1. Which principle or concept states that businesses should use the same accounting methods and procedures from period to period?

- **A.** Disclosure
- **B.** Conservatism
- **C.** Consistency
- **D.** Materiality

2. Which inventory costing method assigns to ending merchandise inventory the newest—the most recent—costs incurred during the period?

- **A.** First-in, first-out (FIFO)
- **B.** Weighted-average
- **C.** Specific identification
- **D.** Last-in, first-out (LIFO)

3. Assume Nile.com began April with 14 units of inventory that cost a total of $266. During April, Nile.com purchased and sold goods as follows:

Apr.	8	Purchase	42 units @ $20
	14	Sale	35 units @ $40
	22	Purchase	28 units @ $22
	27	Sale	42 units @ $40

Under the FIFO inventory costing method and the perpetual inventory system, how much is Nile.com's cost of goods sold for the sale on April 14?

Review Only

Click the icon to see the Worked Solution.

- **A.** $700
- **B.** $686
- **C.** $1,106
- **D.** $1,400

4. Assume Nile.com began April with 14 units of inventory that cost a total of $266. During April, Nile.com purchased and sold goods as follows:

Apr.	8	Purchase	42 units @ $20
	14	Sale	35 units @ $40
	22	Purchase	28 units @ $22
	27	Sale	42 units @ $40

Suppose Nile.com used the weighted-average inventory costing method and the perpetual inventory system. Compute the weighted-average unit cost of the company's inventory on hand at April 8. Round weighted-average unit cost to the nearest cent.

Review Only

Click the icon to see the Worked Solution.

- **A.** $19.50
- **B.** $21.00
- **C.** $19.75
- **D.** Cannot be determined from the data given

5. Which inventory costing method results in the lowest net income during a period of rising inventory costs?

- **A.** Weighted-average
- **B.** Specific identification
- **C.** First-in, first-out (FIFO)
- **D.** Last-in, first-out (LIFO)

6. Which of the following is most closely linked to accounting conservatism?

- **A.** Lower-of-cost-or-market rule
- **B.** Materiality concept
- **C.** Disclosure principle
- **D.** Consistency principle

7. At December 31, 2016, Stevenson Company overstated ending inventory by $36,000. How does this error affect cost of goods sold and net income for 2016?

- **A.** Overstates cost of goods sold and understates net income
- **B.** Understates cost of goods sold and overstates net income
- **C.** Leaves both cost of goods sold and net income correct because the errors cancel each other
- **D.** Overstates both cost of goods sold and net income

8. Suppose Maestro's had cost of goods sold during the year of $230,000. Beginning merchandise inventory was $35,000, and ending merchandise inventory was $45,000. Determine Maestro's inventory turnover for the year. Round to the nearest hundredth.

Review Only

Click the icon to see the Worked Solution.

- **A.** 6.57 times per year
- **B.** 5.75 times per year
- **C.** 5.11 times per year
- **D.** 17.39 times per year

9. Assume Nile.com began April with 14 units of inventory that cost a total of $266. During April, Nile.com purchased and sold goods as follows:

Apr.	8	Purchase	42 units @ $20
	14	Sale	35 units @ $40
	22	Purchase	28 units @ $22
	27	Sale	42 units @ $40

Suppose Nile.com used the LIFO inventory costing method and the periodic inventory system. Using the information above, determine Nile.com's cost of goods sold at the end of the month.

Review Only

Click the icon to see the Worked Solution.

- **A.** $154
- **B.** $1,568
- **C.** $133
- **D.** $1,589

10. The Athlete began October with merchandise inventory of 95 crates of vitamins that cost a total of $3,800. During the month, The Athlete purchased and sold merchandise on account as follows:
[1](Click the icon to view the transactions.)

Read the requirements.[2]

Review Only

Click the icon to see the Worked Solution.

Requirement 1. Prepare a perpetual inventory record, using the FIFO inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit.

Begin by computing the cost of goods sold and cost of ending merchandise inventory using the FIFO inventory costing method. Enter the transactions in chronological order, calculating new inventory on hand balances after each transaction. Once all of the transactions have been entered into the perpetual record, calculate the quantity and total cost of merchandise inventory purchased, sold, and on hand at the end of the period. (Enter the oldest inventory layers first.)

	Purchases			Cost of Goods Sold			Inventory on Hand		
Date	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1									
5									
13									
18									
26									
Totals									

Determine the company's gross profit using the FIFO inventory costing method.

Gross profit is _____ using the FIFO inventory costing method.

Requirement 2. Prepare a perpetual inventory record, using the LIFO inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit.

