## Question #1 of 89

United Corporation and Intrepid Company are similar firms operating in the same industry. United follows U.S. Generally Accepted Accounting Principles and Intrepid follows International Financial Reporting Standards. At the end of last year, Intrepid had a higher inventory turnover ratio than United. Are the following plausible explanations for the difference?

Explanation #1 – United accounts for its inventory using the first-in, first-out method and Intrepid uses the last-in, first-out method.

Explanation #2 – United recognized an upward valuation of inventory that had been previously written down. Intrepid does not revalue its inventory upward.

| | Explanation #1 | Explanation #2 |
|---|---|---|
| **A)** | No | No |
| **B)** | No | Yes |
| **C)** | Yes | No |

---

## Question #2 of 89

Which of the following statements about inventory presentation and disclosures is *most* accurate?

**A)** Changing from FIFO to LIFO is a change in accounting principle that must be applied retrospectively.

**B)** An analyst must determine which inventory cost method was used by examining the firm's current and historical inventory values.

**C)** IFRS permits reversals of inventory writedowns but the firm must disclose the circumstances of the reversal in its financial statements.



---

## Question #3 of 89

For balance sheet purposes, inventories based on:

**A)** LIFO are preferable to those based on average cost, as they more closely reflect the current costs.

**B)** FIFO are preferable to those based on LIFO, as they more closely reflect current costs.

**C)** LIFO are preferable to those based on FIFO, as they more closely reflect the current costs.

---

## Question #4 of 89

Given the following data what is the ending inventory value using the LIFO method, assuming a periodic inventory system?

| Purchases | Sales |
|---|---|
| 50 units at $50/unit | 25 units at $55/unit |
| 60 units at $45/unit | 30 units at $50/unit |
| 70 units at $40/unit | 45 units at $45/unit |

**A)** $3,200.

**B)** $3,250.

**C)** $3,850.

---

## Question #5 of 89

During periods of rising prices and stable or growing inventories, the most informative inventory accounting method for income statement purposes is:

**A)** weighted average because it allocates average prices to cost of good sold (COGS) and provides a better measure of current income.

**B)** FIFO because it allocates historical prices to cost of good sold (COGS) and provides a better measure of current income.

**C)** LIFO because it allocates current prices to cost of good sold (COGS) and provides a better measure of current income.

---

## Question #6 of 89

In an inflationary environment, a company's:

**A)** net income will be larger if it uses LIFO than if it uses FIFO.

**B)** assets will be lower if it uses LIFO than if it uses FIFO.

**C)** Cost of goods sold will be lower if it uses LIFO than if it uses FIFO.

---

## Question #7 of 89

Given the following data on a firm's inventory, purchases, and sales:

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 559 | $1.00 |
| Purchases | 785 | $5.00 |
| Sales | 848 | $15.00 |

Ending inventory using the first in, first out (FIFO) method is:

**A)** $3,988.

**B)** $2,480.

**C)** $2,356.

---

## Question #8 of 89

The *most likely* effect of a write-down of inventory to net realizable on a firm's total asset turnover is:

**A)** no change.

**B)** a decrease.

**C)** an increase.

---

## Question #9 of 89

When analyzing profitability ratios, which inventory accounting method is preferred?

**A)** Last in, first out (LIFO).

**B)** First in, first out (FIFO).

**C)** Weighted average.



---

## Question #10 of 89

In an increasing price environment, what effect does a LIFO liquidation have on a firm's gross profit?

**A)** Increase.

**B)** Decrease.

**C)** No effect.

---

## Question #11 of 89

Given the following inventory information about the Buckner Company:

- Year-end LIFO inventory of $6,500.
- Year-end LIFO reserve of $2,500.
- The previous year's LIFO reserve was $2,000.
- The current year's LIFO cost of goods sold (COGS) is $15,000.
- After-tax income is $1,600.

How much higher would the firm's retained earnings be on a FIFO basis if the firm's tax rate is 40%?

