Chapter 8 Cost-based Inventories and Cost of Sales

1) Inventories are assets consisting of goods owned by the business and held for future sale or for use in the manufacture of goods for sale.

Answer: TRUE
Diff: 1
Topic: 08-01 Bases of Inventory Valuation
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

2) An increase in ending inventories from one period to the next will result in a decrease in cash flows from operating activities when the indirect method is applied to compute these cash flows.

Answer: TRUE
Diff: 1
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

3) Goods held on consignment for sale on commission should not be included in the inventory at year end.

Answer: TRUE
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

4) Under the Lower of Cost and NRV rules, inventory write-downs are irreversible.

Answer: FALSE
Diff: 1
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

5) If Company A were to ship goods to Company B under the terms f.o.b. shipping point and if the goods were destroyed in transit, the loss incurred on these goods ordinarily would not accrue to Company A.

Answer: TRUE
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

6) Items purchased for resale with a right of return must be presented separately from other inventories.

Answer: TRUE
Diff: 1
Topic: 08-09 Raw Materials and Goods Purchased for Resale
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

7) ASPE provides separate guidance for Biological Assets.

Answer: FALSE
Diff: 1
Topic: 08-54 Accounting Standards for Private Enterprises
LO: 08-04 Contrast the accounting requirements for inventories under ASPE with that under IFRS
Bloom's: Knowledge
Reference:

8) Items purchased for resale with a right of return are valued at the lower of cost and net realizable value (NRV), as are regular inventories.

Answer: TRUE
Diff: 1
Topic: 08-09 Raw Materials and Goods Purchased for Resale, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

9) Goods held on consignment from a supplier should be included in the ending inventory count of the retailer.

Answer: FALSE
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

10) A company has several inventory items with a total cost of $100. Their net realizable values total $80. Thus, a $20 write down is required.

Answer: FALSE
Diff: 1
Topic: 08-09 Raw Materials and Goods Purchased for Resale, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

11) Once biological assets are ready for sale, they have effectively become inventory and are then measured at the lower of their cost and net realizable value (NRV).

Answer: TRUE
Diff: 1
Topic: 08-09 Raw Materials and Goods Purchased for Resale, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

12) The primary difference between the inventory system of a manufacturing company and a retail company is that a retail company uses a periodic system and a manufacturing firm uses a perpetual system.

Answer: FALSE
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method, 08-46 Periodic versus Perpetual Systems–Illustration
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

13) Inventory cost includes the total outlay required to acquire goods plus the cost to prepare the goods for sale.

Answer: TRUE
Diff: 1
Topic: 08-01 Bases of Inventory Valuation
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

14) Ideally, the lower-of-cost and NRV technique should be applied an item-by-item basis or by category when this is not possible.

Answer: TRUE
Diff: 1
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

15) Work-in-Process inventories are not normally subject to lower of cost and net realizable value rules.

Answer: TRUE
Diff: 1
Topic: 08-03 COST-BASED INVENTORIES, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

16) Borrowing costs incurred on items routinely purchased for resale may be capitalized or expensed.

Answer: FALSE
Diff: 1
Topic: 08-11 Borrowing Costs
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

17) A valuation allowance account will be used when a company can apply the Lower of Cost & NRV rules on an item-by-item basis.

Answer: FALSE
Diff: 1
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

18) Raw materials inventories are recorded at the lower of laid-down cost and net realizable value (NRV).

Answer: FALSE
Diff: 1
Topic: 08-08 Elements of Inventory Cost, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

19) Borrowing costs on qualifying assets which require a substantial amount to construct and prepare for resale must be capitalized under IFRS.

Answer: FALSE
Diff: 1
Topic: 08-11 Borrowing Costs
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

20) Items purchased for resale are valued at their laid down cost before considering rebates when purchased.

Answer: FALSE
Diff: 1
Topic: 08-09 Raw Materials and Goods Purchased for Resale
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

21) Counter-balancing inventory errors have no effect on the financial statements whatsoever.

Answer: FALSE
Diff: 1
Topic: 08-10 "Sales" Taxes
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

22) Items bought under repurchase agreements are recorded as liabilities by the purchasing company.

Answer: FALSE
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

23) Under a periodic inventory system, the ending inventory balance is computed as a residual amount.

Answer: FALSE
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

24) Under a periodic inventory system, cost of goods sold is a residual amount and, for all practical purposes, cannot be verified independently from the inventory records.

Answer: TRUE
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

25) When a perpetual inventory system is used, the inventory account is usually a control account maintained in the general ledger.

Answer: TRUE
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

26) Sales taxes paid by the purchaser that cannot be claimed back will usually become a part of the cost of the inventory.

Answer: TRUE
Diff: 1
Topic: 08-10 "Sales" Taxes
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

27) If ending inventories are overstated, net income is understated.

Answer: FALSE
Diff: 1
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

28) The purchases account used in a periodic inventory system contains a running balance of the inventory during the accounting period.

Answer: FALSE
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

29) The gross profit method may be used to estimate inventory during interim periods when a full physical count cannot be performed, or to test the reasonableness of a physical count.

Answer: TRUE
Diff: 1
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

30) The harmonization of the provincial sales tax and GST effectively results in a value-added tax (VAT).

Answer: TRUE
Diff: 1
Topic: 08-10 "Sales" Taxes
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

31) Sales taxes are subject to input tax credits while value-added (VAT) taxes are not.

Answer: TRUE
Diff: 1
Topic: 08-10 "Sales" Taxes
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

32) Harris company has items that were incorrectly omitted from purchases made in 2013, but entered correctly in ending inventory. These would have overstated pre-tax income and understated liabilities.

Answer: TRUE
Diff: 1
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

33) Items on Harris's ledger for inventory that are purchased and correctly debited to 2013 purchases, but improperly included in 2013 ending inventory would have overstated both asset and pre-tax income of 2013.

Answer: FALSE
Diff: 1
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

34) If purchases made in one year are mistakenly recorded the following year, this error will counterbalance, that is, there will be no effect on income over a 2-year period.

Answer: TRUE
Diff: 1
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

35) The allocation of the cost of goods available for sale during a reporting period involves the flow of costs rather than the flow of units.

Answer: TRUE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

36) FIFO will produce the same ending inventory result regardless of whether a periodic or perpetual inventory system is used.

Answer: TRUE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

37) The same inventory costing method must be used on the income tax return, on the income statement, and in the ledger accounts of the company.

Answer: FALSE
Diff: 1
Topic: 08-03 COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

38) The average cost method of inventory valuation can be applied in exactly the same way by using either the periodic or perpetual inventory system.

Answer: FALSE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

39) The weighted-average inventory method rarely is used with periodic inventory procedures.

Answer: FALSE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

40) Use of a perpetual inventory system versus a periodic inventory system may affect the application of the inventory cost flow methods.

Answer: TRUE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

41) When using the moving average method of inventory flow, it is necessary to re-compute a new average each time units are issued from the inventory.

Answer: FALSE
Diff: 1
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

42) The allowance method and the direct reduction method of reporting the holding losses on lower-of-cost or NRV inventory valuation will produce the same cost of goods sold amount.

Answer: FALSE
Diff: 1
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

43) Using the direct reduction method of reporting a holding loss for lower-of-cost or NRV valuation of inventory, any holding loss is merged into the cost of goods sold amount.

Answer: TRUE
Diff: 1
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

44) Gross margin rate, mark-up, and cost percentage, are different names for the same relationship.

Answer: FALSE
Diff: 1
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

45) The difference between the gross margin percentage and cost ratio is usually called the mark-up rate.

Answer: FALSE
Diff: 1
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

46) Which one of the following should be excluded from inventories?

A) Goods in transit to which title is held
B) Shop worn goods saleable at a price lower than the regular sale price
C) Goods out on consignment
D) Goods held on consignment

Answer: D
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

47) Which of the following items should not be included in the inventory at year-end?

A) Goods that are owned by a company
B) Goods returned by a customer
C) Goods out on consignment
D) Goods held on consignment for sale on commission

Answer: D
Diff: 1
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

48) On a particular date, which of the following should be included in a company's inventory?

A) Goods in the company's warehouse which have been received from another company for sale on consignment

B) Goods sold through a sales contract the terms of which have been completed, but the goods are being held for the customer to call for at his convenience

C) Goods purchased and in transit f.o.b. destination

D) Goods held for sale in the possession of an agent of the company

Answer: D

Diff: 1

Topic: 08-07 Transfer of Control

LO: 08-01 Account for various types of inventory

Bloom's: Knowledge

Reference:

49) M Company should include the following items in its merchandise inventory:

A) Goods purchased FOB destination still en route.

B) Goods purchased FOB shipping point still en route.

C) Goods sold by M Company FOB shipping point still en route.

D) Goods held on consignment from the B Company to M Company.

Answer: B

Diff: 1

Topic: 08-07 Transfer of Control

LO: 08-01 Account for various types of inventory

Bloom's: Knowledge

Reference:

50) F Corporation should include the following in its inventory:

A) Goods purchased FOB destination, still en route.

B) Goods held for pick-up by the buyer.

C) Goods it sold FOB shipping point, still en route.

D) Goods out on consignment to the M Company.

Answer: D

Diff: 1

Topic: 08-07 Transfer of Control

LO: 08-01 Account for various types of inventory

Bloom's: Knowledge

Reference:

51) Which of the following would not be included in the merchandise inventory amount reported on X Company's balance sheet?

A) Items out on consignment to another company

B) Items purchased from a supplier and en route directly to a customer of X Company; the term is FOB destination; invoice received but not yet paid

C) Items shipped today FOB shipping point, invoice has been mailed to the customer

D) Items in the receiving department of X Company, returned by the customer, invoice has been mailed

Answer: C

Diff: 1

Topic: 08-07 Transfer of Control

LO: 08-01 Account for various types of inventory

Bloom's: Knowledge

Reference:

52) When a periodic inventory system is used:

A) Cost of goods sold is a residual amount.
B) Ending inventory is transferred to expense and the beginning inventory is transferred to assets.
C) Two entries must be made when goods are purchased.
D) A purchases account is not used; all inventory purchase entries are debits to the inventory account.

Answer: A
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

53) Choose the correct statement concerning periodic and perpetual inventory systems.

A) Only the periodic system requires a physical count once per year
B) The balance in the inventory account is known twice per fiscal year under the periodic system
C) Both systems provide a means of estimating shrinkage loss
D) Only the periodic system ever requires an adjusting entry at the end of each year after the physical count

Answer: B
Diff: 1
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

54) Which of the following is not a true statement concerning a perpetual inventory system:

A) Physical inventory is counted from time to time primarily to verify the inventory records.
B) Detailed subsidiary records are maintained and the inventory account is a control account.
C) Information concerning the physical quantity of goods on hand is available from the accounting records at any time.
D) Shrinkage cannot be measured directly.

Answer: D
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

55) When a perpetual inventory system is used:

A) Cost of goods sold is not a residual amount and its amount essentially is verifiable in the inventory records.
B) Goods out on consignment are removed from inventory.
C) There is apt to be less inventory control than when a periodic inventory system is used.
D) One journal entry is made at the time merchandise is sold.

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

56) Lost Discounts indicates that the recorded cost of an item purchased for inventory is its:
A) Invoice price.
B) Invoice price plus any purchase discount already lost.
C) Invoice price less any purchase discount already taken.
D) Invoice price less the purchase discount allowable whether or not taken to date.

