>
<th>Units</th>
<th>Price per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10</td>
<td>$12</td>
</tr>
<tr>
<td>May 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
</tr>
<tr>
<td>Aug 8</td>
<td>Sale</td>
<td>3</td>
<td>$60 each</td>
</tr>
</tbody>
</table>

- Sales is credited for $180.
- Merchandise Inventory is credited for $180.
- Cost of Goods Sold is debited for $42.
- Accounts Receivable is credited for $180.
- Sales is debited for $180.
- Accounts Receivable is debited for $180.
- Purchases is credited for $42.
- Merchandise Inventory is credited for $42.
- Cost of Goods Sold is debited for $180.
Assume that Widgets, Inc. uses a perpetual specific identification inventory system. During the period, it sold 3 units on credit to one customer. The sale included one item from the beginning inventory and 2 items from the May 5 purchase. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting all of the correct items below. (Check all that apply.)

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10 @ $12</td>
<td></td>
</tr>
<tr>
<td>May 5</td>
<td>Purchase</td>
<td>10 @ $15</td>
<td></td>
</tr>
<tr>
<td>Aug 8</td>
<td>Sale</td>
<td></td>
<td>3 units x $60 each</td>
</tr>
</tbody>
</table>

**Your answer is correct!**

- Sales is credited for $180.
- Merchandise Inventory is credited for $180.
- Cost of Goods Sold is debited for $42.
- Accounts Receivable is credited for $180.
- Sales is debited for $180.
- Accounts Receivable is debited for $180.
- Purchases is credited for $42.
- Merchandise Inventory is credited for $42.
- Cost of Goods Sold is debited for $180.
Determine which of the following statements are correct regarding the difference between physical flow and the cost flow of goods. (Check all that apply.)

- Cost flow is an assumption about which goods/items are sold.
- Perishable items must have an actual physical flow of LIFO.
- A business may adopt any cost flow assumption when accounting for perishable items.
- Perishable items must have an actual physical flow of FIFO.
- Physical flow is focused on the actual movement of goods.
Assuming purchase costs are *declining* and a periodic inventory system is used, determine the statements below which *correctly* describe what is happening to cost of goods sold under FIFO, LIFO and weighted average cost flow methods. (Check all that apply.)

- Companies using LIFO will pay higher taxes than companies using FIFO, assuming all else being equal.
- Companies using FIFO will report the smallest cost of goods sold compared to companies using LIFO or weighted average.
- Companies using LIFO will report the highest ending inventory on their balance sheets, as compared to companies using FIFO or weighted average.
- Companies using FIFO will report the highest gross profit and net income.
- Weighted average cost of goods sold will be between FIFO and LIFO costs of goods sold.
- Companies using LIFO will report the smallest cost of goods sold.
Calculate the cost-to-retail ratio and the cost of goods sold for T-Mart, assuming the following information. (Check all that apply.)

| Goods available at retail selling prices | $100,000 |
| Goods available for sale at cost         | $80,000  |
| Goods sold at retail prices             | $50,000  |

- Your answer is correct!
  - $10,000 is cost of goods sold.
  - $40,000 is cost of goods sold.
  - $50,000 is cost of goods sold.
  - Cost to retail ratio is 50%.
  - Cost to retail ratio is 80%.
Analyze the information below and select the correct statements regarding XYZ Inc.'s inventory turnover. (Check all that apply.)

<table>
<thead>
<tr>
<th></th>
<th>XYZ Inc.</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>16.1 times</td>
<td>10.3 times</td>
</tr>
<tr>
<td>2011</td>
<td>19.2 times</td>
<td>11.2 times</td>
</tr>
</tbody>
</table>

- Your answer is correct!
- XYZ Inc. turned over its inventory 16.1 times in 2010.
- XYZ Inc.'s inventory is turning over more frequently than competitors in its industry.
- XYZ Inc.'s inventory is turning over more slowly than its competitors.
- XYZ Inc.'s inventory is taking longer to sell in the current year as compared to the previous year.
- XYZ Inc. is more efficiently using its assets.
- XYZ Inc.'s inventory may be so popular with its customers that the company may be having trouble keeping high enough inventory levels.

OK
Assume that J-Mart uses a perpetual weighted average inventory system. During the period, it sold 14 units on account to one customer. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting all of the correct items below. (Check all that apply.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10</td>
<td>$12</td>
</tr>
<tr>
<td>May 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
</tr>
<tr>
<td>Aug 8</td>
<td>Sale</td>
<td>14 units</td>
<td>$50 each</td>
</tr>
</tbody>
</table>

- Sales is credited for $700.
- Merchandise Inventory is credited for $700.
- Merchandise Inventory is credited for $189.
- Accounts Receivable is debited for $700.
- Cost of Goods Sold is credited for $189.
- Sales is debited for $700.
- Cost of Goods Sold is debited for $700.
- Cost of Goods Sold is debited for $189.
- Merchandise Inventory is debited for $189.
Demonstrate how inventory costs are treated both as assets and expenses by selecting the correct statement(s) below. (Check all that apply.)

- Inventory costs are initially treated as an expense when they are purchased.
- Inventory items retained at the end of the period are considered part of Merchandise Inventory on the balance sheet.
- Inventory costs are treated as an expense when they are sold.
- Inventory items sold are considered part of cost of goods sold on the income statement.
- Inventory costs are treated as an asset when they are sold.

Your answer is correct!
XYZ Company made a mistake in counting its ending inventory. Determine which of the items below will be affected by this error. (Check all that apply.)