**A)** $2,100.

**B)** $1,500.

**C)** $1,800.

---

## Question #12 of 89

First in, first out (FIFO) inventory equals:

**A)** LIFO cost of goods sold − change in LIFO reserve.

**B)** LIFO inventory + LIFO reserve.

**C)** change in LIFO reserve − ending LIFO reserve.



---

## Question #13 of 89

A company purchased inventory on January 1, 20X2, for $600,000. On December 31, 20X2, the inventory had a net realizable value (NRV) of $550,000 and a replacement cost of $525,000, which is also the NRV less the normal profit margin. What would be the carrying value of the inventory on the company's December 31, 20X2, balance sheet using:

<u>lower of cost or NRV?</u>; <u>lower of cost or market?</u>

**A)** $525,000; $550,000

**B)** $525,000; $525,000

**C)** $550,000; $525,000

---

## Question #14 of 89

Moore Ltd. uses the LIFO inventory cost flow assumption. Its cost of goods sold in 20X8 was $800. A footnote in its financial statements reads: "Using FIFO, inventories would have been $70 higher in 20X8 and $80 higher in 20X7." Moore's COGS if FIFO inventory costing were used in 20X8 is *closest* to:

**A)** $810.

**B)** $790.

**C)** $730.

---

## Question #15 of 89

Given the following data on a firm's inventory, purchases, and sales:

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 559 | $1.00 |
| Purchases | 785 | $5.00 |
| Sales | 848 | $15.00 |

Cost of goods sold using the weighted average cost method is *closest* to:

**A)** $2,830.

**B)** $2,000.

**C)** $3,990.

---

## Question #16 of 89

For a firm that uses the LIFO inventory cost method, the LIFO reserve is:

**A)** a provision for taxes when FIFO is required for tax reporting.

**B)** the difference between LIFO inventory and FIFO inventory.

**C)** the difference between LIFO cost of sales and FIFO cost of sales.

---

## Question #17 of 89

A firm booked revenue of $2.25 million during 20X6 on unit sales of 150. The replacement cost per unit of inventory is currently $9,300.

Inventory purchases:

| Date | Quantity | Unit Cost |
|---|---|---|
| Begin inventory | 50 units | $7,000 |
| 4/1/X6 | 80 units | 7,500 |
| 7/1/X6 | 30 units | 8,100 |
| 10/1/X6 | 20 units | 8,700 |

Assuming the FIFO inventory costing method and a perpetual inventory system are used, the firm's gross profit and ending inventory are closest to:

| | Gross profit | Ending inventory |
|---|---|---|
| **A)** | $1,138,000 | $255,000 |
| **B)** | $1,138,000 | $279,000 |
| **C)** | $1,112,000 | $279,000 |



---

## Question #18 of 89

In an environment of increasing prices, the last-in first-out (LIFO) inventory cost method results in:

**A)** cost of sales near current cost and inventory below replacement cost.

**B)** cost of sales below current cost and inventory above replacement cost.

**C)** inventory near replacement cost and cost of sales below current cost.

---

## Question #19 of 89

Under which financial reporting standards is a firm required to discuss the circumstances when reversing an inventory writedown?

**A)** Both IFRS and U.S. GAAP.

**B)** Neither IFRS nor U.S. GAAP.

**C)** IFRS, but not U.S. GAAP.

---

## Question #20 of 89

An analyst is comparing a company that uses the LIFO inventory cost method to companies that use FIFO for inventories. The analyst should adjust the LIFO firm's inventories by adding the:

**A)** LIFO reserve, net of tax.

**B)** LIFO reserve.

**C)** change in the LIFO reserve.

---

## Question #21 of 89

A U.S. company uses the LIFO method to value its inventory for their income tax return. For its financial statements prepared for shareholders, the company may:

**A)** use the FIFO method, but must disclose a LIFO reserve.

**B)** only use the LIFO method.

**C)** use any other inventory method under generally accepted accounting principles (GAAP).

---

## Question #22 of 89

Tim Rogers is senior equity analyst with White Capital LLP. While analyzing the inventory disclosures of Drako Toys Inc., a toy manufacturer based in Cleveland, Ohio, Rogers concludes that Drako is expected to see above-average sales growth over the next three years. Which of the following disclosures would *most likely* support Rogers's conclusion?

**A)** Increase in raw-materials and work-in-progress inventory and corresponding decline in finished goods inventory over the last two years.

**B)** Increase in finished goods inventory and corresponding decline in raw-materials and work-in-progress inventory over the last two years.