Begin by computing the cost of goods sold and cost of ending merchandise inventory using the LIFO inventory costing method. Enter the transactions in chronological order, calculating new inventory on hand balances after each transaction. Once all of the transactions have been entered into the perpetual record, calculate the quantity and total cost of merchandise inventory purchased, sold, and on hand at the end of the period. (Enter the oldest inventory layers first.)

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1									
5									
13									
18									
26									
Totals									

Determine the company's gross profit using the LIFO inventory costing method.

Gross profit is [ ] using the LIFO inventory costing method.

Requirement 3. Prepare a perpetual inventory record, using the weighted-average inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit.

Begin by computing the cost of goods sold and cost of ending merchandise inventory using the weighted-average inventory costing method. Enter the transactions in chronological order, calculating new inventory on hand balances after each transaction. Once all of the transactions have been entered into the perpetual record, calculate the quantity and total cost of merchandise inventory purchased, sold, and on hand at the end of the period. (Round weighted-average cost per unit to the nearest cent and all other amounts to the nearest dollar.)

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1									
5									
13									
18									
26									
Totals									

Determine the company's gross profit using the weighted-average inventory costing method.

Gross profit is [ ] using the weighted-average inventory costing method.

Requirement 4. If the business wanted to pay the least amount of income taxes possible, which method would it choose?

If the business wanted to pay the least amount of income taxes possible, they would choose (1) _____

1: Data Table

Oct. 5 Purchase	155	crates @	$	71 each
13 Sale	180	crates @	$	100 each
18 Purchase	193	crates @	$	75 each
26 Sale	200	crates @	$	102 each

2: Requirements

1. Prepare a perpetual inventory record, using the FIFO inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit.
2. Prepare a perpetual inventory record, using the LIFO inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit.
3. Prepare a perpetual inventory record, using the weighted-average inventory costing method, and determine the company's cost of goods sold, ending merchandise inventory, and gross profit. (Round weighted-average cost per unit to the nearest cent and all other amounts to the nearest dollar.)
4. If the business wanted to pay the least amount of income taxes possible, which method would it choose?

(1)
- ○ FIFO.
- ○ LIFO.
- ○ weighted-average.

11. Tomorrows Electronic Center began July with 70 units of merchandise inventory that cost $74 each. During July, the store made the following purchases:
[3] (Click the icon to view the purchases.)
Tomorrows uses the periodic inventory system, and the physical count at July 31 indicates that 80 units of inventory are on hand.

Requirements

1. Determine the ending merchandise inventory and cost of goods sold amounts for the July financial statements using the FIFO, LIFO, and weighted-average inventory costing methods.
2. Sales revenue for July totaled $22,000. Compute Tomorrows's gross profit for July using each method.
3. Which method will result in the lowest income taxes for Tomorrows? Why? Which method will result in the highest net income for Tomorrows? Why?

Review Only

[4] **Click the icon to see the Worked Solution.**

Requirement 1. Determine the ending merchandise inventory and cost of goods sold amounts for the July financial statements using the FIFO, LIFO, and weighted-average inventory costing methods.

	FIFO	LIFO	Weighted-average
Ending inventory			
Cost of goods sold			

Requirement 2. Sales revenue for July totaled $22,000. Compute Tomorrows's gross profit for July using each method.

	FIFO Cost	LIFO Cost	Weighted-average
Gross profit			

Requirement 3. Which method will result in the lowest income taxes for Tomorrows? Why? Which method will result in the highest net income for Tomorrows? Why?

The (1) _____ method will result in the lowest income taxes because under this method, company's gross profit is the (2) _____.

Which method will result in the highest net income for Tomorrows? Why?

The (3) _____ method will result in the highest net income because under this method, company's gross profit is the (4) _____.

3: Data Table

Jul.	3	20	units @	$	76 each
	12	30	units @	$	78 each
	18	40	units @	$	94 each

4: Review

Worked Solution

Preliminary calculations:

Cost of goods available for sale:

	Units	x	Cost per unit	=	Total
Beginning merchandise inventory	70	x	$ 74	=	$ 5,180
Plus: Net Purchases					
Jul. 3 purchase	20	x	$ 76		$ 1,520
Jul. 12 purchase	30	x	$ 78	=	2,340
Jul. 18 purchase	40	x	$ 94	=	3,760
Total net purchases					7,620
Cost of goods available for sale					$ 12,800

Number of units sold:

	Units
Beginning merchandise inventory	70
Jul. 3 purchase	20
Jul. 12 purchase	30
Jul. 18 purchase	40
Units available for sale	160
Ending merchandise inventory	80
Total units sold	80

Requirement 1

Ending merchandise inventory under the FIFO method:

		Units	x	Cost per unit	=	Total
Ending merchandise inventory - FIFO	Jul. 18 purchase	40	x	$ 94	=	$ 3,760
	Jul. 12 purchase	30	x	$ 78	=	$ 2,340
	Jul. 3 purchase	10	x	$ 76	=	$ 760
Units in and FIFO cost of ending merchandise inventory		80				$ 6,860

Cost of goods sold under the FIFO method:

Cost of goods available for sale	-	FIFO cost of ending merchandise inventory	=	Cost of goods sold using FIFO
$ 12,800	-	$ 6,860	=	$ 5,940

Ending merchandise inventory under the LIFO method:

		Units	x	Cost per unit	=	Total
Ending merchandise inventory - LIFO	Beg. inventory	70	x	$ 74	=	$ 5,180
	Jul. 3 purchase	10	x	76	=	760
Units in and LIFO cost of ending merchandise inventory		80				$ 5,940

Cost of goods sold under the LIFO method:

Cost of goods available for sale	-	LIFO cost of ending merchandise inventory	=	Cost of goods sold using LIFO
$ 12,800	-	$ 5,940	=	$ 6,860

Average cost per unit for the weighted-average inventory costing method:

Cost of goods available for sale	/	Units available for sale	=	Average cost per unit
$ 12,800	/	160	=	$ 80

Ending merchandise inventory and cost of goods sold under the weighted-average inventory costing method:

	Units	x	Average cost per unit	=	Weighted-average cost
Ending inventory	80	x	$ 80	=	$ 6,400
Cost of goods sold	80	x	$ 80	=	$ 6,400

Requirement 2

	FIFO	LIFO	Weighted-average
Sales	$ 22,000	$ 22,000	$ 22,000
Less: Cost of goods sold	(5,940)	(6,860)	(6,400)
Gross profit	$ 16,060	$ 15,140	$ 15,600

(1) ○ average-cost ○ LIFO ○ FIFO

(2) ○ highest ○ lowest

(3) ○ average-cost ○ LIFO ○ FIFO

(4) ○ highest ○ lowest

1. C. Consistency

2. A. First-in, first-out (FIFO)

3. B. $686

4. C. $19.75

5. D. Last-in, first-out (LIFO)

6. A. Lower-of-cost-or-market rule

7. B. Understates cost of goods sold and overstates net income

8. B. 5.75 times per year

9. D. $1,589

10.

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1							95	$ 40	$ 3,800
5	155	$ 71	$ 11,005				95	$ 40	$ 3,800
							155	$ 71	$ 11,005
13				95	$ 40	$ 3,800	70	$ 71	$ 4,970
				85	$ 71	$ 6,035			
18	193	$ 75	$ 14,475				70	$ 71	$ 4,970
							193	$ 75	$ 14,475
26				70	$ 71	$ 4,970	63	$ 75	$ 4,725
				130	$ 75	$ 9,750			
Totals	348		$ 25,480	380		$ 24,555	63		$ 4,725

Gross profit is $ 13,845 using the FIFO inventory costing method.

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1							95	$ 40	$ 3,800
5	155	$ 71	$ 11,005				95	$ 40	$ 3,800
							155	$ 71	$ 11,005
13				155	$ 71	$ 11,005	70	$ 40	$ 2,800
				25	$ 40	$ 1,000			
18	193	$ 75	$ 14,475				70	$ 40	$ 2,800
							193	$ 75	$ 14,475
26				193	$ 75	$ 14,475	63	$ 40	$ 2,520
				7	$ 40	$ 280			
Totals	348		$ 25,480	380		$ 26,760	63		$ 2,520

Gross profit is $ 11,640 using the LIFO inventory costing method.

Date	Purchases			Cost of Goods Sold			Inventory on Hand		
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
Oct. 1							95	$ 40.00	$ 3,800
5	155	$ 71.00	$ 11,005				250	$ 59.22	$ 14,805
13				180	$ 59.22	$ 10,660	70	$ 59.22	$ 4,145
18	193	$ 75.00	$ 14,475				263	$ 70.80	$ 18,620
26				200	$ 70.80	$ 14,160	63	$ 70.80	$ 4,460
Totals	348		$ 25,480	380		$ 24,820	63		$ 4,460

Gross profit is $ 13,580 using the weighted-average inventory costing method.

(1) LIFO.

11.

	FIFO
Ending inventory	6,860
Cost of goods sold	5,940

LIFO
5,940
6,860

Weighted-average
6,400
6,400

	FIFO Cost	LIFO Cost	Weighted-average
Gross profit	$ 16,060	$ 15,140	$ 15,600

(1) LIFO

(2) lowest

(3) FIFO

(4) highest
