

Chapter 7 | Practice Questions

Inventory and cost of goods sold

Report to me (yu10j@cmich.edu) if you spot critical errors.

Set 1 | Choosing FIFO or LIFO

INDEPENDENT

Q1. A company wants to **minimize its income taxes**. Which inventory costing method should it choose under each circumstance?

	A		B	
1. a. Declining costs	☐	FIFO	☐	LIFO
2. b. Rising costs	☐	FIFO	☐	LIFO

Q2. When costs are **rising**, why does the method chosen in (b) minimize income taxes?

- ☐ **A.** It assigns the newest, highest costs to cost of goods sold, so income and taxes are lower
- ☐ **B.** It assigns the oldest, lowest costs to cost of goods sold, so income and taxes are lower
- ☐ **C.** It reports the highest possible ending inventory, so income and taxes are lower
- ☐ **D.** It reduces the price the company pays its suppliers for the goods

Answers, Set 1:

Q1. 1 A 2 B

Q2. A

Set 2 | FIFO and LIFO with One Purchase

INDEPENDENT

One method per question.

The following are the transactions for the month of July. A **periodic** inventory system is used.

Date		Units	Unit Cost	Unit Selling Price
July 1	Beginning Inventory	50	\$10	
July 13	Purchase	250	13	
July 25	Sold	(100)		\$15
July 31	Ending Inventory	200		

Q1. Two figures are the same whichever costing method is used. Determine each amount.

		A		B		C		D
1. Cost of goods available for sale	☐	\$500	☐	\$3,000	☐	\$3,250	☐	\$3,750
2. Sales	☐	\$1,150	☐	\$1,300	☐	\$1,500	☐	\$4,500

Q2. Under **FIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$2,000	☐	\$2,450	☐	\$2,600	☐	\$3,750
2. Cost of Goods Sold	☐	\$1,000	☐	\$1,150	☐	\$1,300	☐	\$1,500
3. Gross Profit	☐	\$200	☐	\$350	☐	\$500	☐	\$1,500

Q3. Under **LIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$2,000	☐	\$2,450	☐	\$2,600	☐	\$3,750
2. Cost of Goods Sold	☐	\$1,000	☐	\$1,150	☐	\$1,300	☐	\$1,500
3. Gross Profit	☐	\$0	☐	\$200	☐	\$350	☐	\$500

Answers, Set 2:

Q1. 1 D 2 C

Q2. 1 C 2 B 3 B

Q3. 1 B 2 C 3 B

Set 3 | FIFO and LIFO with Three Purchases

INDEPENDENT

One method per question.

In its first month of operations, a new bookstore bought merchandise in the following order:

- 1. 300 units at \$7 on January 1,
- 2. 450 units at \$8 on January 8, and
- 3. 750 units at \$9 on January 29.

900 units are on hand at the end of the month. A periodic inventory system is used.

Q1. Start with the figures that are the same under either method. Determine each amount.

		A		B		C		D
1. Cost of goods available for sale	☐	\$5,700	☐	\$6,750	☐	\$12,450	☐	\$13,500
2. Units sold during the month	☐	300	☐	600	☐	900	☐	1,500

Q2. Under **FIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$7,050	☐	\$7,950	☐	\$8,100	☐	\$12,450
2. Cost of Goods Sold	☐	\$4,200	☐	\$4,500	☐	\$5,400	☐	\$12,450

Q3. Under **LIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$6,300	☐	\$7,050	☐	\$7,950	☐	\$12,450
2. Cost of Goods Sold	☐	\$4,200	☐	\$4,500	☐	\$5,400	☐	\$6,750

Answers, Set 3:

Q1. 1 C 2 B

Q2. 1 B 2 B

Q3. 1 B 2 C

Set 4 | FIFO and LIFO Splitting a Layer

INDEPENDENT

One method per question.

A company began operating on June 26 with no inventory on hand. It then made the purchases listed below, and **sold and delivered 46 units on June 30**.

Date	Description	Units	Unit Cost	Total Cost
June 27	Purchase	12	\$8	\$96
June 28	Purchase	38	9	342
June 29	Purchase	20	11	220

Q1. Determine the amounts that do not depend on the costing method.

		A		B		C		D
1. Number of units available for sale	☐	24	☐	46	☐	70	☐	116
2. Cost of goods available for sale	☐	\$438	☐	\$562	☐	\$658	☐	\$754
3. Number of units in ending inventory at June 30	☐	20	☐	24	☐	26	☐	34

Q2. Under **FIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$204	☐	\$216	☐	\$256	☐	\$264
2. Cost of Goods Sold	☐	\$368	☐	\$402	☐	\$414	☐	\$454

Q3. Under **LIFO**, determine each amount.

		A		B		C		D
1. Ending Inventory	☐	\$192	☐	\$204	☐	\$256	☐	\$264
2. Cost of Goods Sold	☐	\$402	☐	\$454	☐	\$506	☐	\$658

Answers, Set 4:

Q1. 1 C 2 C 3 B

Q2. 1 C 2 B

Q3. 1 B 2 B