**C)** Finished goods inventory growing faster than sales in the last two years.



---

## Question #23 of 89

The inventory turnover ratio and the number of days in inventory are *least likely* used to evaluate the:

**A)** effectiveness of a firm’s inventory management.

**B)** age of a firm’s inventory.

**C)** stability of a firm’s inventory levels.

---

## Question #24 of 89

Diabelli Inc. is a manufacturing company that is operating at normal capacity levels. Which of the following inventory costs is *most likely* to be recognized as an expense on Diabelli's financial statements when the inventory is sold?

**A)** Selling cost.

**B)** Administrative overhead.

**C)** Allocation of fixed production overhead.

---

## Question #25 of 89

Which of the following circumstances is *most likely* indicative of an increase in a company's future earnings?

**A)** Work-in-process inventory increasing faster than finished goods inventory.

**B)** Finished goods inventory increasing faster than sales.

**C)** Finished goods inventory increasing faster than work-in-process inventory.

---

## Question #26 of 89

The exhibit below provides relevant data and financial statement information about Acme's inventory purchases and sales of inventory for the last year.

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 699 | $5.00 |
| Purchases | 710 | $8.00 |
| Sales | 806 | $15.00 |

The cost of goods sold using the first in, first out (FIFO) method is:

**A)** $5,248.

**B)** $4,133.

**C)** $4,351.

---

## Question #27 of 89

During periods of decreasing prices, a firm using a periodic inventory system will report higher gross profit if its inventory cost assumption is:

**A)** LIFO because during periods of decreasing prices, COGS will be lower, resulting in a higher gross profit.

**B)** FIFO because during periods of decreasing prices, COGS will be lower, resulting in a higher gross profit.

**C)** FIFO because during periods of decreasing prices, COGS will be higher, resulting in a higher gross profit.

---

## Question #28 of 89

Brigham Corporation uses the last-in, first-out (LIFO) method of accounting for inventory. For the year 20X5, the following is provided:

- Cost of goods sold (COGS): $24,000
- Beginning inventory: $6,000
- Ending inventory: $7,500
- The notes accompanying the financial statements indicate that the LIFO reserve at the beginning of the year was $2,250 and at the end of the year was $6,000

If Brigham had used first-in, first-out (FIFO), cost of goods sold for 20X5 would be:

**A)** $20,250.

**B)** $3,750.

**C)** $29,250.

---

## Question #29 of 89

A U.S. GAAP reporting firm changes its inventory cost flow assumption from average cost to LIFO. The firm must apply this change:

**A)** prospectively, with LIFO layers calculated from past purchases and sales.

**B)** prospectively, with the carrying value as the first LIFO layer.

**C)** retrospectively, because it is a change in accounting principle.

---

## Question #30 of 89

If prices are decreasing, the *best* estimates of inventory and cost of goods sold from an analyst's point of view are provided by:

**A)** FIFO inventory and FIFO cost of goods sold.

**B)** FIFO inventory and LIFO cost of goods sold.

**C)** LIFO inventory and FIFO cost of goods sold.

---

## Question #31 of 89

LIFO liquidation may result when:

**A)** cost of goods sold is less than the available inventory.

**B)** purchases are less than goods sold.

**C)** purchases are more than goods sold.

---

## Question #32 of 89

For a firm that uses the LIFO inventory cost method, a LIFO liquidation occurs if:

**A)** sales decrease during a reporting period.

**B)** the firm changes to a different inventory cost method.

**C)** inventory quantity decreases during a reporting period.

---

## Question #33 of 89

Given the following inventory data about a firm:

- Beginning inventory 20 units at $50/unit
- Purchased 10 units at $45/unit
- Purchased 35 units at $55/unit
- Purchased 20 units at $65/unit
- Sold 60 units at $80/unit

What is the inventory value at the end of the period using first in, first out (FIFO)?

**A)** $1,575.

**B)** $3,100.

**C)** $3,475.



---

## Question #34 of 89

The exhibit below provides relevant data and financial statement information about Acme's inventory purchases and sales of inventory for the last year.

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 699 | $5.00 |
| Purchases | 710 | $8.00 |
| Sales | 806 | $15.00 |

Cost of goods sold using the weighted average cost method is closest to:

**A)** $4,350.

**B)** $5,250.

**C)** $4,980.

---

## Question #35 of 89

Given the following data for a firm:

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 709 | $2.00 |
| Purchases | 556 | $6.00 |
| Sales | 959 | $13.00 |
| SGA Expenses | $2,649 per annum | |

What is the ending inventory level in dollars using the FIFO method?

