



FOTAMAT

## Check list

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## 1

**Classifying inventory in manufacturing companies:**

- A. Raw materials: is the basic goods that will be used in production but have not yet been placed into production.
- B. Work in process: is the portion of manufactured inventory that has been placed into the production process but is not yet completed.
- C. Finish goods inventory: is manufactured items that are completed and ready for sale.

**Just in time**: manufacture or purchase goods just in time for use.

1-Merchandise inventory is

- a. reported under the classification of Property, Plant, and Equipment on the statement of financial position.
- b. often reported as a miscellaneous expense on the income statement.
- c. reported as a current asset on the statement of financial position.**
- d. generally valued at the price for which the goods can be sold.

2-Items not yet placed into production are considered to be

- a. raw materials.**
- b. work in process.
- c. finished goods.
- d. merchandise inventory.

3-In a manufacturing business, inventory that is ready for sale is called

- a. raw materials inventory.
- b. work in process inventory.
- c. finished goods inventory.**
- d. store supplies inventory.

4-Manufacturers usually classify inventory into all the following general categories **except**

- a. work in process
- b. finished goods
- c. merchandise inventory**
- d. raw materials

## 2

**The purpose of physical count under:**

**Periodic system** to determine: the inventory on hand - COGS

**Perpetual system:** to check the accuracy of the records – to determine the amount of inventory lost due wasted raw materials, shoplifting or employee theft.

Goods in Transit	
Legal title / terms of sale	The owner
FOB shipping point	Buyer
FOB shipping destination	Seller

**Consigned goods:** hold goods of other parties and try to sell the goods for them for a fee, but without taking the ownership of the goods.

1-The factor which determines whether goods in transit should be included in a physical count of inventory is

- physical possession.
- legal title.**
- management's judgment.
- whether or not the purchase price has been paid.

2-If goods in transit are shipped FOB destination

- the seller has legal title to the goods until they are delivered.**
- the buyer has legal title to the goods until they are delivered.
- the transportation company has legal title to the goods while the goods are in transit.
- no one has legal title to the goods until they are delivered.

3-Which of the following should be included in the physical inventory of a company?

- Goods held on consignment from another company.
- Goods in transit to another company shipped FOB shipping point.
- Goods in transit from another company shipped FOB shipping point.**
- Both goods in transit to and from another company shipped FOB shipping point.

4-Goods in transit should be included in the inventory of the buyer when the

- public carrier accepts the goods from the seller.
- goods reach the buyer.
- terms of sale are FOB destination.
- terms of sale are FOB shipping point.**

5-An auto manufacturer would classify vehicles in various stages of production as

- finished goods.
- merchandise inventory.
- raw materials.
- work in process.**

6-Blosser Company's goods in transit at December 31 include:

purchases made

sales made

FOB destination (3)

FOB destination (1)

FOB shipping point (4)

FOB shipping point (2)

Which items should be included in Blosser's inventory at December 31?

- (2) and (3)
- (1) and (4)**
- (1) and (3)
- (2) and (4)

7-The term "FOB" denotes

- free on board.**
- freight on board.
- free only (to) buyer.
- freight charge on buyer.

8-As a result of a thorough physical inventory, Hastings Company determined that it had inventory worth \$570,000 at December 31, 2014. This count did not take into consideration the following facts: Carlin Consignment store currently has goods worth \$104,000 on its sales floor that belong to Hastings but are being sold on consignment by Carlin. The selling price of these goods is \$150,000. Hastings purchased \$40,000 of goods that were shipped on December 27 FOB destination, that will be received by Hastings on January 3. Determine the correct amount of inventory that Hastings should report.

- \$610,000.
- \$714,000.
- \$674,000.**
- \$720,000.