Answer: D
Diff: 2
Topic: 08-09 Raw Materials and Goods Purchased for Resale
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

57) Purchase discounts should be reported as a(n):
A) Deduction from the purchase cost of the goods.
B) Adjustment in full to the ending inventory amount.
C) Contra inventory account.
D) Adjustment in full to cost of goods sold.

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

58) When determining the unit cost of an inventory item, which of the following should not be included?
A) Interest on loans obtained to purchase the item
B) Commissions paid when purchased
C) Freight costs on the item when purchased
D) Storage fees prior to sale

Answer: A
Diff: 2
Topic: 08-03 COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

59) Which of the following should be included in the inventory cost of an item purchased?
A) Purchase discounts lost
B) Insurance premium on item during transit
C) Costs incurred to build a permanent display cabinet for this, and similar items
D) Costs to train employees on a new computerized inventory control system

Answer: B
Diff: 2
Topic: 08-06 Items to Include in Inventory
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

60) The average inventory costing method, which results in a changed unit inventory, cost after each successive purchase is:
A) Weighted average.
B) Moving average.
C) Specific cost.
D) Simple average.

Answer: B
Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

61) The specific cost identification inventory cost flow method has all of the following characteristics except:
A) It is especially applicable when small and expensive items are handled in large quantities.
B) It relates cost flow to the specific flow of physical goods.
C) It identifies the cost of each physical item available for sale with either the ending inventory or cost of goods sold.
D) It is particularly susceptible to income manipulation.

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

62) All of the following correctly describe the average cost inventory cost flow method except:
A) A moving average cost is used with a perpetual inventory system only.
B) The average cost methods are based on the view that the cost of inventory on hand and the cost of goods sold during a period should be representative of all purchase costs available for the period.
C) A weighted-average unit cost is used with a periodic inventory system only.
D) A moving average cost is used with either a periodic or a perpetual inventory system.

Answer: D
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

63) The weighted-average cost inventory cost flow method can be described by all of the following except:
A) Is generally used with a perpetual inventory system.
B) Is not subject to income manipulation.
C) Assigns the same unit cost to cost of goods sold and to ending inventory.
D) Involves assignment of the total cost of goods available for sale to cost of goods sold and ending inventory only at the end of the period.

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

64) Application of the FIFO inventory costing method means that:

A) A periodic inventory system is used.
B) Cost of goods sold should reflect the most recent prices.
C) The cost of the last item purchased should be included in ending inventory.
D) The cost of the first item purchased should be included in ending inventory.

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

65) Which of the following note disclosure are NOT required under ASPE with respect to inventories?

A) Accounting policies and cost flows.
B) Inventory write-downs.
C) Amount of inventory expensed through cost of sales.
D) Carrying values of inventory by category.

Answer: B
Diff: 2
Topic: 08-42 Inventory Disclosures
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory, 08-04 Contrast the accounting requirements for inventories under ASPE with that under IFRS
Bloom's: Knowledge
Reference:

66) Listed below are some items of inventory for a company at May 31, 2001. A substantial portion of the merchandise is stored in a separate warehouse and the company transfers damaged goods to a special inventory account. The company policy is "satisfied customers."

(1)	Items counted in warehouse, May 31, 2001	$70,000
(2)	Items shipped today*. FOB destination, invoice mailed to customer	70
(3)	Invoice received for goods ordered. FOB destination, goods not yet received	800
(4)	Items shipped today*. FOB shipping point, invoice mailed to customer	400

*Shipped after the count in (1) was made.
The correct inventory to be shown on the May 31, 2001 balance sheet would be:

A) $69,600
B) $70,000
C) $70,070
D) $70,470

Answer: A
Diff: 2
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

67) The records of a company provided the following information at December 31, 2001:

Invoice mailed	$70
Items purchased, FOB shipping point invoices mailed, items not yet en route	104
Items purchased, FOB destination, terms 5/10, n/30, received at warehouse	100
Items held on consignment from another company	50
Ending inventory 12/31/2001 (excluding above items)	80

Items en route to customers, f.o.b. destination
What December 31, 2001, inventory cost should the company report?
A) $224
B) $230
C) $245
D) $404

Answer: C
Diff: 2
Topic: 08-07 Transfer of Control , 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory,
08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

68) A company uses a perpetual inventory system, and follows GAAP in preparing its external financial statements. At the end of 2002, the balance in the inventory account was $66,000; $6,000 of those goods were purchased f.o.b. shipping point and did not arrive until 2013. Purchases in 2013 were $30,000. The perpetual inventory showed an ending inventory of $72,000 for 2013. A physical count of the goods on hand at the end of 2013 showed an inventory of $60,000. What should the company report on its 2013 income statement for cost of goods sold?
A) $24,000
B) $30,000
C) $36,000
D) $42,000

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

69) A corporation compiled the information given below for their auditor. The corporation uses a periodic inventory system.

	2001	2002
Purchases	$240	$160
Goods out on consignment	0	80
Beginning inventory	900	?
Ending inventory	?	?
Physical inventory count	Unavailable	240
Cost of goods sold	360	?

What was the amount of cost of goods sold for 2002?

A) $620
B) $700
C) $780
D) $900

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

70) Assume that a company records purchases net of discount. If the company bought merchandise valued at $10,000 on credit terms 3/15, n/30, the entry to record a payment for half of the purchase within the discount period would include a debit to:

A) Accounts payable for $4,850 and a credit to cash for $4,850
B) Accounts payable for $5,000 and a credit to cash for $5,000
C) Accounts payable for $4,850 and to interest expense for $150, and a credit to cash for $5,000
D) Accounts payable for $5,000 and to interest revenue for $150 and to cash for $4,850

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

71) The inventory records of a corporation provided the following information at the end of 2013:

Cost per unit	$10,000
Insurance premium paid per unit	500
Financing expense per unit	600
Cost of permanent security system per unit (allocated)	1,500
Freight per unit (when purchased)	300
Cost of permanent reusable display case for this product only, per unit	400
Advertising expense per unit (allocated)	1,000

What unit cost should be used for valuing inventory on hand at the end of 2013?

A) $10,800
B) $12,200
C) $12,800
D) $13,700

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

72) The following costs were associated with the acquisition of an inventory item purchased by a firm (the item is to be resold by the firm):

Freight costs, FOB shipping point	$2,000
Sales and excise taxes	800
Interest on debt used to purchase item	600
Special material added to item by firm	900
Labour costs to add the special material	400
Gross invoice price	90,000

Terms: 3/10, n/30
Payment was made on the 12th day after purchase
What is the proper inventoriable cost for this item of inventory?

A) $91,400
B) $94,100
C) $92,000
D) $90,100

Answer: A
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

73) In 2013, a company's records contained the following information about inventory. The company uses a periodic inventory system and records purchases using the net method.

Beginning inventory (at net)	$160
Purchases (at invoice price)	200
Purchase terms, 5/10, n/30 Purchase returns (at invoice price)	20
Discounts lost	10
Ending inventory (at net)	66

What was the amount of 2013 cost of goods sold?

A) $274
B) $265
C) $264
D) $255

Answer: B
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

74) A company buys large recreational vehicles ("RVS") and sells them on credit. The company uses a perpetual inventory system and always pays for purchases within the discount period by borrowing. Information about the latest purchase of an RV is:

Purchase price	$60,000
Delivery charges	2,500
Terms, on credit, 5/30, n/90 Insurance premium paid	3,000
Cleaning and making ready for sale	250
Interest on purchase loan	7,200
Cost of permanent shed built to display the RV pending sale	3,750

The cost that should be assigned to the RV for inventory purposes is:

A) $65,750
B) $62,750
C) $59,750
D) $60,000

Answer: B
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

75) A company uses a periodic inventory system and records purchases using the net method. The following information applies to 2013, which was the first year of operations:

Purchases, at invoice price	$135,000
Purchases returns, at invoice price	9,000
Ending inventory physical count, at net	39,750
Inventory shortage, at net	1,800

Purchase terms were: 3/10/60.
All discounts were taken except for those on the first $22,500 shipped. Cost of goods sold for 2013 was:
A) $86,250
B) $84,450
C) $82,470
D) $80,670

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

76) A company completed the following transactions in the order given in its first year of operations:

Transaction	Units	Unit Costs
Purchase	300	$4.00
Purchase	200	4.20
Sales (@ $8.00)	280	
Purchase	400	4.40
Sales (@ $8.00)	360	

Using the weighted-average inventory cost method (rounding each calculation to the nearest cent) the gross margin would be:
A) $2,463.78
B) $2,422.84
C) $2,433.20
D) $2,376.00

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

77) The following information was available from the inventory records of a company for July 2008:

	Units	Unit Cost	Total Cost
Balance at July 1, 2008	2,000	$19.55	$39,100
Purchases July 6, 2008	1,500	20.60	30,900
July 16, 2008	3,400	21.50	73,100
Sales July 7, 2008	(1,800)		
July 31, 2008	(3,200)		
Balance at July 31, 2008	1,900		

Assuming that the company uses the periodic inventory system, what would be the inventory valuation at July 31, 2008, using the weighted-average inventory method (rounded to the nearest dollar)?

A) $39,046
B) $39,406
C) $39,900
D) $39,996

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

78) The following items were included in a corporation's inventory account at December 31, 2013:

Including 40 percent mark-up on selling price	$14,000
Goods purchased, in transit, shipped FOB shipping point	12,000
Goods held on consignment by the corporation	9,000

Merchandise out on consignment, at sale price,
The corporation's inventory account at December 31, 2013 should be reduced by:

A) $14,600
B) $17,400
C) $23,000
D) $35,000

Answer: A
Diff: 2
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

79) The balance in a company's accounts payable at December 31, 2012 was $900,000 before any necessary year-end adjustment relating to the following:

Goods were in transit from a vendor to the company on December 31, 2012. The invoice cost was $50,000, and the goods were shipped f.o.b. shipping point on December 29, 2012. The goods were received on January 4, 2013.
Goods shipped f.o.b. shipping point on December 20, 2012 from a vendor to the company were lost in transit. The invoice cost was $25,000. On January 5, 2013, the company filed a $25,000 claim against the common carrier.
Goods shipped f.o.b. destination on December 21, 2012 from a vendor to the company were received on January 6, 2013. The invoice cost was $15,000.

What amount should the company report as accounts payable on its December 31, 2012 balance sheet?

A) $925,000
B) $940,000
C) $950,000
D) $975,000

Answer: D
Diff: 2
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

80) From a theoretical viewpoint, which of the following costs would be considered inventoriable?

	Freight-in	Warehousing
1	Yes	Yes
2	No	Yes
3	Yes	No
4	No	No

A) Choice 1
B) Choice 2
C) Choice 3
D) Choice 4

Answer: A
Diff: 2
Topic: 08-07 Transfer of Control
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

81) A manufacturing company recorded the following data pertaining to raw material X:

	Units Received	Cost
1/1/2001 Inventory	400	$1.00
1/8/2001 Purchase	600	$1.10
1/12/2001 Issue	800	$2.00

The weighted average unit cost of raw material X at January 12, 2001 for use in costing is:

A) $1.00
B) $1.05
C) $1.06
D) $1.10

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

82) The primary basis of accounting for inventories is cost. A departure from the cost basis of pricing the inventory is required when:

A) The general price level has changed materially.
B) The FIFO method of inventory valuation is adopted.
C) There is evidence that the replacement cost of the goods at the date they are sold will be less than their cost when purchased.
D) There is evidence that the net realizable value of the goods has declined.