**A)** $3,604.

**B)** $1,744.

**C)** $1,836.



---

## Question #36 of 89

A firm determines that inventory of manufactured goods with a cost of €10 million has a net realizable value of €9 million and writes down its carrying value to this amount. One period later, the firm determines that the net realizable value of this inventory has increased to €11 million. Under IFRS, the carrying value of this inventory:

**A)** must remain valued at €9 million.

**B)** may be revalued up to €11 million.

**C)** may be revalued up to €10 million.

---

## Question #37 of 89

A company that uses the LIFO inventory cost method records the following purchases and sales for an accounting period:

Beginning inventory, July 1: $5,000, 10 units

July 8: Purchase of $2,600 (5 units)

July 12: Sale of $2,200 (4 units)

July 15: Purchase of $2,800 (5 units)

July 21: Sale of $1,680 (3 units)

The company's cost of goods sold using a perpetual inventory system is:

**A)** $3,500.

**B)** $3,780.

**C)** $3,760.

---

## Question #38 of 89

MJ Inc. reported cost of goods sold of $80,000 for the year under the LIFO inventory valuation method. MJ had a beginning LIFO reserve of $8,000 and an ending LIFO reserve of $11,000. Cost of goods sold under the FIFO inventory valuation method is:

**A)** $83,000.

**B)** $77,000.

**C)** $91,000.

---

## Question #39 of 89

In periods of decreasing prices, which of the following statements is *most accurate*? Compared to FIFO, LIFO results in:

**A)** lower COGS, lower taxes and higher net income.

**B)** higher inventory balances and higher working capital.

**C)** higher inventory balances and lower working capital.

---

## Question #40 of 89

Costs that are included in the balance sheet value of inventory *most likely* include:

**A)** Selling costs.

**B)** Manufacturing overhead.

**C)** Administrative overhead.

---

## Question #41 of 89

Given the following information and assuming beginning inventory was zero and a periodic inventory system was used, what is the gross profit at the end of the period using the FIFO, LIFO, and average cost methods?

| Purchases | Sales |
|---|---|
| 20 units at $50 | 15 units at $60 |
| 35 units at $40 | 35 units at $45 |
| 85 units at $30 | 85 units at $35 |

| | FIFO | LIFO | Cost Average |
|---|---|---|---|
| **A)** | $650 | $750 | $990 |
| **B)** | $677 | $650 | $677 |
| **C)** | $650 | $750 | $677 |



---

## Question #42 of 89

The exhibit below provides relevant data and financial statement information about Acme's inventory purchases and sales of inventory for the last year.

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 699 | $5.00 |
| Purchases | 710 | $8.00 |
| Sales | 806 | $15.00 |

The ending inventory value in dollars using the FIFO method is:

**A)** $6,160.

**B)** $4,582.

**C)** $4,824.

---

## Question #43 of 89

Given the following inventory data about a firm:

- Beginning inventory 20 units at $50/unit
- Purchased 10 units at $45/unit
- Purchased 35 units at $55/unit
- Purchased 20 units at $65/unit
- Sold 60 units at $80/unit

What is the inventory value at the end of the period using LIFO?

**A)** $1,575.

**B)** $3,450.

**C)** $1,225.

---

## Question #44 of 89

During periods of rising prices, which of the following is *most likely* to occur?

**A)** LIFO COGS > FIFO COGS, therefore LIFO net income > FIFO net income.

**B)** LIFO COGS > FIFO COGS, therefore LIFO net income < FIFO net income.

**C)** LIFO COGS < FIFO COGS, therefore LIFO net income < FIFO net income.

---

## Question #45 of 89

The *most likely* effect of a write-down of inventory to net realizable value on a firm's quick ratio is:

**A)** a decrease.

**B)** no change.

**C)** an increase.

---

## Question #46 of 89

Orchard Supply Company uses LIFO inventory valuation. Orchard had a cost of goods sold of $1 million for the most recent year. Inventory was $500,000 at the beginning of the year and $600,000 at the end of the year. Orchard Supply's LIFO reserve was $100,000 at the beginning of the year and $200,000 at the end of the year. What is Orchard Supply's cost of goods sold using FIFO inventory valuation?