9-Chang Company took a physical inventory at December 31, 2013 and determined that ¥3,950,000 of goods were on hand. Included in the count was inventory of ¥700,000 on consignment from Keiko Company. On December 30, Chang sold and shipped f.o.b. destination ¥820,000 worth of inventory. These goods arrived at the buyer's place of business on January 2, 2014. What amount should Chang report for inventory on its December 31, 2013 statement of financial position?

- ¥3,950,000.
- ¥4,070,000.**
- ¥3,370,000.
- ¥4,770,000.

10-Bellingham Inc. took a physical inventory at the end of the year and calculated that £1,450,000 of goods were on hand. Bellingham determined that £25,000 of goods were in transit. The goods were shipped f.o.b. shipping point and were received by Bellingham two days after the inventory count. The company also had £275,000 of goods out on consignment. What amount should Bellingham report for inventory on its statement of financial position?

- a. £1,150,000.
- b. £1,450,000.
- c. £1,725,000.
- d. £1,750,000.**

11-Godchaux Inc. took a physical inventory at December 31, 2013 and determined that €295,000 of goods were on hand. In addition, the following items were not included in the physical count: (1) €60,000 of goods were in transit, shipped f.o.b. destination (goods were received by Godchaux three days on January 3, 2014) and (2) the company shipped f.o.b. destination €25,000 worth of inventory on December 29. The goods arrived at the buyer's place of business on January 2, 2014. What amount should Godchaux report as inventory at the end of 2013?

- a. €295,000.
- b. €355,000.
- c. €320,000.**
- d. €380,000.

12-Ching Inc. took a physical inventory at December 31, 2013 and determined that ¥4,570,000 of goods were on hand. On December 29, the company had ordered ¥1,010,000 of goods which were in transit. The goods were shipped f.o.b. shipping point and arrived on January 2, 2014. The company had also sold and shipped f.o.b. destination ¥950,000 worth of inventory on December 28. The goods arrived at the buyer's place of business on January 4, 2014. Ching's December 31, 2013 statement of financial position will report inventory of

- a. ¥3,560,000.
- b. ¥4,570,000.
- c. ¥5,580,000.
- d. ¥6,530,000.**

13-Keiko Company took a physical inventory at December 31, 2013 and determined that ¥3,530,000 of goods were on hand. In addition, the company had goods consigned with Chang Company that had a cost of ¥700,000. On December 29, Keiko sold and shipped f.o.b. shipping point ¥600,000 worth of inventory. These goods arrived at the buyer's place of business on January 4, 2014. What amount should Keiko report as inventory on its December 31, 2013 statement of financial position?

- a. ¥3,530,000.
- b. ¥4,130,000.
- c. ¥4,230,000.**
- d. ¥4,730,000.

**3****Determining inventory quantities:**

- 1-taking a physical count of goods on hand.
- 2-determining the ownership of goods.

**Inventory costing:**

1. specific identification
2. Cost flow assumption
  - A. FIFO: first in first out
  - B. Average cost

1- The selection of an appropriate inventory cost flow assumption for an individual company is made by

- a. the external auditors.
- b. the IASB.
- c. the internal auditors.
- d. **company management.**

2-Of the following companies, which one would **not** likely employ the specific identification method for inventory costing?

- a. Music store specializing in organ sales
- b. Farm implement dealership
- c. Antique shop
- d. **Hardware store**

3-A problem with the specific identification method is that

- a. inventories can be reported at actual costs.
- b. **management can manipulate income.**
- c. matching is not achieved.
- d. the lower-of-cost-or-net realizable value basis cannot be applied.

4-Which one of the following inventory methods is often impractical to use?