Answer: D
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

83) ABC Inc. had net sales of $120,000 during 2013. Its finished goods inventories were valued at $20,000 on January 1st, 2013. During the year, $60,000 of goods was purchased for resale. The company has a gross profit percentage of 40%. What was the company's cost of goods sold for 2013?

A) $8,000.
B) $72,000.
C) $48,000.
D) $60,000.

Answer: B
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

84) ABC Inc. had net sales of $120,000 during 2013. Its finished goods inventories were valued at $20,000 on January 1st, 2013. During the year, $60,000 of goods was purchased for resale. The company has a gross profit percentage of 40%. What was the company's estimated inventory at December 31st, 2013 under the Gross Profit method?

A) $8,000.
B) $72,000.
C) $48,000.
D) $60,000.

Answer: A
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

85) DEF Inc. entered into a non-cancellable commitment to purchase raw materials in the amount of $30,000 on December 31st, 2010. Replacement cost was estimated at $25,000 on November 30th, 2010 and this amount was not expected to change. Which of the following statements is correct?

A) This is an onerous contract. A loss must be accrued in the amount of $5,000.
B) This is not an onerous contract. A loss must be accrued in the amount of $5,000.
C) This is an onerous contract. However, the $5,000 loss should only be disclosed in the financial statements and not accrued.
D) This is not an onerous contract.

Answer: A
Diff: 2
Topic: 08-25 Onerous Contracts
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

86) Which of the following behaviours is NOT unethical?

A) Delaying the write-down of obsolete inventories due to competitive pressures.
B) Recording false sales and purchases.
C) Selectively assigning costs to inventory.
D) Changing a company's accounting policy to match that of its competitors for comparative purposes.

Answer: D
Diff: 2
Topic: 08-01 Bases of Inventory Valuation
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

87) The gross margin method of estimating inventory is inappropriate when:
A) A general price decline occurred during the year.
B) Beginning inventory is zero.
C) Some of the inventory is destroyed.
D) Inventory increased by a material amount during the year.
E) Reporting in external financial statements.

Answer: E
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

88) Which of the following is not relevant to the gross margin method of inventory valuation?
A) Gross margin percentage
B) Mark-up on cost
C) Cost percentage
D) Profit margin

Answer: D
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

89) The gross margin method is frequently used for all of the following except to:
A) Estimate replacement cost of ending inventory lost or damaged.
B) Test the reasonableness of an inventory valuation made by some other means.
C) Estimate ending inventory for interim financial reports.
D) Estimate the required inventory quantity needed for the next period.

Answer: D
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

90) If the cost ratio used in the retail inventory method were overstated (e.g., 80 percent instead of 70 percent), the estimated cost of ending inventory would be:
A) more than its retail value.
B) correctly stated.
C) overstated.
D) understated.

Answer: C
Diff: 2
Topic: 08-32 Gross Margin Method, 08-33 Estimating by Gross Margin Method, 08-34 Uses of the Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

91) To compute inventory on a lower-of-cost or market basis using the retail inventory method:
A) Markups are excluded in the computation of the cost ratio.
B) Markups and markdowns are included in the computation of the cost ratio.
C) Markups and markdowns are excluded in the computation of the cost ratio.
D) Markdowns are excluded in the computation of the cost ratio.

Answer: D
Diff: 2
Topic: 08-36 Retail Inventory Method, 08-38 Markups and Markdowns
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

92) The retail inventory method may be used for all of the following except:
A) Cost the raw materials inventory in a production facility.
B) Used to provide a means of converting a physical inventory, at retail, to a cost basis.
C) Adapted to approximate both lower-of-cost or market and FIFO cost.
D) Used to provide estimated inventory valuations when a physical inventory count is impracticable.

Answer: A
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

93) To produce an inventory valuation which approximates lower-of-cost or market using the retail inventory method, the computation of the ratio of cost to retail should:
A) ignore both mark-ups and markdowns.
B) include mark-ups but not markdowns.
C) include markdowns but not mark-ups.
D) include mark-ups and markdowns.

Answer: B
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

94) When the retail inventory method is used, markdowns are commonly ignored in the computation of the cost to retail ratio because:
A) mark-ups are also ignored.
B) this tends to result in the showing of a normal profit margin in a period when no markdown goods have been sold.
C) there may be no markdowns in a given year.
D) this tends to give a better approximation of the lower-of-cost or market.

Answer: D
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

95) Which of the following would cause an increase in the cost ratio as used in the retail inventory method?

A) Fewer employee discounts given
B) Less spoilage
C) Lower freight-in charges
D) Decreased mark-ups

Answer: D
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

96) Which one of the following would cause a decrease in the cost ratio as used in the retail inventory method?

A) Higher retail prices.
B) Lower net mark-ups.
C) More employee discounts given.
D) Higher freight-in charges.

Answer: A
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

97) The FIFO retail inventory method requires that the inventory valuation be determined first on a(n):

A) Average cost basis.
B) NRV basis.
C) FIFO, lower-of-cost-or-market basis.
D) FIFO basis.
E) None of these answers are correct.

Answer: E
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

98) In the FIFO retail method, what does the ending inventory for any period represent?

A) The ending inventory at approximately the current cost.
B) The ending inventory at the beginning of the year cost dollars.
C) The ending inventory at the average cost dollars.
D) The sum of inventory layers from previous periods.
E) The sum of inventory layers each costed at current dollars found by applying the current years' selling prices.

Answer: A
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

99) When inventory declines in value below original cost, and the decline is considered other than temporary, what is the maximum amount that the inventory can be valued at?

A) Historical cost
B) Net realizable value less a normal profit margin
C) Sales price less a standard mark-up
D) Net realizable value

Answer: D
Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

100) The relative sales value method is:

A) similar to the gross margin method.
B) used to account for spoilage.
C) a retail inventory method.
D) a cost allocation method.

Answer: D
Diff: 2
Topic: 08-18 Estimating Net Realizable Value
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

101) In inventorying goods at December 31, a company incorrectly included some items received on consignment. The error causes an:

A) understatement of inventory, purchases, and accounts payable.
B) overstatement of net income and assets by the same amount.
C) understatement of income and assets by the same amount.
D) overstatement of inventory, purchases, and accounts payable.

Answer: B
Diff: 2
Topic: 08-07 Transfer of Control , 08-14 Supplies Inventory
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

102) On December 31 (end of the accounting period) a company completed an inventory count and included some merchandise that had been received but was not unpacked. No purchase had been recorded. The error causes an:

A) understatement of inventory, purchases, and accounts payable.
B) understatement of both income and assets by the same amount.
C) overstatement of income and understatement of accounts payable.
D) overstatement of inventory, purchases, and accounts payable.

Answer: C
Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

103) A company using the periodic inventory method correctly recorded a December 29 purchase of merchandise, but the merchandise was not included in the physical inventory count on December 31 (end of the accounting period). The error caused an:

A) understatement of inventory, purchases, and accounts payable.
B) overstatement of both income and assets by the same amount.
C) understatement of both income and assets by the same amount.
D) overstatement of inventory, purchases, and accounts payable.

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

104) A company uses a periodic inventory system. At the end of 2013 a purchase on credit of $5,000 was not recorded. Also, it was incorrectly excluded from the 2013 ending inventory. What effect, will these errors have on the 2013 financial statements of the company if they are undetected?

A) Pre-tax income will be overstated $5,000 and assets and liabilities each will be understated.
B) Pre-tax income will be correct, but liabilities and assets each will be understated by $5,000.
C) Pre-tax income and liabilities will be understated $5,000 each.
D) Pre-tax income, assets, and liabilities will be overstated $5,000 each.
E) Pre-tax income, assets and liabilities each will be understated.

Answer: B
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

105) Items that were incorrectly omitted from 2013 credit purchases, but correctly included in the 2013 ending inventory would have the following 2013 effects:

A) overstate pre-tax income but have no effect on current liabilities.
B) overstate pre-tax income and understate liabilities.
C) cancel out with no effect on pre-tax income but would understate current liabilities.
D) understate pre-tax income but have no effect on liabilities.

Answer: B
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

106) Inventory items purchased on credit that are correctly debited to 2013 purchases, but improperly included in the 2013 ending inventory cause:

A) 2013 assets to be understated and 2013 pre-tax income to be overstated.
B) both 2013 pre-tax income and 2013 assets to be understated.
C) both 2013 assets and pre-tax income to be overstated.
D) both accounts payable for 2013 and 2013 pre-tax income to be overstated.

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

107) A company using a periodic inventory system neglected to record a purchase of merchandise on credit at year end. This merchandise was omitted from the year end physical count. How will these errors affect assets, liabilities, owners' equity at year end and net earnings for the year?

	Assets	Liabilities	Owners' Equity	Net Earnings
1	No effect	Overstate	understate	Understate
2	No effect	Understate	Overstate	Overstate
3	Understate	No effect	Understate	Understate
4	Understate	Understate	No effect	No effect

A) Choice 1
B) Choice 2
C) Choice 3
D) Choice 4

Answer: D
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

108) On December 15, 2013, a corporation accepted delivery of goods for resale which it purchased on credit. As of December 31, the company had not recorded the transaction or included the merchandise in its inventory. The effect of this on the balance sheet for December 31, 2013 would be:
A) assets and liabilities were understated but stockholders' equity was not affected.
B) assets and stockholders' equity were understated but liabilities were not affected.
C) assets and stockholders' equity were overstated but liabilities were not affected.
D) stockholders' equity was the only item affected by the omission.

Answer: A
Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

109) Lower-of-cost-or-market (LCM) is to be applied to the following situation: Cost, \$10; Net realizable value, \$8; Replacement cost, \$7; Net realizable value less normal profit, \$7.50. One unit in inventory should be valued at:
A) \$7.00
B) \$7.50
C) \$8.00
D) \$10.00

Answer: C
Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Knowledge
Reference:

110) Lumber Number Ltd. began business in 2001. It uses a periodic inventory system and values inventory at lower-of-cost-or-market. The following data represents price information related to the inventory on a unit basis:

	2002 Inventory		2003 Inventory	
	Beginning	Ending	Beginning	Ending
Cost	$80	$86	$86	$98
Market	80	84	84	90

What effect will this information have on the 2003 statement of income if the allowance method is used?

A) $2 holding loss
B) $4 holding loss
C) $6 holding loss
D) $8 holding loss

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

111) A company manufactures and sells four products; the related inventories are valued at lower-of-cost-or-market. The company considers a profit margin of 20 percent of sales to be normal for all four products. The following information was compiled as of December 31:

Product	Original Cost	Cost to Replace	Estimated Cost to Complete and sell	Expected Selling Price
A	$70	$84	$30	$160
B	94	90	41	190
C	35	30	10	60
D	90	92	118	200

Using lower-of-cost-or-NRV, the reported unit amount of the ending inventory for Product D is:

A) $90
B) $92
C) $82
D) $118

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-32 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

112) During a year, Small Wears Ltd. (whose usual gross margin rate on sales is 30 percent) recorded sales of $10,000 and goods available for sale of $12,000. The cost of its ending inventory can be reliably estimated at:

A) $2,000
B) $5,000
C) $7,000
D) $10,000

Answer: B
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

113) A fire completely destroyed the inventory housed in a warehouse in August. Reconstructed data follows:

Sales to date of fire	$340,000
Gross margin as a percent of cost	60%
Gross purchases to date of fire	200,000
Beginning inventory	30,000
Purchases returns and allowances to date of fire	10,000
Freight-in	4,000
Sales returns	25,000

Compute the loss of inventory due to the fire.