Your answer is correct!

<table>
<thead>
<tr>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>Cost of goods sold</td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Long-term assets</td>
</tr>
<tr>
<td>Net income</td>
</tr>
</tbody>
</table>
Explain what lower of cost or market means in regards to reporting merchandise inventory on the balance sheet.

Your answer is correct!

- Inventory should be reported at its original cost if the replacement market value (cost) is less.
- Inventory should be reported at the current market value of replacing it when lower than cost.
- Inventory should be reported at the original cost paid for it and not what it can be sold for in the market place.
Fido Inc. assumes a weighted average costing method within its periodic inventory system. Its beginning inventory balance was $40,000. At the end of the year, its ending inventory balance was $52,000. Demonstrate your knowledge of the required journal entry to replace the old merchandise inventory balance with the new ending inventory balance by selecting all of the correct actions below.

(Check all that apply.)

- Debit Merchandise Inventory $40,000 and credit Income Summary $40,000.
- Debit Income Summary $52,000 and credit Merchandise Inventory $52,000.
- **Debit Income Summary $40,000 and credit Merchandise Inventory $40,000.**
- **Debit Merchandise Inventory $52,000 and credit Income Summary $52,000.**
Review the statements below and select the ones that are **correct** regarding the days' sales in inventory ratio. (Check all that apply.)

<table>
<thead>
<tr>
<th>Correct Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>The ratio estimates how many days it will take to convert inventory into accounts receivable or cash.</td>
</tr>
<tr>
<td>The ratio reveals how much inventory is available in terms of the number of days' sales.</td>
</tr>
<tr>
<td>The ratio measures what percentage of profit the company is making for every dollar of inventory it sells.</td>
</tr>
<tr>
<td>The ratio measures the adequacy of inventory to meet sales demand.</td>
</tr>
<tr>
<td>The ratio is often viewed as a measure of the buffer against out-of-stock inventory.</td>
</tr>
<tr>
<td>The ratio is useful in evaluating liquidity of inventory.</td>
</tr>
</tbody>
</table>
Summarize the similarities and differences between U. S. GAAP and IFRS in regards to valuing inventory by selecting all of the correct items below. (Check all that apply.)

- Under U. S. GAAP, the value of inventory refers to replacement cost, but under IFRS, it refers to net realizable value.
- IFRS allows reversals of write downs of inventory in later periods up to the original acquisition cost.
- U. S. GAAP prohibits any later reversals of write downs of inventory after the inventory increases in value in later periods.
- Both systems apply the lower of cost or market method of inventory valuation.
- Both systems require companies to reduce the recorded cost of inventory when its value falls below the recorded cost.
Assume that Pickles R US uses a perpetual LIFO inventory system. During the period, it sold 14 units on credit to one customer. Demonstrate the journal entry required to record the sale and the cost of the sale by selecting all of the correct items below. (Check all that apply.)

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Units</th>
<th>Cost per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Beginning Inventory</td>
<td>10</td>
<td>$12</td>
<td>$120</td>
</tr>
<tr>
<td>May 5</td>
<td>Purchase</td>
<td>10</td>
<td>$15</td>
<td>$150</td>
</tr>
<tr>
<td>Aug 8</td>
<td>Sale</td>
<td>14</td>
<td>$40</td>
<td>$560</td>
</tr>
</tbody>
</table>

Your answer is correct!

- Merchandise Inventory is credited for $198.
- Cost of Goods Sold is debited for $198.
- Sales is credited for $560.
- Accounts Receivable is debited for $560.

\[(10 \times $15) + (4 \times $12) = $198.\]
Determine which of the following statements are correct regarding damaged or obsolete goods. (Check all that apply.)

- Damaged goods are included in inventory at their net realizable value.
- Net realizable value of damaged goods is determined solely by the sales price of the good.
- If damaged goods can be sold at a reduced price, they are included in inventory.
- A loss in value is reported in the period when goods are damaged or become obsolete.
- Damaged goods are not included in inventory if they cannot be sold.
Which of the statements below explain why LCM is used? (Check all that apply.)

- Accounting principles require conservatism when reporting financial information.
- Companies never want to report inventory on a balance sheet that is higher than replacement cost.
- Assets are not shown at an inflated value on the balance sheet, but rather at lower of cost or replacement cost.
- LCM allows companies to recognize a gain in value of an asset in the period the gain occurs.
- LCM allows companies to recognize a loss in value of an asset in the period the loss occurs.

Your answer is correct!
Identify the advantages of using a perpetual inventory system. (Check all that apply.)

- Gross profit per sale can be determined.
- Inventory storage costs can be eliminated due to just-in-time ordering.
- Management can be notified more quickly of inventory shortages.
- Inventory information is more timely.
- Inventory levels can be reduced which reduces costs.
In year 1, Shell Company understated their ending inventory. What is the effect of this error in year 2?

- Cost of goods sold is understated.
- Cost of goods sold is overstated.
- Beginning inventory is overstated.
- Beginning inventory is understated.

Your answer is correct!
There are advantages to using each of the four inventory costing methods. Identify the statements below that are correct regarding these advantages. (Check all that apply.)

- FIFO assigns an amount to cost of goods sold on the income statement that approximates its current replacement cost.
- LIFO mimics the actual flow of goods for most businesses.
- Weighted average tends to smooth out erratic changes in costs.
- FIFO assigns an amount to inventory on the balance sheet that approximates its current cost.

This is because the earlier costs are sold, so the latest costs are what are left in ending inventory.