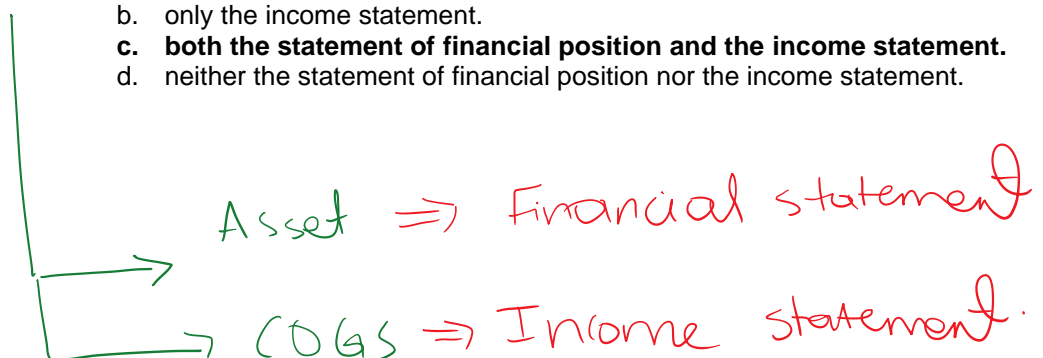
- a. **Specific identification**
- b. Average cost
- c. FIFO
- d. All of these answer choices are practical to use

5-The cost flow method that often parallels the actual physical flow of merchandise is the

- a. FIFO method.
- b. **specific identification method.**
- c. average-cost method.
- d. gross profit method.

6-Inventories affect

- a. only the statement of financial position.
- b. only the income statement.
- c. **both the statement of financial position and the income statement.**
- d. neither the statement of financial position nor the income statement.

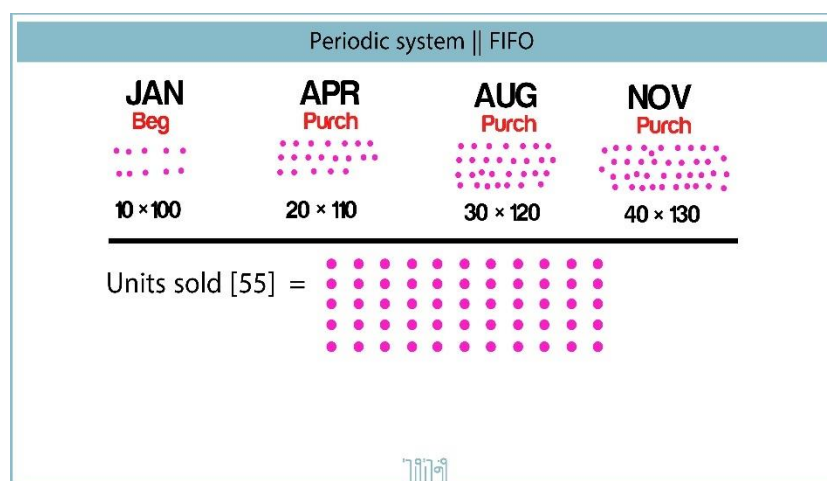




4

### Example Under Periodic Inventory System

LIN Electronics Astro Condensers				
Date	Explanation	units	Unit cost	Total cost
Jan. 1	Beginning inventory	10	\$ 100	\$ 1000
Apr. 15	purchase	20	110	2,200
Aug. 24	purchase	30	120	3,600
Nov. 27	Purchase	<u>40</u>	130	<u>5,200</u>
	Total units available for sale	100		\$ 12,000
	Units in ending inventory	( <u>45</u> )		
	Units sold	55		



Under **FIFO** calculate:

COGS

Ending Inventory

Under **Average Cost** calculate:

Weighted Average Unit Cost=

Cost of Goods Available for Sale

\_\_\_\_\_

Total units Available for Sale

COGS

Ending Inventory

1-Beginning inventory plus the cost of goods purchased equals

- cost of goods sold.
- cost of goods available for sale.**
- net purchases.
- total goods purchased.

2-The cost of goods available for sale is allocated between

- beginning inventory and ending inventory.
- beginning inventory and cost of goods on hand.
- ending inventory and cost of goods sold.**
- beginning inventory and cost of goods purchased.