A) $98,000
B) $54,667
C) $27,125
D) $34,456

Answer: C
Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method, 08-32 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

114) Country Guides Inc. uses the gross margin method to estimate its ending inventory for each quarter. The following information for the second quarter was provided from the records:

Sales revenue	$200,000
Purchases	47,500
Freight-in	1,400
Beginning inventory	41,250
Purchase returns	900
Estimated gross margin rate	72 percent

The estimated ending inventory for the second quarter is:

A) $30,250
B) $32,250
C) $33,250
D) $35,050

Answer: C
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

115) On December 31, 2013 Trade Cards Ltd. completed a physical inventory count that reflected an inventory valuation of $25,000. Theft is suspected; therefore, a reliable estimate of what the inventory should be is needed. Relevant data are: Sales revenue, $400,000; Average gross margin rate on sales for the past three years was 30 percent; Beginning inventory $20,000, and purchases, $290,000. The estimated amount of the theft loss is:

A) $-0-
B) $5,000
C) $7,500
D) $17,500

Answer: B
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

116) Food Depot Ltd. assembled the following information at the end of the current reporting period:

Sales revenue	$56,400
Beginning inventory	21,250
Purchases	9,000
Purchase returns	600
Freight-in	950
Selling expense	15,750
Mark-up on cost (estimated)	25 percent

If the gross margin method is used to estimate ending inventory, what amount should be reported as pre-tax income or loss?

A) $4,470 loss
B) $15,975 income
C) $26,870 income
D) $29,370 income
E) $5,345 loss

Answer: D
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

117) A company's 2013 income statement reported the following for the year ended December 31, 2013:

Sales revenue	$453
Sales returns	6
Cost of goods sold	270
Expenses	126
Net income	$51

Based only on the above data, the (a) average markup on cost, and (b) the average markup on selling price were:

	(a) Mark-up on a cost	(b) Mark-up on selling price
1	13.60%	7.40%
2	59.60%	39.70%
3	60.00%	40.00%
4	65.56%	39.60%

A) Choice 1
B) Choice 2
C) Choice 3
D) Choice 4

Answer: D
Diff: 2
Topic: 08-38 Markups and Markdowns?
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

118) An inventory item was purchased for $3.00. Before it was finally sold it was given an initial markup of $1.00, followed by an additional markup of 50 cents, and then a markup cancellation of 50 cents, and finally a markdown of 40 cents. It was then sold for:

A) $3.00
B) $3.50
C) $3.60
D) $4.00

Answer: C
Diff: 2
Topic: 08-38 Markups and Markdowns?
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

119) A retail company uses the retail method of inventory valued at average cost, lower-of-cost-or-market. The following information relates to 2007 (in 000's):

	Retail	Cost
Beginning inventory, January 1, 2007	$120	$72
Sales revenue	$352	
Purchases	$312	$480
Net markdowns	$128	
Net mark-ups	$40	

What cost ratio should be used to determine the 2007 ending inventory valuation? Do not round to the nearest intermediate value.

A) 0.485
B) 0.600
C) 0.640
D) 0.721

Answer: B
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

120) Seaton's of Canada Ltd. uses the retail inventory method to approximate average cost at lower-of-cost-or-market. The following information is available for the month of April 2008 (in 000's):

	Retail	Cost
Cost of goods available for sale	$4,500	$3,600
Net mark-ups		$500
Net markdowns		$200
Sales		$3,400

The inventory approximation at April 30, 2008, was:

A) $1,008
B) $1,050
C) $1,120
D) $1,152

Answer: A
Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION, 08-38 Markups and Markdowns
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

121) The following information relates to a firm with several similar products:

	Cost	Retail
Beginning inventory	$29,000	$45,000
Purchases	140,000	190,000
Purchases discounts taken	3,000	
Purchases returns	5,000	8,000
Freight-in	20,000	
Net mark-ups		40,000
Net markdowns		12,000
Sales		190,000
Employee discounts		3,000

Using the retail inventory method and the average cost flow assumption (not LCM), what is ending inventory? When performing your calculations, round your cost ratios to one decimal point.

A) $44,888
B) $44,020
C) $42,036
D) $41,614

Answer: B
Diff: 2
Topic: 08-36 Retail Inventory Method, 08-38 Markups and Markdowns
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

122) The following information relates to 2013:

	Cost	Retail
Beginning inventory	$29,000	$45,000
Purchases	140,000	190,000
Purchases discounts taken	3,000	
Purchases returns	5,000	8,000
Freight-in	20,000	
Net mark-ups		40,000
Net markdowns		12,000
Sales		190,000
Employee discounts		3,000

Using the retail inventory method and LCM (based on the average cost flow assumption), what is the value of the ending inventory? When performing your calculations, round your cost ratios to one decimal point.

A) $44,888
B) $44,020
C) $42,036
D) $41,614

Answer: C
Diff: 2
Topic: 08-36 Retail Inventory Method, 08-38 Markups and Markdowns
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

123) Data summarizing the inventory activity during 2013 for a merchandising company are (000's):

	Cost	Retail
Beginning inventory	$110	$216
Net purchases	618	880
Net mark-ups	24	
Net markdowns	(80)	
Goods available for sale	$728	$1,040
Net sales	(880)	
Ending inventory at retail	$160	

The company uses the retail method of valuing inventory, at average, lower-of-cost-or-market. The 2013 inventory valuation is:

A) $99
B) $104
C) $112
D) $160

Answer: B
Diff: 2
Topic: 08-36 Retail Inventory Method, 08-38 Markups and Markdowns
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

124) If one were applying the FIFO retail method in a period of rising prices to estimate the ending inventory the dollar amount would be:

A) the same as the average cost method.
B) lower than the average cost method.
C) higher than the average cost method.
D) the same cost ratio as was used for the opening inventory.

Answer: C
Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

125) A company has just completed its second year of operations. It will use the FIFO, LCM retail method for external reporting. The following information is available

	Cost	Retail
Beginning inventory, January 1, 2002.	$7,200	$12,000
Sales revenues	35,200	
Purchases	31,200	48,000
Net markdowns	12,800	
Net mark-ups	4,000	

The 2002 cost of goods sold will be:

A) $25,787
B) $27,663
C) $25,600
D) $28,333

Answer: C
Diff: 2
Topic: 08-36 Retail Inventory Method, 08-38 Markups and Markdowns
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

126) On December 31, 2013, a company had an item (that it sells regularly) which was returned by a customer because it was defective. Although it originally cost $150, and was sold to the customer for $280, it can be sold as used for only $140. Prior to making it saleable the company must spend $30 to repair it and the estimated cost to resell it is $20. The company expects a normal profit of 10 percent on the resale of damaged merchandise. The net realizable value (NRV) of this item is:

A) $76
B) $90
C) $110
D) $150

Answer: B
Diff: 2
Topic: 08-18 Estimating Net Realizable Value, 08-32 Markups and Markdowns
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

127) The Everything Store has just removed a demonstrator from display and demonstration–it will be sold at a reduced price. The original price was $180 and the original cost was $140. Additional information:

Estimated repairs before selling	$20
Estimated selling price reduced to	120
Estimated selling costs	7
Normal profit margin	1/3

The demonstrator will be included in the used inventory balance. What inventory value should be assigned to the used demonstrator?

A) $73
B) $80
C) $93
D) $120

Answer: C
Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

128) During Year 1, ABC Inc.'s ending inventory was overstated by $10,000. During Year 2, ABC Inc.'s ending inventory was understated by $20,000. Assuming that the Year 2 books have not yet been closed, the adjustment to Cost of Goods sold would be:

A) A $30,000 decrease.
B) A $30,000 increase.
C) A $20,000 decrease.
D) A $20,000 increase.

Answer: A
Diff: 2
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

129) During Year 1, ABC Inc.'s ending inventory was overstated by $10,000. During Year 2, ABC Inc.'s ending inventory was understated by $20,000. Assuming that the Year 2 books have been closed, the adjustment to Year 2 financial statements would include:

A) A $20,000 decrease to ending inventory and retained earnings.
B) A $20,000 increase to ending inventory and retained earnings.
C) A $30,000 decrease to ending inventory and retained earnings.
D) A $30,000 increase to ending inventory and retained earnings.

Answer: D
Diff: 2
Topic: 08-26 Inventory Errors
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Knowledge
Reference:

130) A company purchase merchandise for $9,000 on credit terms 2/10, n/30, on May 8, 2001 before payment of the invoice, the company returned one-third of the goods for credit because they were damaged in shipment. Give the preferable entry for the return, assuming a periodic inventory system is used by the company.

Answer:

Accounts payable ($9,000 x 1/3 x .98)	2,940	
Purchase returns		2,940

Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

131) Complete the following schedule based on the data given below:

Transaction	Units	Unit Cost
1. Beginning Inventory	4,000	$1.00
2. Purchase	6,000	$1.10
3. Sale (@ $4.00)	7,000	
4. Purchase	2,000	$1.30

	Ending Inventory	Cost of Goods Sold
a. FIFO	$ _____	$ _____
b. Annual weighted average	_____	_____

Answer: Cost of goods available for sale:
(4,000 × $1.00) + (6,000 × $1.10) + (2,000 × $1.30 = $13,200)

	Ending Inventory	Cost of Goods Sold
a. FIFO (300 x $1.10 + 2,000 x $1.30)	$5,900	
$13,200 - $5,900		$7,300
b. Annual weighted average (13,200 - 12,000 x 5,000)	$5,500	
$13,200 - $5,500		$7,700

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

132) The records of Dollars 2 Donuts Ltd. showed the following for June:

Sales	4,200 units at $200 each
Purchase	4,000 units at $150 each
Beginning Inventory	6,000 units at $100 each

Assuming the periodic inventory system is used complete the following tabulation.