**A)** $900,000.

**B)** $800,000.

**C)** $1.1 million.

---

## Question #47 of 89

Assuming inventory levels remain constant during the year and prices have been stable over time, COGS would be:

**A)** higher under LIFO than FIFO or average cost.

**B)** the same for both LIFO and FIFO.

**C)** higher under the average cost than LIFO or FIFO.

---

## Question #48 of 89

In a decreasing price environment, the first-in first-out (FIFO) inventory cost method results in:

**A)** lower cost of goods sold compared to last-in first-out.

**B)** higher inventory compared to last-in first-out.

**C)** lower gross profit compared to last-in first-out.



---

## Question #49 of 89

During periods of declining prices, which inventory method would result in the *highest* net income?

**A)** LIFO.

**B)** Average Cost.

**C)** FIFO.

---

## Question #50 of 89

Given the following data on a firm's inventory, purchases, and sales:

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 559 | $1.00 |
| Purchases | 785 | $5.00 |
| Sales | 848 | $15.00 |

Cost of goods sold using the first in, first out (FIFO) method is *closest* to:

**A)** $8,730.

**B)** $2,830.

**C)** $2,004.

---

## Question #51 of 89

If a company chooses to write down inventory, which ratio is *most likely* to improve?

**A)** Debt-to-equity ratio.

**B)** Total asset turnover.

**C)** Operating profit margin.

---

## Question #52 of 89

Under U.S. GAAP, the LIFO reserve is a required financial statement disclosure:

**A)** only for firms that use the LIFO inventory cost method.

**B)** for all firms except those that use the specific identification cost method.

**C)** for firms that use either the LIFO or FIFO inventory cost methods.



---

## Question #53 of 89

For a company uses the LIFO inventory valuation method, a financial analyst can adjust the current ratio to the FIFO method by:

**A)** adding the LIFO reserve to current liabilities.

**B)** adding the LIFO reserve to current assets.

**C)** subtracting the LIFO reserve from current assets.

---

## Question #54 of 89

Cushinson Corp. had a beginning inventory of $9,500 (250 units) and made three inventory purchases during the fiscal year:

| | Purchases | Units Total Cost |
|---|---|---|
| 3/1/X6 | 400 | $14,800 |
| 7/1/X6 | 450 | $14,850 |
| 9/1/X6 | 550 | $15,950 |

The company began operations on Jan. 1, 20X6. Costing uses the LIFO method of determining cost of goods sold. First year sales were 1,300 units. The *most likely* effects of using LIFO inventory costing as compared to FIFO in Cushinson's 20X6 financial statements are:

**A)** higher net income; lower working capital.

**B)** higher net income; higher working capital.

**C)** lower net income; lower working capital.

## Question #55 of 89

A U.S. GAAP firm writes down inventory to net realizable value. In the period of the writedown, what is the *most likely* effect on cost of goods sold?

**A)** Decrease.

**B)** Increase.

**C)** No effect.

## Question #56 of 89

An analyst gathers the following information about a firm:

- Last in, first out (LIFO) inventory = $10,000
- Beginning LIFO reserve = $2,500
- Ending LIFO reserve = $4,000
- LIFO cost of goods sold = $15,000
- LIFO net income = $1,500
- Tax rate is 40%

To convert the financial statements to a FIFO basis, the amount the analyst should add to the stockholders' equity is *closest* to:

**A)** $2,800.

**B)** $2,400.

**C)** $4,000.



## Question #57 of 89

Given the following data and assuming a periodic inventory system, what is the ending inventory using the average cost method?

| Purchases | Sales |
|---|---|
| 40 units at $60/unit | 25 units at $65/unit |
| 50 units at $55/unit | 30 units at $60/unit |
| 60 units at $45/unit | 40 units at $50/unit |

**A)** $2,933.

**B)** $3,141.

**C)** $2,878.

## Question #58 of 89

Lincoln Corporation and Continental Incorporated are identical companies except that Lincoln complies with U.S. Generally Accepted Accounting Principles and Continental complies with International Financial Reporting Standards. Assuming an inflationary environment and stable inventory quantities, which permissible cost flow assumption will minimize each firm's pre-tax financial income?

| | Lincoln Corporation | Continental Incorporated |
|---|---|---|
| A) | Last-in, first-out | Average cost |
| B) | Last-in, first-out | Last-in, first-out |
| C) | First-in, first-out | First-in, first-out |

---

## Question #59 of 89

JME purchased 400 units of inventory that cost $4.00 each. Later the firm purchased an additional 500 units that cost $5.00 each. JME sold 700 units of inventory for $7.00 each. If JME uses a first in, first out (FIFO) cost flow method, the amount of gross profit appearing on the income statement is:

**A)** $2,400.

**B)** $3,100.

**C)** $1,800.

---

## Question #60 of 89

Judah Inc. prepares its financial statements under IFRS. On December 31, 20X8, Judah has inventory of manufactured goods with a cost of $720,000. The estimated selling cost of that inventory is $50,000 and its market value is $740,000. By January 31, 20X9, none of the inventory has been sold but its market value has increased to $810,000. Selling costs remain the same. Which of the following entries is *most likely* permissible under IFRS?