3-A company purchased inventory as follows:

200 units at \$5

300 units at \$6

The average unit cost for inventory is

- \$5.00.
- \$5.50.
- \$5.60.**
- \$6.00.

4-Unitech has the following inventory information.

July	1	Beginning Inventory	50 units at \$19	\$ 950
	7	Purchases	175 units at \$20	3,500
	22	Purchases	25 units at \$22	<u>550</u>
				\$5,000

A physical count of merchandise inventory on July 31 reveals that there are 75 units on hand.

Using the FIFO inventory method, the amount allocated to cost of goods sold for July is

- \$1,450.
- \$1,550.
- \$3,450.**
- \$3,550.

Using the average-cost method, the value of ending inventory is

- \$1,450.
- \$1,500.**
- \$1,525.
- \$1,550.

## 5

## Example under Perpetual Inventory system

LIN Electronics Astro Condensers					
Date	Explanation	units	Unit cost	Total cost	Balance in Units
Jan. 1	Beginning inventory	10	\$ 100	\$ 1000	10
Apr. 15	Purchase	20	110	2,200	30
Aug. 24	Purchase	30	120	3,600	60
Sept. 10	Sale	55			5
Nov. 27	Purchase	40	130	<u>5,200</u>	45
				\$ 12,000	

Under **FIFO** calculate:

COGS

Ending Inventory

Date	Purchases		sales	Cost of Goods Sold	Balance in units	Balance in cost
	Units	Cost				

Under **Average Cost** calculate:

Date	Purchases		sales	Cost of Goods Sold	Balance in units	Balance in cost	
	Units	Cost					

- Calculate Average Cost after each purchase transaction.
- Under FIFO, COGS and Ending Inventory are the same for perpetual and periodic inventory system
- Under Average cost, COGS and Ending Inventory are **NOT** the same for perpetual and periodic inventory system

1-A new average cost is computed each time a purchase is made in the

- a. average-cost method.
- b. moving-average cost method.**
- c. weighted-average cost method.
- d. all of these methods.

2-When valuing ending inventory under a perpetual inventory system, the

- a. valuation using the average-cost assumption is the same as the valuation using the average-cost assumption under the periodic inventory system.
- b. moving average requires that a new average be computed after every sale.
- c. valuation using the FIFO assumption is the same as under the periodic inventory system.**
- d. last units purchased during the period using the FIFO assumption are allocated to the cost of goods sold when units are sold.

3-The cost of goods available for sale is allocated to the cost of goods sold and the

- a. beginning inventory.
- b. ending inventory.**
- c. cost of goods purchased.
- d. gross profit.

4-Julian Junkets has the following inventory information.

July 1	Beginning Inventory	15 units at \$90
5	Purchases	90 units at \$84
14	Sale	60 units
21	Purchases	45 units at \$87
30	Sale	42 units

Assuming that a perpetual inventory system is used, what is the ending inventory on a FIFO basis?

- a. \$4,122
- b. \$4,131
- c. \$4,167**
- d. \$8,694

Assuming that a perpetual inventory system is used, what is the ending inventory (rounded) under the average-cost method?

- a. \$4,125**
- b. \$4,176
- c. \$3,609
- d. \$4,158

**6****E6-6**

Howsham Company, Ltd. reports the following for the month of June.

	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1 June Inventory	200	£5	£1,000
12 Purchase	300	6	1,800
23 Purchase	500	7	3,500
30 Inventory	160		

**Instructions**

1. Compute the cost of the ending inventory and the cost of goods sold under (1) FIFO and (2) average-cost.

## 7

## E6-15

Howsham Company, Ltd. reports the following for the month of June.

<u>Date</u>	<u>Explanation</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1 June	Inventory	200	£5	£1,000
12	Purchase	300	6	1,800
23	Purchase	500	7	3,500
30	Inventory	160		

**Instructions**

1. Calculate the cost of the ending inventory and the cost of goods sold for (1) FIFO and (2) moving-average cost, using a perpetual inventory system. Assume a sale of 400 units occurred on June 15 for a selling price of £8 and a sale of 440 units on June 27 for £9.