	FIFO	Weighted Average
(1) Sales	$ ____	$ ____
(2) Cost of goods sold	$ ____	$ ____
(3) Gross margin	$ ____	$ ____
(4) Ending inventory	$ ____	$ ____

Computations:
FIFO:
Weighted Average:
Answer:

	FIFO	Weighted Average
(1) Sales 4,200 units x $200	$840,000	$840,000
(2) Cost of goods sold	(a)$420,000	(c)$504,000
(3) Gross margin (1) - (2)	$420,000	$336,000
(4) Ending inventory (6,000 + 4,000 - 4,200)	(b)$780,000	(d)$696,000

Computations:

(a) 4,200 × $100 = $420,000
(b) (4,000 × $150) + (1,800 × $100) = $780,000
(c) (4,000 × $150) + (6,000 × $100) = 10,000 = $120 × 4,200 = $504,000
(d) 5,800 × $120 = $696,000
Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

133) Inventory data for the accounting period were as follows (in order of date):

	Units Cost	Unit
Beginning inventory	400	$3.00
Purchase #1	800	$3.10
Sale #1	1,000	
Purchase #2	800	$3.20
Sale #2	600	

Compute the following amounts under each inventory flow method (round to nearest cent):

	Ending Inventory Valuation	Cost of Goods Sold
(a) FIFO	$ ____	$ ____
(b) Weighted average	$ ____	$ ____
(c) Moving average	$ ____	$ ____

Answer: Total goods available for sale:

Beginning inventory	400 x $3.00	= $1,200
Purchase #1	800 x $3.10	= 2,480
Purchase #2	800 x $3.20	= 2,560
Total	2,000 units	$6,240
Ending inventory:	2,000 - 1,000 - 600	400 units
Units sold:	2,000 - 400	1,600 units

	Ending Inventory	Cost of Goods Sold
(a) FIFO	400 x $3.20 = $1,280	$6,240 - $1,280 = $4,960
(b) Weighted average	$6,140 - 2,000 x 400 = $1,248	$6,240 - $1,248 = $4,992

(c) Moving average

400 x 3.00	= $1,200
800 x 3.10	= $2,480
1,200 x 3.07	= 3,680

(1,000) x 3.07	= (3,070)
200 x 3.07	= 610
800 x 3.20	= 2,560
1,000 x 3.17	= 3,170
(600) x 3.17	= (1,902)
	= $1,268

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

134) Complete the following schedule based on the data given below:

	Unit Transaction Order	Unit Cost
1. Beginning inventory	8,000	$2.00
2. Purchase	12,000	1.10
3. Sale (@ $4.00)	14,000	
4. Purchase	4,000	1.30

	Ending Inventory	Cost of Goods Sold
(a) FIFO	$ _____	$ _____
(b) Weighted average	$ _____	$ _____

Answer: Cost of goods available for sale:
(4,000 × $1.00) + (6,000 × $1.10) + (2,000 × $1.30) = $13,200

	Ending Inventory	Cost of Goods Sold
(a) FIFO (6,000 x $2.20 + 4,000 x $2.60) =	$11,800	
$26,400 - $11,800 =		$14,600
(b) Weighted average ($26,400 - 24,000 x 10,000) =	$11,000	
$26,400 - $11,000 =		$15,400

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

135) A corporation's records reflected the following with respect to one of the items that it regularly sells:

		Units Cost	Total
July 1	Beginning inventory	400	$12,000
July 10	Purchases	800	26,400
July 15	Sales (at $50 each)	600	
July 20	Purchases	400	14,000
July 31	Sales (at $60 each)	400	

Complete the following schedule, assuming a periodic inventory system is used:

	FIFO	Weighted Average
Balance Sheet As of July 31		
End. Inv.		
Income Statement		
Sales		
Cost of Goods Sold		
Gross Margin		

*Costed at the end of the period.

Answer:

	FIFO	Weighted Average
Balance Sheet As of July 31		
End. Inv.	(a) $20,600	(b) $19,650
Income Statement		
Sales	(c) $54,000	$54,000
Cost of Goods Sold	(d) 31,800	(e) 32,750
Gross Margin	(f) $22,200	(g) $21,250

(a) (200 × $33)/(400 × $35) = $20,600
(b) ($12,000 + $26,400 + $14,000)/1,600 = $32.75 × 600 = $19,650
(c) (600 × $50) × (400 × $60) = $54,000
(d) $52,400 - $20,600 = $31,800
(e) $52,400 - $19,650 = $32,750

(f) $54,000 - $31,800 = $22,200
(g) $54,000 - $32,750 = $21,250

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

136) The records of Weight Unlimited showed the following for June:

Sales	2,100 units at $100 each
Purchases	2,000 units at $75 each
Beginning inventory	3,000 units at $56 each

Assuming the periodic inventory system is used complete the following tabulation.

	FIFO	Weighted Average
(1) Sales	$	$
(2) Cost of goods sold	$	$
(3) Gross margin	$	$
(4) Ending inventory	$	$

Computations:
FIFO:
Weighted Average:
Answer:

	FIFO	Weighted Average
(1) Sales 2,100 units x $100	$420,000	$420,000
(2) Cost of goods sold	(a)$210,000	(c)$126,000
(3) Gross margin (1) - (2)	$210,000	$294,000
(4) Ending inventory (6,000 + 4,000 - 4,200)	(b)$390,000	(d)$174,000

Computations:

(a) 2,100 × $50 = $210,000
(b) (2,000 × $75) + (900 × $50) = $390,000
(c) (2,000 × $75) + (3,000 × $50)/5,000 = $60 × 2,100 = $126,000
(d) 2,900 × 460 = 174,000

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

137) The records of a company showed the following data for the month of May (in order of date):

Units	Unit Cost
Beginning inventory	200
Purchase #1	400
Sale #1	300
Purchase #2	400
Sale #2	600
Purchase #3	200

Required: Complete the following schedule: (round to the nearest cent):

	Ending Inventory Valuation	Cost of Goods Sold
(a) FIFO	$ ______	$ ______
(b) Weighted average	$ ______	$ ______

Answer: Total goods available for sale:

Beginning inventory	200 x $6.00	= $1,200
Purchase #1	400 x $6.30	= 2,520
Purchase #2	400 x $6.50	= 2,600
Purchase #3	200 x $6.60	= 1,320
Total	1,200	$7,640

Ending inventory: 1200 - 300 - 600 = 300 units
Units sold: 300 + 600 = 900 units or 1200 - 300 = 900 units

	Ending Inventory	Cost of Goods Sold
(a) FIFO	200 x $6.60 + 100 x $6.50 = $1,970	7,640 - 1,940 = 5,700
(b) Weighted average	($7,640/1200) x 300 = $1,910	7,640 - 1,910 = 5,730

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

138) When the moving-average inventory costing method is used, how long does the unit cost of any individual item of inventory remain in the average? Explain in terms of how the method calculates each moving average M1, M2 and so forth.

Answer: The unit cost of an item remains in the average until the inventory is completely liquidated. If the inventory is never liquidated, the cost of all items purchased in the past remain in the average. However, the older the item, the less is its effect on the average. For example, M1 = the average cost of the first purchase for the firm. Assume a sale of 90% of that purchase then is made. Then another purchase of equal quantity to the first is made. Now only 10% of the first purchase remains in M2, the second moving average to be computed. After each succeeding sale and purchase (assuming no complete liquidation), the effect of the first purchase is diminished until it becomes negligible. But until all units are sold, the cost of that first purchase remains in some amount unless its effect is less than $.01 in which case it ceases to numerically affect the average.

Diff: 2
Topic: 08-16 Cost Flow Assumptions
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

139) Answer the questions below based on the following data (in 000's):

Purchases	$160
Beginning inventory	32
Ending inventory	48

(a) What amount of sales would produce a gross margin of 35 percent based on cost of goods sold? $________.
(b) What amount of sales would produce a gross margin of 40 percent based on sales? $________.

Answer: (a)

Cost of goods sold ($32 + $160 - $48)	$144
Gross margin required ($144 x .35)	50.4
	$194.4

(b)

Cost of goods sold ($32 + $160 - $48)	$144
Gross margin required (Sales x .40)	96
Sales required ($144 / .60)	$240

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

140) Bargain Bins Ltd. had a beginning inventory of $20,000 and purchases for the period amounted to $110,000. Merchandise customarily sells at a 25 percent mark-up on cost. Sales revenue for the period was $150,000. Therefore, the ending inventory can be reliably estimated to be $________.

Answer:

Goods available for sale ($20,000 + $110,000)	$130,000
Cost of goods sold ($150,000 x 1.25)	120,000
Ending inventory	$10,000

Diff: 2
Topic: 08-38 Markups and Markdowns?
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

141) Based on the following data, determine the approximate valuation of ending inventory in each case given below:

Cost of goods available for sale	$400	
Net sales		600

Case A-Gross margin rate on sales = 40 percent:

Inventory valuation is $________ Case B-Gross margin rate on cost = 100 percent:
Inventory valuation is $________

Answer: Case A:

Good available for sale (given)	$400
Cost of goods sold ($600 x .6)	360
Ending inventory	$40

Case B:

Good available for sale (given)	$400
Cost of goods sold ($600 x 2.00)	300
Ending inventory	$100

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

142) Because commissions are a large component in selling costs for a firm, cost of disposal averages 20 percent of selling price. Historical data has revealed the normal profit margin of the company has averaged 10 percent of sales. Per unit cost and selling price, for five different kinds of inventory items are given below. The five cases are independent. Under lower-of-cost-or-market, fill in the proper reported value of a unit of the inventory for each of the five cases:

	1	2	3	4	5
Units cost	$80	$100	$160	$230	$90
Selling price	100	120	200	300	100
Replacement cost	68	94	172	220	88
Inventory value	____	____	____	____	____

Answer:

Cost	$70	$100	$160	$230	$9
Selling Price	100	120	200	300	100
Disposal Cost	20	24	40	60	20
NRV	80	96	160	240	80
Market	80	96	160	240	80
Inventory Value	$70	$96	$160	$230	$80

Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION, 08-32 Gross Margin Method
LO: 08-01 Account for various types of inventory, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

143) Unit costs of the principle product sold by Big Auto Parts Ltd. at the end of several successive accounting periods are shown in the top line of amounts below. Different units are in stock each period (none carried over). Beneath the actual cost figures are the anticipated selling prices and replacement costs of the product. Distribution costs average $12 per unit and sales commissions have averaged 10 percent of sales prices. Applying "lower-of-cost-or-NRV" determine unit inventory values for each period.

	Period				
	1	2	3	4	5
Actual cost	$130	$150	$146	$152	$160
Sales prices	160	160	180	180	190
Replacement cost	150	150	154	146	162
Disposal cost	_____	_____	_____	_____	_____
NRV value	_____	_____	_____	_____	_____
Market	_____	_____	_____	_____	_____
Inventory value	_____	_____	_____	_____	_____

Answer:

Cost	$130	$150	$156	$152	$160
Selling Price	160	160	180	180	190
Disposal Cost	28	28	30	30	31
NRV	132	132	150	150	159
Market	132	132	150	150	159
Inventory Value	130	132	150	150	159

Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

144) The following tabulation gives data pertinent to the inventory valuation of five different items of raw material. For each item, compute a) unit net realizable value, b)"market," and c) unit inventory value under lower-of-cost-or-market. Normal profit in each instance is 10 percent of selling price.

	Items			
	A	B	C	D
Cost	$13	$76	$16	$35
Selling price	20	80	17	50
Replacement cost	14	70	15	32
Estimated cost to complete and sell	4	6	3	10

(a) Unit realizable value (net)	____	____	____	____
(b) Market	____	____	____	____
(c) Unit inventory value under lower-of-cost-or-market	____	____	____	____

Answer:

	A	B	C	D	E
(a)	16	74	14	40	85
(b)	16	74	14	40	85
(c)	13	74	14	35	78

Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

145) At the end of the first year of a firm's operations, the total inventory at cost was $200 and the market value (for purposes of Lower of Cost or NRV valuation) was $220. The corresponding values at the end of years 2 and 3 are as follows:

	Year 2	Year 3
Cost	$400	$600
Market	340	640

Required: provide the adjusting entries at the end of years 2 and 3 to record inventory at Lower of Cost or NRV using:

(a) the direct reduction method, and
(b) the inventory allowance method.
For both methods, use the cost of goods sold account when recording ending inventory (periodic

system).