**A)** Write down inventory by $30,000 on December 31, 20X8 and write up inventory by $70,000 on January 31, 20X9.

**B)** Write down inventory by $30,000 on December 31, 20X8 and write up inventory by $30,000 on January 31, 20X9.

**C)** Make no adjustments to the valuation of inventory on either date.

---

## Question #61 of 89

Goldberg Inc. produces and sells electronic equipment. Which of the following inventory costs is *most likely* to be recognized as an expense on Goldberg's financial statements in the period incurred?

**A)** Freight costs on inputs.

**B)** Conversion cost.

**C)** Selling cost.

---

## Question #62 of 89

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 709 | $2.00 |
| Purchases | 556 | $6.00 |
| Sales | 959 | $13.00 |

What is gross profit using the FIFO method and LIFO method?

| | FIFO | LIFO |
|---|---|---|
| **A)** | $9,549 | $8,325 |
| **B)** | $8,325 | $8,862 |
| **C)** | $8,862 | $9,549 |



---

## Question #63 of 89

Selected information from Jenner, Inc.'s financial statements for the year ended December 31 included the following (in $):

| | | | |
|---|---|---|---|
| Cash | $200,000 | Accounts Payable | $300,000 |
| Accounts Receivable | 300,000 | Deferred Tax Liability | 600,000 |
| Inventory | 1,500,000 | Long-term Debt | 8,100,000 |
| Property, Plant & Equip. | 11,000,000 | Common Stock | 2,200,000 |
| Total Assets | 13,000,000 | Retained Earnings | 1,800,000 |
| | | Total Liabilities & Equity | $13,000,000 |
| LIFO Reserve at Jan. 1 | 400,000 | | |
| LIFO Reserve at Dec. 31 | 600,000 | | |
| Net Income (after 40% tax rate) | 800,000 | | |

Jenner uses the last in, first out (LIFO) inventory cost flow assumption. If Jenner had used first in, first out (FIFO), return on total equity would:

**A)** increase to 21.1%.

**B)** decrease to 18.3%.

**C)** increase to 23.0%.

---

## Question #64 of 89

McKay Company uses a periodic inventory system and the FIFO inventory cost method. In the most recent period, McKay had beginning inventory of $4,200, purchases of $1,400, cost of sales $1,300, and ending inventory of $4,300. If McKay had used a perpetual inventory system, its ending inventory would have been:

**A)** $4,300.

**B)** $4,200.

**C)** $4,400.

---

## Question #65 of 89

Given the following data for a firm:

| | **Units** | **Unit Price** |
|---|---|---|
| Beginning Inventory | 709 | $2.00 |
| Purchases | 556 | $6.00 |
| Sales | 959 | $13.00 |
| SGA Expenses | $2,649 per annum | |

Cost of goods sold using the average cost method and using the first in first out (FIFO) method are *closest to*:

| | Average cost | FIFO |
|---|---|---|
| **A)** | $3,600 | $3,400 |
| **B)** | $3,600 | $2,900 |
| **C)** | $4,150 | $3,400 |

---

## Question #66 of 89

The exhibit below provides relevant data and financial statement information about Acme's inventory purchases and sales of inventory for the last year.