1-The following information was available from the inventory records of Queen Company for July:

	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Balance at July 1	30,000	£ 4.50	£135,000
Purchases:			
July 6	20,000	5.10	102,000
July 26	27,000	5.20	140,400
Sales:			
July 7	(25,000)		
July 31	<u>(40,000)</u>		
Balance at July 31	<u>12,000</u>		

What is Queen's cost of goods available for sale?

- £38,500.
- £142,400.
- £377,400.**
- cannot be determined.

What should be the inventory reported on Queen's July 31 statement of financial position using the average-cost inventory method (round per unit amounts to two decimal places)?

- £54,000.
- £58,800.**
- £59,220.
- £63,000.

What should be the inventory reported on Queen's July 31 statement of financial position using the FIFO inventory method?

- £54,000.
- £58,800.
- £62,400.**
- £63,000.

2-Vestle Company uses the periodic inventory system. For January 2014, the beginning inventory consisted of 24,000 units that cost CHF12 each. During the month, the company made two purchases: 10,000 units at CHF13 each and 40,000 units at CHF13.50 each. Vestle sold 43,000 units during the month for CHF19.50 per unit. Using the average-cost method, what is the amount of cost of goods sold for the month of January 2014 (round per unit amount to two decimal places)?

- CHF556,850.**
- CHF579,000.
- CHF539,500.
- CHF559,000.

3-Nolvo Company uses the periodic inventory system. For February 2014, the beginning inventory consisted of 400 units that cost CHF65 each. During the month, the company made two purchases: 1,600 units at CHF68 each and 600 units at CHF72 each. Nolvo sold 2,000 units during the month of February at CHF110 per unit. Using the average cost method, what is the amount of ending inventory at February 28, 2014?

- a. CHF43,200.
- b. CHF42,000.
- c. **CHF41,076.**
- d. CHF39,000.

4-A company just starting in business purchased three inventory items at the following prices. First purchase \$80; Second purchase \$95; Third purchase \$85. If the company sold two units for a total of \$260 and used FIFO costing, the gross profit for the period would be

- a. **\$85.**
- b. \$95.
- c. \$80.
- d. \$70.

5-Ted's Used Cars uses the specific identification method of costing inventory. During March, Ted purchased three cars for \$8,000, \$10,000, and \$13,000, respectively. During March, two cars are sold for \$11,000 each. Ted determines that at March 31, the \$13,000 car is still on hand. What is Ted's gross profit for March?

- a. \$3,000.
- b. **\$4,000.**
- c. \$1,000.
- d. \$9,000.

6-Colletti Company recorded the following data:

Date	Units			Unit
	Received	Sold	On Hand	Cost
1/1 Inventory			600	\$3.00
1/8 Purchased	900		1,500	3.30
1/12 Sold		1,200	300	

The weighted average unit cost of the inventory at January 31 is:

- a. \$3.00.
- b. \$3.15.
- c. **\$3.18.**
- d. \$3.30.

7-Graham Company uses a periodic inventory system. Details for the inventory account for the month of January, 2014 are as follows:

	<u>Units</u>	<u>Per unit price</u>	<u>Total</u>
Balance, 1/1/14	200	\$5.00	\$1,000
Purchase, 1/15/14	100	5.30	530
Purchase, 1/28/14	100	5.50	550

An end of the month (1/31/14) inventory showed that 120 units were on hand.

How many units did the company sell during January 2014?

- a. 80
- b. 120
- c. 200
- d. 280**

If the company uses FIFO, what is the value of the ending inventory?

- a. \$520
- b. \$600
- c. \$656**
- d. \$1,424

8-At May 1, 2014, Deitrich Company had beginning inventory consisting of 200 units with a unit cost of €3.50. During May, the company purchased inventory as follows:

400 units at €3.50

600 units at €4.00

The company sold 1,000 units during the month for €6 per unit. Deitrich uses the average-cost method.