Answer: (a)

Year 2 Inventory	340	
Cost of goods sold		340
Year 3 Inventory	600	
Cost of goods sold	600	

(b)

Year 2 Inventory	400	
Cost of goods sold	400	
Holding loss on inventory	60	
Allowance to reduce inv. To LCM		60
Year 3 Inventory	600	
Cost of goods sold		600
Allowance to reduce inv. to LCM	60	
Holding gain on inventory		60

Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

146) At the end of the first year of a firm's operations, the total inventory at cost was $200 and the market value (for purposes of Lower of cost and NRV) was $220. The corresponding values at the end of years 2 and 3 are as follows:

	Year 2	Year 3
Cost	$400	$600
NRV	340	640

Explain how, in years 2 and 3, the direct reduction and allowance methods of applying Lower of cost and NRV result in the same reported amount of income. Assume $1,000 of purchases in each year.

Answer: Year 2: The direct reduction method recognizes $860 of cost of goods sold ($200 + $1,000 - $340). The allowance method recognizes $800 of cost of goods sold ($200 + $1,000 - $400), and a holding loss of $60 ($400 - $340). The total income effect under the two methods is the same. The allowance method maintains cost of goods sold amounts at cost and separates the holding gain or loss from cost of goods sold. The direct reduction method merges the holding gain or loss with cost of goods sold.

Year 3: The direct reduction method recognizes cost of goods sold of $740 ($340 + $1,000 - $600). Increases in market value above cost are not recognized. The allowance method recognizes cost of goods sold of $800 ($400 + $1,000 - $600), and a holding gain of $60. The holding gain represents a recovery of the holding loss from the previous period. Holding gains cannot be recognized above cost. Both methods again produce the same income effect.

Diff: 3
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

147) Between January 1 and April 30, a company's sales amounted to $140,000 and its purchases amounted to $120,000. The January 1 inventory was $34,000. Using the gross margin method, what is a reliable estimate of the April 30 inventory if the prior period's gross margin has been:

(a) 40 percent based on cost? April ending inventory is $________.
(b) 40 percent based on selling prices? April ending inventory is $________.

Answer: (a)

Goods available for sale ($120,000 + $34,000)	$154,000
Cost of goods sold ($140,000 x 1.4)	100,000
Estimated ending inventory	$54,000

(b)

Goods available for sale ($120,000 + $34,000)	$154,000
Cost of goods sold ($140,000 x .6)	84,000
Estimated ending inventory	$70,000

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

148) Big Sky Ltd. attempts to price merchandise so as to yield a gross margin of 25 percent based on selling price. If the inventory on August 1 was $30,000 and sales and purchases during August and September were as given below, compute a reliable estimate of the inventory at the end of each month.

Month	Sales	Purchases	Ending Inventory
August	$160,000	$126,000	$
September	180,000	128,000	$

Computations:

Answer: August: Goods available for sale

($30,000 + $126,000)	$156,000
Cost of goods sold ($160,000 x .75)	120,000
Estimated ending inventory	$36,000

September: Goods available for sale

($36,000 + $128,000)	$164,000
Cost of goods sold ($180,000 x .75)	135,000
Estimated ending inventory	$29,000

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

149) Salvage Sales Ltd. suffered a loss of some inventory by fire on May 7. Cost of inventory on hand on January 1 was $100,000 and purchases between January 1 and May 7 amounted to $70,000 while freight-in and purchase returns, respectively, amounted to $6,000 and $4,000. Between January 1 and May 7 sales totalled $84,000. Goods which cost $24,500 were undamaged by the fire while the remainder of the inventory was destroyed. What was the approximate cost of the goods destroyed if:

(a) Mark-up is 25 percent on cost?	$ ____
(b) Mark-up is 25 percent on selling price?	$ ____

Answer: Goods available for sale:
$100,000 + $70,000 + $6,000 - $4,000 = $172,000
(a) Cost of goods sold = ($172,000 - $24,500) - $84,000/1.25 = $80,300
(b) Cost of goods sold = ($172,000 - $24,500) - $84,000(.75) = $84,500

Diff: 2
Topic: 08-38 Markups and Markdowns?
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

150) An independent accounting firm has been engaged to audit the 2014 financial statements of a corporation which has never undergone an audit. During the audit, it is concluded that the 2014 ending inventory presented by management is in error. The inventory cannot be counted because much of it has been sold as of the time of the audit. Therefore, a "test of reasonableness" of the inventory is performed by using the following data from the 2014 income statement prepared by the client.

(a) Sales revenue, $182,000; return sales, $2,000
(b) Purchases, $100,000, purchase returns, $1,000
(c) Freight-in, $2,000
(d) Beginning inventory, $26,000; ending inventory, $60,000
Estimated gross margin rate, 45 percent on sales.
Required: The approximate 2014 ending inventory is, $________ Computations:

Answer: Goods available for sale

($26,000 + $100,000 - $1,000 + $2,000)	$127,000
Cost of goods sold ($182,000 - $2,000) x .55	99,000
Estimated cost of 2004 ending inventory	$28,000

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

151) Compare and contrast the gross margin method and the retail inventory method.

Answer: Both methods use the relationship of cost to sales to estimate the cost of ending inventory. Neither method relies on a count of inventory at cost, and both may be used to test the reasonableness of an inventory valuation determined in another way.

However, the methods are quite different in application and in the data used. The gross margin method applies a historical cost to sales ratio. The product of the ratio and sales yields an estimate of current period cost of goods sold which is subtracted from goods available for sale resulting in an estimate of ending inventory. There is no physical count of inventory. The cost to sales ratio is an approximation based on one or more periods and does not consider more detailed changes in retail and cost amounts.

The retail method on the other hand applies a more current measure of cost to sales (cost to retail ratio). Depending on the application, this ratio may or may not include goods purchased in previous periods. If included, the effect of goods purchased in earlier periods on the ratio is less than that of current period purchases. The method uses more detailed records in computing the ratio; more accurate records are maintained on mark-ups and markdowns which affect the ratio.

Also, the cost to retail ratio is applied directly to the computed ending inventory at retail, rather than to sales. The resulting ending inventory at retail may be compared to a count of items at retail to provide an indication of inventory shrinkage.

The retail inventory method may be applied to produce an estimate of LCM and is often used for financial statement purposes. The gross margin method generally is not allowed for external reporting purposes.

Diff: 2
Topic: 08-32 Gross Margin Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

152) Sporting Goods Galore Ltd. uses the retail method of inventory. Data for the year 2013 follows:

	Cost	Retail
Beginning inventory	$19,840	$30,000
Purchases (net)	53,360	86,000
Mark-ups (net)		6,000
Markdowns (net)		(2,000)
Goods available for sale	$73,200	120,000
Net sales		80,000
Ending inventory:		
At retail		$40,000

At cost, assuming FIFO, LCM? $________.

Answer: Cost ratio: $53,360 + $92,000 = .58 × 40,000 = $23,200

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

153) The following data concerning the retail inventory method are taken from the financial records of a small company.

	Cost	Retail
Beginning inventory	$37,200	$60,000
Purchases	182,000	308,000
Freight-in	2,800	----
Net mark-ups	----	2,000
Net markdowns	----	3,480
Sales	----	313,520

(a) The ending inventory at retail should be: $________.
(b) If the ending inventory is to be valued at approximately the lower-of-cost-or-market, FIFO basis, the calculation of the cost to retail ratio should be based on goods available for sale at (1) cost and (2) retail, respectively, of: $________ and $________.

Answer: (a) $60,000 + $308,000 + $2,000 - $3,480 - $313,520 = $53,000
(b) Cost: $182,000 + $2,800 = $184,800
Retail: $308,000 + $2,000 = $310,000

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

154) A company uses the retail method of inventory. Data for the year 2013 follows. Compute the ending inventory at cost, assuming FIFO, LCM.

Beginning inventory (cost $19,840, retail $30,000)
Purchases (net cost $53,360, retail $86,000)
Mark-up (net, $6,000)
Markdowns (net, $2,000)

Answer:

	At Cost	At Retail
Beginning inventory	$22,800	$26,000
Purchases	103,800	152,000
Purchase returns	(400)	(500)
Freight-in	1,600	
Mark-ups		3,200
Mark-up cancellations		(700)
Total available	127,800	180,000
Sales (net of returns)		(116,000)
Markdowns (net of cancellations of 6,000)		(2,000)
Employee discounts		(2,000)
Ending inventory at retail		$60,000

Ending inventory at cost

($60,000 x 71%*) = $42,600

*Cost ratio is 127,800/180,000 = 71%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

155) The records at the end of the period for a department store reflected the following:

Beginning inventory (retail, $26,000)	$22,800
Sales	120,000
Sales returns	4,000
Purchases (retail, $152,000)	103,800
Purchase returns (retail, $500)	400
Freight-in	1,600
Additional mark-ups	3,200
Mark-up cancellations	700
Markdowns	8,000
Markdown cancellations	6,000
Employee discounts	2,000

Compute the ending inventory at approximate lower-of-cost-or-market (average) using the retail inventory method. Show all computations.

Answer:

	At Cost	At Retail
Beginning inventory	$22,800	$26,000
Purchases	103,800	152,000
Purchase returns	(400)	(500)
Freight-in	1,600	
Mark-ups		3,200
Mark-up cancellations		(700)
Total available	127,800	180,000
Sales (net of returns)		(116,000)
Markdowns (net of cancellations of 6,000)		(2,000)
Employee discounts		(2,000)
Ending inventory at retail		$60,000

Ending inventory at cost

($60,000 x 71%*) = $42,600

*Cost ratio is 127,800/180,000 = 71%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

156) A department store's accounts showed the following at the end of the period:

	At Cost	At Retail
Beginning inventory	$120	$160
Purchases	240	340
Sales	430	(500)
Markdowns	60	
Markdown cancellations	10	
Additional mark-ups	120	
Additional mark-up cancellations	20	

Using the above data, apply the retail inventory method to compute the approximate average cost (LCM) for the ending inventory. $________.

Answer:

	Cost	Retail
Beginning inventory	$120	$160
Purchases	240	340
Mark-ups (net of cancellations of $20)		100
Goods available	360	600
Sales		(430)
Markdowns (net of cancellations of $10)		(50)
Ending inventory retail		$120

Ending inventory cost. $72 (.60 × $120)
*Cost ratio = 360/600 = 0.60

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

157) Many department stores allow their employees to purchase goods from the store at a discount. Explain the treatment and rationale for such sales in the retail method (average, LCM).

Answer: Sales to employees at a discount are just like sales to regular customers except the sales price is lower. The cost of the goods is the same regardless of the identity of the customer. Therefore, no adjustment to the purchase cost is necessary; the cost amount used in the cost ratio is not affected by these sales.

Similarly, the purchases amount at retail reflects the normal sales price, and employee discounts are not classified as markdowns. Therefore, no adjustment is needed for the retail amount used in the cost ratio.

However, total sales reflects the discount price. Therefore, ending inventory at retail is overstated as a measure of the physical quantity of goods. To avoid this understatement, the amount of the employee discount is deducted along with sales from goods available at retail in determining the ending inventory at retail. The sum of sales (which reflects the lower prices charged employees) and the amount of the discount (e.g. 10%) equals the sales total that would result if there were no employee discounts.