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 699 | $5.00 |
| Purchases | 710 | $8.00 |
| Sales | 806 | $15.00 |

The value of the ending inventory level in dollars using the last-in-first-out (LIFO) method is:

**A)** $6,160.

**B)** $3,015.

**C)** $4,824.

---

## Question #67 of 89



Selected financial data from Krandall, Inc.'s balance sheet for the year ended December 31 was as follows (in $):

| | | | |
|---|---|---|---|
| Cash | $1,100,000 | Accounts Payable | $400,000 |
| Accounts Receivable | 300,000 | Deferred Tax Liability | 700,000 |
| Inventory | 2,400,000 | Long-term Debt | 8,200,000 |
| Property, Plant & Eq. | 8,000,000 | Common Stock | 1,000,000 |
| Total Assets | 11,800,000 | Retained Earnings | 1,500,000 |
| | | Total Liabilities & Equity | 11,800,000 |
| LIFO Reserve at Jan. 1 | 600,000 | | |
| LIFO Reserve at Dec. 31 | 900,000 | | |

Krandall uses the last in, first out (LIFO) inventory cost flow assumption. The tax rate is 40%. If Krandall used first in, first out (FIFO) instead of LIFO and paid any additional tax due, its assets-to-equity ratio would be *closest* to:

**A)** 4.18

**B)** 4.06

**C)** 3.73

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## Question #68 of 89

Given the following data and assuming a periodic inventory system, what is the ending inventory value using the FIFO method?

| Purchases | Sales |
|---|---|
| 50 units at $50/unit | 25 units at $55/unit |
| 60 units at $45/unit | 30 units at $50/unit |
| 70 units at $40/unit | 45 units at $45/unit |

**A)** $3,250.

**B)** $3,200.

**C)** $3,600.

---

## Question #69 of 89

An analyst is comparing a company that uses the LIFO inventory cost method to companies that use FIFO for inventories. The analyst should adjust the LIFO firm's cost of goods sold by subtracting the:

**A)** LIFO reserve.

**B)** LIFO reserve, net of tax.

**C)** change in the LIFO reserve.

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## Question #70 of 89

Arlington, Inc. uses the first in, first out (FIFO) inventory cost flow assumption. Beginning inventory and purchases of refrigerated containers for Arlington were as follows:

| | Units | Unit Cost | Total Cost |
|---|---|---|---|
| Beginning Inventory | 20 | $10,000 | $200,000 |
| Purchases, April | 10 | 12,000 | 120,000 |
| Purchases, July | 10 | 12,500 | 125,000 |
| Purchases, October | 20 | 15,000 | 300,000 |

In November, Arlington sold 35 refrigerated containers to Johnson Company. What is the cost of goods sold assigned to the 35 sold containers?

**A)** $382,500.

**B)** $485,000.

**C)** $434,583.

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## Question #71 of 89

If all else holds constant in periods of rising prices and inventory levels:

**A)** FIFO firms will have greater stockholder's equity than LIFO firms.

**B)** LIFO firms have higher gross profit margins than FIFO firms.

**C)** FIFO firms have higher debt to equity ratios than LIFO firms.

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## Question #72 of 89

Which of the following ratio levels would suggest that a company is holding obsolete inventory?

**A)** Low inventory turnover ratio.

**B)** Low number of days in inventory.

**C)** Low inventory value compared to cost of goods sold.

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## Question #73 of 89

Under the first-in-first-out (FIFO) inventory valuation method, ending inventory reflects the costs of the:

**A)** earliest purchases.

**B)** specific units available for sale.

**C)** most recent purchases.

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## Question #74 of 89

Barber Inc., which uses LIFO inventory accounting under U.S. GAAP, sells DVD recorders. On October 14, it purchased a large number of recorders at a cost of $90 each. Due to an oversupply of recorders remaining in the marketplace due to lower than anticipated demand during the Christmas season, the selling price at December 31 is $80 and the replacement cost is $73. The normal profit margin is 5 percent of the selling price and the selling costs are $2 per recorder. What is the value of the recorders on December 31?

**A)** $78.

**B)** $74.

**C)** $73.

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## Question #75 of 89

If a firm pledges inventories as collateral for a loan, the firm must:

**A)** create a contra asset account in the amount of the pledged inventories.

**B)** offset the pledged inventories against current liabilities.

**C)** disclose the carrying value of the pledged inventories.

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## Question #76 of 89

The year-end financial statements for a firm using LIFO inventory accounting show an inventory level of $5,000, cost of goods sold of $16,000, and inventory purchases of $14,500. If the LIFO reserve is $4,000 at year-end and was $1,500 at the beginning of the year, what would the cost of goods sold have been using FIFO inventory accounting?

**A)** $18,500.

**B)** $12,000.

**C)** $13,500.

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## Question #77 of 89

Inventory, cost of sales, and gross profit can be different under periodic and perpetual inventory systems if a firm uses which inventory cost method?