The average cost per unit for May is

- a. €3.50.
- b. €3.75.**
- c. €3.80.
- d. €4.00.

The value of Deitrich's inventory at May 31, 2014 is

- a. €700.
- b. €750.**
- c. €800.
- d. €4,500.

## 8

## P6-8A

Tempo Ltd. is a retailer operating in Dartmouth, Nova Scotia. Tempo uses the perpetual inventory method. All sales return from customers result in the goods being returned to inventory; the inventory is not damaged. Assume that there are no credit transactions; all amounts are settled in cash. You are provided with the following information for Tempo Ltd. for the month of January 2017.

<u>Date</u>	<u>Description</u>	<u>Quantity</u>	<u>Unit selling cost or selling price</u>
December 31	Ending Inventory	150	\$ 17
January 2	Purchase	100	21
January 6	Sale	150	40
January 9	Sale return	10	40
January 9	Purchase	75	24
January 10	Purchase return	15	24
January 10	Sale	50	45
January 23	Purchase	100	28
January 30	Sale	110	50

## Instructions

1-for each of the following cost flow assumptions, calculate: (a) cost of goods sold, (b) ending inventory, and (c) gross profit.

Date	FIFO								
	Purchases			Cost of Goods Sold			Balance		
	Units	Cost	Total	Units	Cost	Total	Units	Cost	Total

Average cost									
Date	Purchases			Cost of Goods Sold			Balance		
	Units	Cost	Total	Units	Cost	Total	Units	Cost	Total

1-Kershaw Bookstore had 1,000 units on hand at January 1, costing €18 each. Purchases and sales during the month of January were as follows:

<u>Date</u>	<u>Purchases</u>	<u>Sales</u>
Jan. 14		750 @ €28
17	500 @ €20	
25	500 @ €22	
29		500 @ €32

Kershaw does not maintain perpetual inventory records. According to a physical count, 750 units were on hand at January 31.

The cost of the inventory at January 31, under the FIFO method is:

- €2,000.
- €13,500.
- €15,500.
- €16,000.**

2-Nighborly Industries has the following inventory information.

July 1	Beginning Inventory	30 units at \$120
5	Purchases	180 units at \$112
14	Sale	120 units
21	Purchases	90 units at \$115
30	Sale	84 units

Assuming that a periodic inventory system is used, what is the amount allocated to ending inventory on a FIFO basis?

- \$10,992
- \$11,022**
- \$23,088
- \$23,118

3-Sawyer Company uses the perpetual inventory system and the moving-average method to value inventories. On August 1, there were 10,000 units valued at \$50,000 in the beginning inventory. On August 10, 20,000 units were purchased for \$10 per unit. On August 15, 24,000 units were sold for \$20 per unit. The amount charged to cost of goods sold on August 15 was

- \$50,000.
- \$200,000.**
- \$240,000.
- \$180,000.

4-Holliday Company's inventory records show the following data:

	<u>Units</u>	<u>Unit Cost</u>
Inventory, January 1	5,000	£2.25
Purchases: June 18	4,500	2.00
November 8	3,000	1.75

A physical inventory on December 31 shows 2,000 units on hand. Holliday sells the units for £3 each. The company has an effective tax rate of 20%. Holliday uses the periodic inventory method.

Under the FIFO method, the December 31 inventory is valued at

- a. **£3,500.**
- b. £3,625.
- c. £3,750.
- d. £4,500.

A physical inventory on December 31 shows 2,000 units on hand. Holliday sells the units for £3 each. The company has an effective tax rate of 20%. Holliday uses the periodic inventory method. What is the cost of goods available for sale?

- a. £5,250
- b. £9,000
- c. £11,250
- d. **£25,500**

A physical inventory on December 31 shows 2,000 units on hand. Holliday sells the units for £3 each. The company has an effective tax rate of 20%. Holliday uses the periodic inventory method. The weighted-average cost per unit is

- a. £1.88.
- b. £2.00.
- c. **£2.04.**
- d. £2.19.

5-Swiss-Mart Company's beginning inventory balance and purchase and sales transactions for the month of June were as follows:

	<u>Purchases</u>		<u>Sales</u>
June 1	2,000@CHF3.00	June 8	4,500
7	6,000@ 3.20	24	6,000
22	3,500@ 3.30		

Assuming that Swiss-Mart keeps perpetual inventory records, the inventory at June 30 on a FIFO basis is

- a. CHF3,000.
- b. **CHF3,300.**
- c. CHF5,250.
- d. CHF5,750.



6-During July, the following purchases and sales were made by James Company. There was no beginning inventory. James Company uses a perpetual inventory system.

	<u>Purchases</u>		<u>Sales</u>
July 3	60 units @ €12	July 13	75 units
11	60 units @ €13	22	30 units
20	30 units @ €15		

Under the FIFO method, the cost of goods sold for each sale is:

<u>July 13</u>	<u>July 22</u>
a. € 900	€360
b. 975	390
<b>c. 915</b>	<b>390</b>
d. 1,125	450

7-Shandy Shutters has the following inventory information.

Nov. 1	Inventory	30 units @ €6.00
8	Purchase	120 units @ €6.45
17	Purchase	60 units @ €6.30
25	Purchase	90 units @ €6.60

A physical count of merchandise inventory on November 30 reveals that there are 100 units on hand. Assume a periodic inventory system is used.

Cost of goods sold under the average-cost method is

- a. €1,292.
- b. €1,284.**
- c. €1,268.
- d. €1,200.

Ending inventory under FIFO is

- a. €657.**
- b. €1,268.
- c. €632.
- d. €1,294.

Assuming that the specific identification method is used and that ending inventory consists of 30 units from each of the three purchases and 10 units from the November 1 inventory, cost of goods sold is

- a. €640.
- b. €1,286.**
- c. €1,280.
- d. €1,254.

7-Tatsoi Company's purchase and sales transactions for the month of May were as follows:

Purchases		Sales	
May 1 (beg. balance)	1,500@ ¥300	May 2	900@ ¥600
7	4,500@ 320	14	3,600@ 600
22	1,500@ 330	28	1,500@ 650

Assuming that Tatsoi keeps perpetual inventory records, the ending inventory on a FIFO basis is

- ¥450,000.
- ¥468,000.
- ¥495,000.**
- ¥1,890,000.

8-Bueno Company's purchase and sales transactions for the month of July were as follows:

Purchases	
July 3 (beg. balance)	4,000@ €4.00
16	12,000@ 4.40
30	3,000@ 4.75

The company sold 8,000 units on July 22.

Assuming that the Bueno keeps perpetual inventory records, July's cost of goods sold on a FIFO basis is

- €33,600.**
- €34,400.
- €53,400.
- €54,200.

Assuming that Bueno keeps perpetual inventory records, inventory at July 31 on a moving-average basis is

- €34,400.
- €35,300.
- €52,680.
- €48,650.**

**E6-9**

Banovic Company OAO applied FIFO to its inventory and got the following results for its ending inventory.

Tennis shoes 100 units at a cost per unit of €68

Running shoes 150 units at a cost per unit of €75

Basketball shoes 125 units at a cost per unit of €80

The net realizable value per unit at year-end was tennis shoes €70, running shoes €71, and basketball shoes €74.

***Instructions***

Determine the amount of ending inventory at lower-of-cost-or-net realizable value.

1-At year-end, Dana Corporation has 3,000 units of Lolland, 3,000 units of Falster, and 4,500 units of Jultand in its ending inventory. Specific data with respect to each product follows:

	<u>Lolland</u>	<u>Falster</u>	<u>Jutland</u>
Historical cost	€55	€70	€98
Net realizable value	48	77	94

What amount will Dana report for ending inventory using lower-of-cost-or-net realizable value?

- a. **€777,000.**
- b. €792,000.
- c. €816,000.
- d. €837,000.

2-At December 31, 2014, Bosan Corporation has 4,900 units of model 63 and 3,500 units of model 64 in its ending inventory. Specific data with respect to each product follows:

	<u>Model 63</u>	<u>Model 64</u>
Historical cost	<del>₩</del> 7800	<del>₩</del> 8700
Net realizable value	7700	8800

What amount will be reported for inventory on Boson's statement of financial position after the company applies LCNRV?

- a. W75,950,000.
- b. W69,020,000.
- c. W68,530,000.
- d. **W68,180,000.**

3-Paulson, Inc. has 8 computers which have been part of the inventory for over two years. Each computer cost €600 and originally retailed for €825. At the statement date, each computer has a net realizable value of £350.

What value should Paulson, Inc., have for the computers at the end of the year?

- a. £2,000.
- b. **€2,800.**
- c. £4,800.
- d. £6,600.

How much loss should Paulson, Inc., record for the year?

- a. £1,800.
- b. **€2,000.**
- c. £2,400.
- d. £2,800.

4-Under the LCNRV approach, the net realizable value is defined as

- a. FIFO cost.
- b. LIFO cost.
- c. the net amount that a company expects to realize from a sale.**
- d. selling price.

5-Net realizable value is

- a. original cost plus costs to complete and sell.
- b. selling price.
- c. original cost less costs to complete and sell.
- d. selling cost less costs to complete and sell.**

6-Net realizable value refers to

- a. the net amount the company expects to realize from the sale.**
- b. the selling price.
- c. the cost to replace the item.
- d. the gross profit realized from the sale.

7-Which costing method **cannot** be used to determine the cost of inventory items before lower-of-cost-or-net realizable value market is applied?

- a. Specific identification
- b. FIFO
- c. Average-cost
- d. All of these methods can be used.**

8-Inventory is reported in the financial statements at

- a. cost.
- b. net realizable value.
- c. the higher-of-cost-or-net realizable value.
- d. the lower-of-cost-or-net realizable value.**

9-The lower-of-cost-or-net realizable value basis of valuing inventories is an example of

- a. comparability.
- b. the cost principle.
- c. prudence.**
- d. consistency.

10-The accounting principle that requires that the cost flow assumption be consistent with the physical movement of goods is

- a. called the matching principle.
- b. called the consistency principle.
- c. nonexistent; that is, there is no accounting requirement.**
- d. called the physical flow assumption.

11-Never Company developed the following information about its inventories in applying the lower-of-cost-or-net realizable value (LCNRV) basis in valuing inventories:

<u>Product</u>	<u>Cost</u>	<u>NRV</u>
A	\$171,000	\$180,000
B	120,000	114,000
C	240,000	243,000

If Never applies the LCNRV basis, the value of the inventory reported on the statement of financial position would be

- a. \$531,000.
- b. \$537,000.
- c. **\$525,000.**
- d. \$543,000.

12-Which of the following statements is correct with respect to inventories?

- a. The FIFO method assumes that the costs of the earliest goods acquired are the last to be sold.
- b. It is generally good business management to sell the most recently acquired goods first.
- c. **Under FIFO, the ending inventory is based on the latest units purchased.**
- d. FIFO seldom coincides with the actual physical flow of inventory.

- Cost of Goods Available for sale = Beginning Inventory + Purchases
- COGS = (beginning inventory + Purchases) – Ending inventory
- Average Cost

$$\text{Weighted Average Unit Cost} = \frac{\text{Cost of Goods Available for Sale}}{\text{Total units Available for Sale}}$$

*THE END*  
*Good luck*