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Knowledge
Reference:

158) A company has been using the retail inventory method, average basis, for inventory measurement. Starting in 2013, the company changed to the FIFO retail method.
At the end of 2013, the company prepared the following retail method, "pure" FIFO basis, computation which you are to complete:

	Cost	Retail
Inventory (base) at January 1, 2002	$4,840	$8,400
Purchases	25,803	41,600
Net additional mark-ups	700	
Cost ratio	$25,803 /	$42,300 = .61
Total	30,643	50,700
Sales	$40,400	
Inventory at December 31, 2002 (FIFO)	$	$

Answer: Inventory at December 31, 2013 (FIFO):
at retail: $50,700 - $40,400 = $10,300
at cost: $10,300 × .61 = $6,283

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

159) The following data pertain to a retail inventory situation:

	Cost	Retail
Beginning inventory	$5,808	$7,440
Purchases during	37,248	58,000

period	37,248	58,000
Sales during period	56,400	
Additional mark-ups	1,000	
Additional mark-up cancellations		200
Markdowns	840	
Markdown cancellations	240	

Compute the ending FIFO

Answer:

	At Cost	At Retail
Beginning inventory	$5,808	$7,440
Purchases	37,248	58,000
Mark-ups (net of cancellations of $200)		800
Markdowns (net of cancellations of $240)		600
Total available	$43,056	65,640
Sales		(56,400)
Ending inventory at retail		$9,240
Ending inventory at cost ($9,240 x 64%*)		$5,914

*Cost ratio is 37,248/58,200 = 64%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

160) Shoes-A-Lot Ltd. decided to adopt the retail method to value its inventory. The following information is found for 2005:

	Cost	Retail
Merchandise Inventory, January 1, 2005	$5,500	$20,000
Purchases	82,500	125,000
Purchase returns	3,000	4,200
Freight-In	5,000	
Net Additional Mark-ups		11,742
Net Markdowns		2,542
Net Sales		120,000

Required: Determine the December 31, 2005 inventory cost under the retail method–average cost basis.

Answer:

	At Cost	At Retail
Inventory, January 1, 2005	$5,500	$20,000
Purchases	82,500	125,000
Net additional mark-ups		11,742
Purchase returns	(3,000)	(4,200)
Freight-in	5,000	
Net markdowns		(2,542)
Total available	$90,000	150,000
Sales		(120,000)
Ending inventory at retail		$30,000

Ending inventory at cost
($30,000 × 60 %*) $18,000
*Cost ratio is 90,000/150,000 = 60%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

161) Furniture Stores Ltd. uses the retail method to value its inventory. The following information is available for 2005:

	Cost	Retail
Freight-in	$5,000	
Merchandise Inventory, January 1, 2005	$5,500	$20,000
Net Additional Mark-ups		11,742
Net Markdowns		2,542
Net Sales		120,000
Purchases	82,500	125,000
Purchase returns	3,000	4,200

Required: Calculate the December 31, 2005 inventory cost under the retail method–average cost (LCM) basis (conventional retail).

Answer:

	At Cost	At Retail
Inventory, January 1, 2005	$5,500	$20,000
Purchases	82,500	125,000
Purchase returns	(3,000)	(4,200)
Freight-in	5,000	
Net additional mark-ups		11,742
Total available excl. markdown	90,000	152,542
Net markdowns	____	(2,542)

Goods available for sale	$90,000	150,000
Sales		(120,000)
Ending inventory at retail		$30,000
Ending inventory at cost ($30,000 x 59%*)	$24,000	

*Cost ratio is 90,000/152,542 = 49%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

162) A small toy store uses the retail method FIFO, LCM to value its inventory. The following information is available for 2005:

	Cost	Retail
Purchases	$82,500	$125,000
Net Sales		120,000
Merchandise Inventory, January 1, 2005	$5,500	20,000
Net Additional Mark-ups		11,742
Freight-in	$5,000	4,200
Purchase returns	3,000	2,542

Net Markdowns
Required: Determine the December 31, 2005 inventory cost under the retail method–FIFO basis.
Answer:

	At Cost	At Retail
Purchases	$82,500	$125,000
Net additional mark-ups		11,742
Purchase returns	(3,000)	(4,200)
Freight-in	5,000	
Net markdowns		(2,542)
Current increase in inventory	$84,500	$130,000
Inventory, January 1, 2005	5,500	20,000
Total available	$90,000	$150,000
Sales		(120,000)
Ending inventory at retail		$30,000
Ending inventory at cost ($30,000 x 65%*)	$19,500	

*Cost ratio is 84,500/130,000 = 65%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

163) The following information is available from the records of Bulk Foods Inc. for the year ended December 31, 2005:

	At Cost	At Retail
Sales		$100,000
Purchases	$48,000	90,000
Inventory, January 1, 2005	24,000	54,000
Net additional mark-ups		12,000
Net markdowns		6,000

(a) Under the average cost retail method (non LCM) the inventory cost on December 31, 2005 is $________.
(b) Under the retail method on FIFO basis, LCM, the inventory cost on December 31, 2005 is $________.
Answer: a)

	At Cost	At Retail
Inventory, January 1, 2005	$24,000	$54,000
Purchases	48,000	90,000
Net additional mark-ups		12,000
Net markdowns		(6,000)
Total available	$72,000	150,000
Sales		(100,000)
Ending inventory at retail		$50,000
Ending inventory at cost ($50,000 x 48%*)	24,000	

*Cost ratio is 72,000/150,000 = 48%

b)

	At Cost	At Retail
Purchases	$48,000	$90,000
Net additional mark-ups		12,000
Current increase in inventory	48,000	102,000
Inventory, January 1, 2005	24,000	54,000
Total available	$72,000	156,000
Sales		(100,000)
Net markdowns		(6,000)
Ending inventory at retail		$50,000
Ending inventory at cost ($50,000 x	$23,500	

47%*)	$23,500	

*Cost ratio is 48,000/102,000 = 47%

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

164) On January 1, 2014, XY retail store sold a TV set to customer AB on credit for $450; AB will make monthly payments. Because of non-payment, XY repossessed the TV set when AB still owed $250. XY estimates reliably that the repossessed set can be resold for $150 cash after spending $40 to repair it and after incurring a selling cost of $10 cash.

(a) Give the entry by XY to record the repossession (assume a perpetual inventory system).
(b) Give the entry to record the actual repair cost of $45.
(c) Give the entry to record the resale of the repossessed set at a cash price of $150 and cash payment of the selling cost of $10.

Answer: (a)

Inventory — used TV sets.	100
Loss on repossession.	150
Accounts receivable-AB	250

(b)

Inventory — used TV sets.	45
Cash.	45

(c)

Selling expenses.	10
Cash.	10
Cash.	150
Inventory-used TV sets.	145
Gain.	5

(Alternately net the gain and selling expense and record a loss of $5)

Diff: 2
Topic: 08-36 Retail Inventory Method
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

165) State-of-the-Art Inc. uses a perpetual inventory system. A fire damaged certain merchandise that had a sale price of $10,000 and cost $4,000. The insurance company agreed to pay $1,000 for the damage and let the company keep the merchandise. The company estimated that the goods can be sold for $3,800 and that $600 will be spent to clean and sell the damage goods. Give the entry to record the fire damage, including the receivable from the insurance company.

Answer:

Inventory damaged goods ($3,800 - $600)	3,200	
Receivable-insurance company	1,000	
Inventory		4,000
Gain on fire damage		200

Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

166) During 2014, XYZ Furniture Villa sold an inventory item for $200 that cost $130. At date of sale, $60 was collected and the balance was to be paid in seven equal instalments. After making two payments, the customer defaulted (in the year following the sale). The item was repossessed in damaged condition; estimates at that date were: Cost to repair, $22; resale costs, $12, and resale value after repair, $80. Give the entry to record the repossession, assuming a perpetual inventory system is used.

Answer:

Inventory damaged goods ($80 - $22 - $12)	46	
Loss on repossession	54	
Accounts receivable ($200 - $60 - $20 - $20)		100

Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

167) Nuts-2-U Ltd. purchased 1,000 bags of pecans at a total cost of $6,920. In addition, the company incurred $100 for transportation and grading. The pecans were graded as follows:

Grade	Quantity	Current Market Price Per Bag
A	500	$12.00
B	150	10.00
C	300	4.00
Waste	50	-0-

Assuming the relative sales value method is used to allocate joint costs:

(a) Give the entry to record the purchase, assuming perpetual inventory records are kept. Include transportation and sorting costs in the entry. Show computations.
(b) Give the valuation of the ending inventory, assuming the following quantities on hand (show computations):

Grade	Quantity on Hand	Unit Cost	Valuation
A	100 bags	$	$
B	50 bags	$	$
C	10 bags	$	$

Total $

Answer: (a)

Inventory, pecans, Grade A	4,842	
Inventory, pecans, Grade B	1,210	
Inventory, pecans, Grade C	968	
Cash ($6,920 + $100)		7,020

Grade	Quantity	Market Price	Weighted Sales Value	Allocation	Unit Cost	Unit Cost
A	500	$12	$6,000 / $8,700 x	$7,020 =	$4,842	$9.68
B	150	$10	$1,500 / $8,700 x	$7,020 =	$1,210	$8.07
C	300	$4	$1,200 / $8,700 x	$7,020 =	$968	$3.23

$8,700

(b)

Grade	Quantity	Unit Cost	Inventory Valuation
A	100	$9.68	$968
B	50	$8.07	404
C	10	$3.23	32
			$1,404

Diff: 2
Topic: 08-15 Periodic or Perpetual Recording Method
LO: 08-01 Account for various types of inventory
Bloom's: Application
Reference:

168) On June 1, 2013, Yenex Corporation signed a binding, non-cancellable contract with AB Corporation to purchase, during the following 12 months, 500 units of Product Z at $30 each. By December 31, 2013, Yenex Corporation had purchased and paid for 400 of the units (debit inventory and credit cash, $12,000). At the end of 2013, Product Z could be purchased at a firm cash price of $27 per unit. (Assume amounts are material.)

(a) Give any entry required at December 31, 2013 (end of the accounting period).
(b) On March 30, 2013, Yenex Corporation purchased the remaining units under the contract. At that date, the units could have been purchased for a firm cash price of $28. Give the required entry (entries) under IFRS.

Answer: (a)

Loss on onerous purchase commitment	300
Estimated liability on onerous purchase commitment	300
$30 - $27 = $3 x 100 units = $300	

(b)

Raw material inventory (100 x $28)	2,800
Estimated liability on onerous purchase commitment	300
Cash	3,000
Gain on onerous purchase commitment	100

Diff: 2
Topic: 08-25 Onerous Contracts
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

169) During January 2013, What Snew Inc. discovered that (a) the 2012 ending inventory had been understated by $2,000 (and never had been corrected by the accountants) and (b) 2013 credit purchases were understated (not recorded) by $800 (to be paid January 15, 2013). Before correction of errors, pre-tax income was: 2012, $44,000 and 2013, $52,000. Assume a periodic inventory system.

Required:

(a) Complete the following to show the correct amounts (show computations):

	Computation	Answer

2012 correct pre-tax income ________ $________ 2013 correct pre-tax income ________ $________ (b) Give any entry (entries) that would be required on January 2, 2013, that should be made to correct the accounts (if none is required, so state). Ignore income taxes and assume the books for 2013 have not been closed.