**A)** LIFO or weighted average cost, but not FIFO.

**B)** LIFO or FIFO, but not weighted average cost.

**C)** FIFO or weighted average cost, but not LIFO.



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## Question #78 of 89

In an increasing price environment, an analyst who wants to consider tax effects when converting a LIFO firm's balance sheet to a FIFO basis is *most likely* to decrease the LIFO firm's:

**A)** retained earnings.

**B)** inventories.

**C)** cash.

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## Question #79 of 89

In periods of rising prices and stable or increasing inventory quantities, using the LIFO method for inventory accounting compared to FIFO will result in:

**A)** higher cost of sales, lower income, higher cash flows, and lower inventory.

**B)** higher cost of sales, lower income, lower cash flows, and lower inventory.

**C)** lower cost of sales, higher income, identical cash flows, and lower inventory.

## Question #80 of 89

The effect of an inventory writedown on a firm's return on assets (ROA) is *most accurately* described as:

**A)** lower ROA in the current period and no effect on ROA in later periods.

**B)** lower ROA in the current period and higher ROA in later periods.

**C)** higher ROA in the current period and lower ROA in later periods.

## Question #81 of 89

If prices are increasing, the weighted average cost method *most likely* results in inventory values that are higher than the inventory values using:

**A)** first-in first-out (FIFO).

**B)** specific identification.

**C)** last-in first-out (LIFO).

## Question #82 of 89

Other things equal, compared to using the first-in-first-out (FIFO) inventory cost method, using the last-in-first-out (LIFO) method in a rising price environment will result in a higher:

**A)** inventory turnover ratio.

**B)** quick ratio.

**C)** gross profit margin.



## Question #83 of 89

If prices and inventory quantities are increasing, the last-in first-out (LIFO) inventory cost method results in:

**A)** lower cost of goods sold compared to first-in first-out.

**B)** lower gross profit compared to first-in first-out.

**C)** higher inventory compared to first-in first-out.

## Question #84 of 89

In a period of rising prices, LIFO liquidation results in:

**A)** higher inventory.

**B)** higher earnings.

**C)** lower earnings.

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## Question #85 of 89

Using the lower of cost or market principle under U.S. GAAP, if the market value of inventory falls below its historical cost, the minimum value at which the inventory can be reported in the financial statements is the:

**A)** net realizable value.

**B)** market price minus selling costs minus normal profit margin.

**C)** net realizable value minus selling costs.

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## Question #86 of 89

From an analyst's point of view, which accounting methods are preferable for income statements and balance sheets?

**A)** First in, first out (FIFO) for both income statements and balance sheets.

**B)** Last in, first out (LIFO) for the balance sheet and first in, first out (FIFO) for the income statement.

**C)** Last in, first out (LIFO) for income statements and first in, first out (FIFO) for the balance sheet.



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## Question #87 of 89

Due to declining prices, Steffen Inc. has a LIFO reserve of –$20. Its income tax rate is 35%. If an analyst is converting Steffen's financial statements to a FIFO basis, which of the following adjustments is *most* appropriate?

**A)** Increase shareholders’ equity by $13.

**B)** Increase assets by $20.

**C)** Increase cash by $7.

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## Question #88 of 89

| | Units | Unit Price |
|---|---|---|
| Beginning Inventory | 709 | $2.00 |
| Purchases | 556 | $6.00 |
| Sales | 959 | $13.00 |
| Sales Expenses | $2,649 per annum | |

Ignoring taxes, what is profit using the weighted average method?

**A)** $6,027.56.

**B)** $5,676.00.

**C)** $6,213.98.

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## Question #89 of 89

Information related to Bledsoe Corporation's inventory, as of December 31, 20x7, follows:

| | |
|---|---|
| Estimated selling price | $3,500,000 |
| Estimated disposal costs | 50,000 |
| Estimated completion costs | 300,000 |
| Original FIFO cost | 3,200,000 |
| Replacement cost | 3,300,000 |

Using the appropriate valuation method, what adjustment is necessary to accurately report Bledsoe's inventory at the end of 20x7, and will this adjustment affect Bledsoe's quick ratio?

| | Adjustment | Quick ratio |
|---|---|---|
| **A)** | $50,000 write-down | Yes |
| **B)** | $50,000 write-down | No |
| **C)** | $100,000 write-up | No |