Financial Accounting for Executives & MBAs
5th Edition
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PRACTICE QUIZ

Chapter 6: Operating Expenses, Inventory Valuation, and Accounts Payable

Identify the answer that BEST completes the statement or answers the question.

1. The University Bookstore maintains its hand-held calculator inventory using the perpetual inventory method. The inventory records for April follow:

Beginning inventory	10 units @ $6.80 each
April 12 purchase	30 units @ $7.00 each
April 20 sale	33 units @ $12 each
April 25 purchase	12 units @ $7.50 each

Using the weighted-average cost method, how much is the April 30 ending inventory on the University Bookstore's balance sheet?

a. $ 7.28
b. $227.70
c. $138.65
d. $133.76

2. Using the weighted-average cost method, how much will the University Bookstore report as gross profit for April?

a. $227.70
b. $138.30
c. $396.00
d. $166.65

3. Smith & Son reported $145,000 as its ending inventory and $3,560,000 as cost of goods sold for Year 2. Its LIFO reserve totaled $120,000 and $83,000 for Year 2 and Year 1, respectively. Sales amounted to $7,000,000 for Year 2.

If the company had used FIFO instead of LIFO, how much would it have reported for gross profit during Year 2?

a. $3,597,000
b. $3,477,000
c. $3,203,000
d. $3,360,000

4. Smith & Sons reported $145,000 as its ending inventory and $3,560,000 as cost of goods sold for Year 2. Its LIFO reserve totaled $120,000 and $83,000 for Year 2 and Year 1, respectively. The company's effective income tax rate was 30%. Sales amounted to $7,000,000 for Year 2.

How much did the company save in income taxes as a result of using LIFO to value its inventories during Year 2?
a. $37,000
b. $44,400
c. $11,100
d. $23,680

5. The Claremont Company maintains its inventory using the perpetual inventory method. The inventory records for June follow:

Beginning inventory	40 units @ $5.00 each
June 11 purchase	60 units @ $5.50 each
June 29 sale	75 units @ $9 each

Using the FIFO inventory-costing method, how much will the company report as cost of goods sold for June?
a. $495.00
b. $137.50
c. $405.00
d. $392.50

6. The Claremont Company maintains its inventory using the perpetual inventory method. The inventory records for June follow:

Beginning inventory	40 units @ $5.00 each
June 11 purchase	60 units @ $5.50 each
June 29 sale	75 units @ $9 each

Using the LIFO inventory-costing method, how much will the company report as ending inventory at June 30?
a. $125.00
b. $137.50
c. $405.00
d. $392.50

7. The LIFO conformity rule states that:
a. A firm must use the same inventory valuation method for both taxes and financial reporting.
b. A firm must use LIFO for taxes if it uses LIFO for financial reporting.
c. A firm must use LIFO for financial reporting if it uses LIFO for taxes.
d. All of the above are true.

8. If a company uses the LIFO cost flow assumption on its federal income tax return in order to minimize its tax payment, then it:

a. Must use LIFO on its financial statements.
b. Must use FIFO on its financial statements.
c. May use any cost flow assumption permitted by GAAP on its financial statements.
d. Must correct the error at the beginning of the next accounting period.

Use the following information to answer Questions 9 and 10:

The Claremont Company began operations on June 1 and made the following inventory purchases in June:

June 1	150 units	$ 780
June 10	200 units	1,170
June 15	200 units	1,260
June 28	150 units	990
		$4,200

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand.

9. Using the LIFO inventory method, what is the value of the ending inventory on June 30?

a. $1,365
b. $1,620
c. $2,580
d. $2,835

10. Using the FIFO inventory method, what is the cost of goods sold for June?

a. $1,620
b. $2,290
c. $2,580
d. $2,835

SOLUTIONS

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1. c

Rationale: [(10 x $6.80) + (30 x $7.00) / 40] = $6.95 weighted average cost
(7 x $6.95) + (12 x $7.50)

2. d

Rationale: [33 ($12.00 – $6.95)]

3. b

Rationale: [($7,000,000 – $3,560,000) + ($120,000 – $83,000)]

4. c

Rationale: [($120,000 – $83,000) x 30%]

5. d

Rationale: [(40 units @ $5.00) + (35 units @ $5.50)]

6. a

Rationale: (25 units @ $5)

7. c

8. a

9. a

Rationale: [$780 + (100 / 200 x $1,170)]

10. c

Rationale: [$780 + $1,170 + (100 / 200 x $1,260)]