Answer: (a) 2012 correct pre-tax income $44,000 + $2,000 = $46,000
2013 correct pre-tax income $52,000 - $2,000 - $800 = $49,200

(b)

Purchases	800	
Accounts payable		800

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

170) At year end, after preparing the financial statements, four errors were found. The first line in the tabulation below gives the uncorrected amounts. You are to develop the correct amount on the bottom line by entering the corrections for each error; indicate subtractions with parentheses. Assume a periodic inventory system.

Income Statement for
Balance sheet 12/31/2003, year ending 12/31/2003

	Assets	Liabilities	Owners' Equity	Revenue	Cost of Goods Sold	Gross Margin
Reported amounts (uncorrected)	16,000	4,000	12,000	18,000	10,000	8,000
1. Beg. 2003 invoice understated by $160						

2. 2003 credit purchase $200; not recorded or inventoried in 2003.							
3. Ending 2003 invoice overstated by $600							
4. 2003 credit sales of $1,000 not recorded in 2003; cost of goods sold amount $600; not included in 2003 ending inventory.							

Answer:

	Assets	Liabilities	Owner's Equity	Revenue	Cost of Goods Sold	Gross Margin
	$16,000	$4,000	$12,000	$18,000	$10,000	$8,000
1.		160			(160)	(160)
2.	200	200				
3.	(600)		600		(600)	(600)
4.	1,000		1,000	1,000		
	$16,600	$4,200	$12,400	$19,000	$10,760	$7,240

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

171) Use a "+" to denote an item is too high as a result of an error, a "-" to denote too low, and a 0 to indicate no effect. What is the effect of each of the following errors on the financial statements of a company which uses the period inventory system?

	2001 Statements			2002 Statements		
Errors	Cost of Goods Sold	Total Assets	Income	Cost of Goods Sold	Total Assets	Income
(a) Goods were bought in 2001 and the purchase was recorded in						

that year. However, the goods were not included in the 12/31/2001 inventory.						
(b) Goods bought in 2001 were excluded from the 12/31/2001 inventory and the purchase was recorded early in 2002						
(c) Goods bought in 2001 were included in 12/31/2001 inventory but the purchase and liability were not recorded until early 2002.						
(d) Goods bought in 2002 were included in 12/31/2001 inventory and the purchase was recorded in 2001.						

Answer:

	2001 Statements			2002 Statements		
Errors	Cost of Goods Sold	Total Assets	Income	Cost of Goods Sold	Total Assets	Income
(a)	+	-	-	-	0	+
(b)	0	-	0	0	0	0
(c)	-	0	+	+	0	-
(d)	0	+	0	0	0	0

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

172) Drafting Supplies Ltd. sells its merchandise at a mark-up of 40 percent on cost. Near the end of 2012, it recorded a credit sale amounting to $7,000. Although this merchandise was not shipped, it was excluded from the December 31, 2012, periodic inventory. The auditor later determined that the sale was incorrectly recorded in 2012; it should have been recorded in 2013. The company uses 1 percent of credit sales as the amount to record for bad debt expense. Ignoring income taxes, the effect of this error was to (answer only one): Overstate 2012 income by $________ or Understate 2012 income by $________.

Answer: Overstate 2012 income by $7,000 - ($7,000/1.4) - ($7,000 × .01) = $1,930
Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

173) Four different independent errors relating to inventory are described below. You are to indicate the dollar amount by which various financial statement components are misstated and whether the error causes each component to be too high or too low. For example, if the effect of the error is to cause the component to be too high by $300, you should enter + 300 in the appropriate column; if it makes the component too low by $750, enter $-750. If a component is unaffected, enter a 0. Similarly, if on financial statements of a later year the error would have counterbalanced on that later year's statements, enter a 0. A periodic inventory system is used unless specifically stated to the contrary.

(a) The 2001 ending inventory is understated by $400 and the related purchase on credit for that amount was not recorded until 2013.
(b) At the end of 2001, the company failed to recognize that $1,500 of inventory was in the hands of a consignee. At the end of 2013, a similar error was made and the cost of goods consigned out was $1,100.
(c) In running a total of inventory count sheets, a clerk included one line for $350 twice at the end of 2001; therefore, the inventory was overstated $350.
(d) On December 31, 2001, a customer agreed to buy goods for $2,500 and asked that delivery be delayed until January 3, 2013. The goods, on which the average mark-up was 40 percent of sale price, were still on hand on December 31. They were included in the 2001 inventory. The customer was properly billed for the goods, and the sale was recorded on December 31, 2001.

	2001 Statements		2002 Statements	
Error	Assets	Liabilities	Owners' Equity	Cost of Goods Sold
(a)				
(b)				
(c)				
(d)				

Answer:

	2001 Statements		2002 Statements	
Error	Assets	Liabilities	Owners' Equity	Cost of Goods Sold
(a)	-400	-400	0	0

(b)	-1,500	0	+1,500	-400
		1,100		
(c)	+350	0	-350	+350
(d)	+1,500	0	-1,500	+1,500

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES, 08-32 Gross Margin Method
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors, 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference:

174) Use a "+" to denote an item is too high as a result of an error, a "-" to denote too low, and a 0 to indicate no effect. What is the effect of each of the following errors on the financial statements of a company, which uses a periodic inventory system?

	2001 Statements			2002 Statements		
Errors	Cost of Goods Sold	Total Assets	Net Income	Cost of Goods Sold	Total Liabilities	Retained Earnings
(1) Purchases and sales were properly recorded but inventory at December 2001 was understated.						
(2) Late in 2002, a customer made a $500 deposit on some goods which were to sell for $2,000 and on which delivery was to occur in 2003. An entry was made debiting Cash and crediting Sales. The goods which cost $1,200 were set aside and excluded from 2002 ending inventory.						
(3) Goods bought in 2001						

were included in 12/31/2001 inventory but the purchase and liability were not recorded until early 2002.						

Answer:

2001 Statements			2002 Statements			
Cost of Goods Sold	Total Assets	Net Income	Cost of Goods Sold	Total Liabilities	Retained Earnings	
(1)	+	-	-	-	0	0
(2)	0	0	0	+	-	-
(3)	-	0	+	+	0	0

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

175) What types of inventory does GAAP allow to be measured at selling price in excess of cost?

Answer: Selling prices are acceptable for valuing inventory where there is an effective government-controlled market at a fixed monetary value and for inventories consisting of agricultural, mineral, and other products, composed of interchangeable units with an immediate marketability at quoted prices where appropriate costs are difficult to obtain.

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

176) Briefly outline the accounting and reporting of losses on purchase commitments when (a) the purchase contract is subject to revision or cancellation and (b) it is non-cancellable and a loss is probable.

Answer: a. When a purchase contract is subject to revision or cancellation, a disclosure note should give the amount of the commitment. The note should include the relevant facts of the contract and the current market price of the goods.
b. When a purchase contract is non-cancellable and a loss is likely, an entry should be made to record the loss and the associated liability (if the probable loss can be realistically estimated).

Diff: 2
Topic: 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

177) At December 31, 2013, after preparing the financial statements, several errors were discovered. The first line in the tabulation below gives the uncorrected amounts. You are to develop the correct amount for each category on the bottom line. Enter for each item the appropriate amount(s) needed for correction; indicate deductions (i.e., subtractions) with parentheses. Assume a periodic inventory system.
Notes:

1. Some items may not involve errors.
2. You are only to correct the 2013 financial statements (do not give correcting entries).
3. Do not assume errors not specifically indicated.
4. Assume all amounts given are correct.

Income Statement for the Year ended 12/31/2003
Balance Sheet 12/31/2003

Independent Items	Assets	Liabilities	Owners' Equity	Gross Revenues	Cost of Goods Sold	Gross Margin
a. Reported amounts (uncorrected)	1,960	800	1,160	2,400	1,400	1,000
b. Merchandise out on consignment at end of 2003. Included in ending inventory, cost $20						
c. A credit sale of $100 was correctly recorded in 2003. Since the customer had not picked the items up by Dec 31 their cost of $60 was included in the 2003 ending inventory.						
d. An item purchased on credit in 2003 for $80 was not recorded until 2004, however, it was included in the 2003 ending						

inventory.						
e. 2002 ending inventory was understated by $40, no entry has been made to correct this error.						
f. Merchandise of $60 was purchased on credit and recorded on Dec. 31, 2003. Since it was not yet unpacked it was inadvertently excluded from the 2003 ending inventory.						
g. Merchandise that cost $120 was purchased in 2003, on credit. It was not recorded or included in the 2003 ending inventory.						
h. A credit sale of $80 was made and recorded in 2003. The merchandise cost $60 and was not included in the 2003 ending inventory.						
i. Merchandise that cost $20 was included in 2003 ending inventory. However, the merchandise was recorded in 2003 as a credit sale of $60 although ownership did not pass until 2004.						

Answer:

Independent Items	Assets	Liabilities	Owners' Equity	Gross Revenues	Cost of Goods Sold	Gross Margin
a. Reported amounts (uncorrected)	1,960	800	1,160	2,400	1,400	1,000
b. Merchandise out on consignment at end of 2003. Included in ending inventory, cost $20	No Error	No Error	No Error	No Error	No Error	No Error
c. A credit sale of $100 was correctly recorded in 2003. Since the customer had not picked the items up by Dec 31 their cost of $60 was included in the 2003 ending inventory.	(60)	--	(60)		60	(60)
d. An item purchased on credit in 2003 for $80 was not recorded until 2004, however, it was included in the 2003 ending inventory.	80	(80)		80	(80)	
e. 2002 ending inventory was understated by $40, no entry has been made to correct this error.				40	(40)	
f. Merchandise of $60 was purchased on credit and recorded on Dec. 31, 2003. Since it was not yet unpacked it was inadvertently excluded from the 2003 ending inventory.	60		60		(60)	60
g. Merchandise that cost $120 was purchased in 2003, on	120	120				

credit. It was not recorded or included in the 2003 ending inventory.	120	120				
h. A credit sale of $80 was made and recorded in 2003. The merchandise cost $60 and was not included in the 2003 ending inventory.	No Error	No Error	No Error	No Error	No Error	No Error
i. Merchandise that cost $20 was included in 2003 ending inventory. However, the merchandise was recorded in 2003 as a credit sale of $60 although ownership did not pass until 2004.	(60)		(60)	(60)		(60)
j. CORRECT AMOUNTS	$2,020	$1,000	$1,020	$2,340	$1,520	$820

Diff: 2
Topic: 08-01 Bases of Inventory Valuation, 08-23 OTHER ISSUES FOR COST-BASED INVENTORIES
LO: 08-01 Account for various types of inventory, Gross Margin Method, 08-02 Account for damaged inventory, purchase commitments, and inventory errors
Bloom's: Application
Reference:

178) Explain how ethical issues may arise in the application of Lower of Cost & NRV rules.

Answer: Estimates and judgements may be required to determine NRV. This can result in management bias towards overstating inventory values in the short term to inflate income. Moreover, earnings may be "managed" in that the timing of a write-down to NRV will be chosen to coincide with management's reporting objectives. For example, a "big bath" scenario could result in management understating year-end inventories in a loss year to subsequently show a higher gross margin when these inventories are sold in a subsequent period.

Diff: 2
Topic: 08-17 APPLYING LOWER-OF-COST-OR-NRV VALUATION
LO: 08-03 Use the gross margin method and retail method to estimate ending inventory
Bloom's: Application
Reference: