

**DE LA SALLE UNIVERSITY – DASMA**  
**Financial Accounting and Reporting**  
**FARAP\_01 – Accounting for Inventories**

1. When using a perpetual inventory system,
  - a. purchases account is used
  - b. a cost of goods sold account is not used
  - c. two entries are required to record a sale
  - d. a physical count is necessary at the end of the period
2. When using a periodic system, which of the following generally would not be separately accounted for in the computation of the cost of goods sold?
  - a. Trade discounts applicable to purchases during the period
  - b. Cash discounts taken during the period
  - c. Purchase returns and allowances
  - d. Cost of transportation
3. Which of the following items would be included in the inventory account of a manufacturing concern?
  - I. Goods in transit purchased FOB shipping point, invoice received
  - II. Goods out on approval by a customer
  - III. Goods sold under FAS, at the port designated by the buyer
  - IV. Goods in the hands of traveling salesmen
  - V. Goods completed, manufactured to customer's specification, awaiting instruction for delivery by the customer
  - VI. Goods which require additional processing
  - a. I, II, IV, V, VI
  - b. I, II, IV, VI
  - c. I, III, IV, VI
  - d. I, IV, VI
4. Theoretically, freight costs incurred in the transfer of consigned goods from the consignor to the consignee should be considered
  - a. An expense of the consignor
  - b. Inventoriable of the consignor
  - c. An expense by the consignee
  - d. Inventoriable of the consignee
5. The account title "Inventories" as shown on an entities financial statements include
  - a. Goods sold with a buyback arrangement
  - b. Goods held on consignment
  - c. Unused supplies for administrative purposes
  - d. Goods in transit, purchased FOB buyer
6. Statement 1: The cost flow assumption adopted must be consistent with the physical movement of the goods.  
Statement 2: The inventory cost on its statement of financial position was lower using first-in, first-out than it would have been using average cost. There is no beginning inventory, therefore, the cost of purchases moved downward during the period.
  - a. Only statement 1 is correct.
  - b. Only statement 2 is correct.
  - c. Both statements are correct.
  - d. Neither of the statements is correct.
7. Identify the cost formula that is described in the following statements:  
Statement 1: The cost formula in which the oldest cost incurred rarely have an effect on the ending inventory valuation.  
Statement 2: The cost formula in which the cost of each item is determined from weighted average of the cost of similar items at the beginning of each period and the cost of similar items purchased or produced during the period.
  - a. Specific Identification, Weighted Average
  - b. FIFO, Weighted Average
  - c. Specific Identification, Moving Average
  - d. FIFO, Moving Average
8. Lower-of-cost-or-net realizable value
  - a. gives the lowest valuation if applied to the total inventory.
  - b. gives the lowest valuation if applied to major groups of inventory.
  - c. gives the lowest valuation if applied to individual items of inventory.
  - d. must be applied to major groups for taxes.
9. When the cost-of-goods-sold method is used to record inventory at net realizable value
  - a. there is a direct reduction in the selling price of the product that results in a loss being recorded on the income statement prior to the sale.
  - b. a loss is recorded directly in the inventory account by crediting inventory and debiting loss on inventory decline.
  - c. only the portion of the loss attributable to inventory sold during the period is recorded in the financial statements.

- d. the net realizable value figure for ending inventory is substituted for cost and the loss is buried in cost of goods sold.
10. Lower-of-cost-or-net realizable value as it applies to inventory is best described as the
- a. reporting of a loss when there is a decrease in the future utility below the original cost.
  - b. method of determining cost of goods sold.
  - c. assumption to determine inventory flow.
  - d. change in inventory value to net realizable value.
11. Which method(s) may be used to record an expense due to a price decline in the value of inventory?
- a. Allowance method (Loss method)
  - b. Sales method.
  - c. Direct Method (Cost-of-goods-sold method)
  - d. Both the loss method (allowance) and the cost-of-goods-sold method (direct).
12. Shake Company's inventory experienced a decline in value necessitating a write-down to lower of cost or net realizable value (LCNRV) of P230,000. This amount is material to Shake's income statement and the company follows IAS2 (PAS2). Where should Shake Company report this decline in value according to IAS1 (PAS2)?
- I. As a loss on the income statement.
  - II. As a separate component of other comprehensive income on the statement of comprehensive income.
  - III. As part of cost of goods sold on the income statement.
- a. Shake must use I.
  - b. Shake must use I, II or III.
  - c. Shake must use I, or III.
  - d. Shake must use III.
13. How is the gross profit method used as it relates to inventory valuation?
- a. Verify the accuracy of the perpetual inventory records.
  - b. Verify the accuracy of the physical inventory.
  - c. To estimate cost of goods sold.
  - d. To provide an inventory value of LIFO inventories.
14. Which of the following is **not** a basic assumption of the gross profit method?
- a. The beginning inventory plus the purchases equal total goods available for sale.
  - b. Goods not sold must be on hand.
  - c. If the sales, reduced to the cost basis, are deducted from the sum of the opening inventory plus purchases, the result is the amount of inventory on hand.
  - d. The total amount of purchases and the total amount of sales remain relatively unchanged from the comparable previous period.
15. The gross profit method of inventory valuation is **invalid** when
- a. a portion of the inventory is destroyed.
  - b. there is a substantial increase in inventory during the year.
  - c. there is no beginning inventory because it is the first year of operation.
  - d. None of these are correct.
16. Which statement is **not** true about the gross profit method of inventory valuation?
- a. It may be used to estimate inventories for interim statements.
  - b. It may be used to estimate inventories for annual statements.
  - c. It may be used by auditors.
  - d. It may be used when fire or other catastrophe destroys the inventory.
17. A major advantage of the retail inventory method is that it
- a. provides reliable results in cases where the distribution of items in the inventory is different from that of items sold during the period.
  - b. hides costs from competitors and customers.
  - c. gives an accurate statement of inventory costs than other methods.
  - d. provides a method for inventory control and facilitates determination of the periodic inventory for certain types of companies.
18. The retail inventory method is based on the assumption that the
- a. final inventory and the total of goods available for sale contain the same proportion of high-cost and low-cost ratio goods.
  - b. ratio of gross margin to sales is approximately the same each period.
  - c. ratio of cost to retail changes at a constant rate.
  - d. proportions of markups and markdowns to selling price are the same.
19. When the conventional retail inventory method is used, markdowns are commonly ignored in the computation of the cost to retail ratio because
- a. there may be no markdowns in a given year.
  - b. this tends to give a better approximation of the lower of cost or net realizable value.
  - c. markups are also ignored.
  - d. this tends to result in the showing of a normal profit margin in a period when no markdown goods have been sold.
20. What is the effect of net markups on the cost-retail ratio when using the retail method?

- a. Increases the cost-retail ratio.
- b. No effect on the cost-retail ratio.
- c. Depends on the amount of the net markdowns.
- d. Decreases the cost-retail ratio.

21. Pyrus Company conducted a physical count on December 31, 2024, which revealed inventory with a cost of P4,410,000. The following items were excluded from the physical count:

|  |          |
|--|----------|
| Goods held by Pyrus on consignment   | P700,000 |
| Goods shipped by Pyrus FOB Destination to a customer on December 31, 2024 and was received by the customer on January 3, 2025    | 400,000  |
| Goods shipped by Pyrus FOB Shipping Point to a customer on December 31, 2024 and was received by the customer on January 4, 2025 | 420,000  |
| Goods shipped by a vendor FOB Destination on December 31, 2024 and was received by Pyrus on January 7, 2025                      | 910,000  |
| Goods purchased FOB Shipping Point was shipped by the supplier on December 31, 2024 and received by Pyrus on January 5, 2025     | 640,000  |

What amount should Pyrus Company report as inventory as of December 31, 2024?

- a. P2,160,000
- b. P4,350,000
- c. P5,450,000
- d. P5,640,000

22. The Roaster Manufacturing Company inventory list at December 31, 2024 shows a total of P1,760,000. Included in such list are the following items: goods held on consignment P180,000 at cost; goods tagged awaiting customer’s instructions for delivery (manufactured according to customer’s specifications) P200,000 cost, unused store supplies P50,000, and goods sold with buyback arrangement at cost of 150,000. The following in transit goods were excluded from the list (all at cost): goods sold FOB shipping point P40,000; goods sold FOB destination, P32,000, goods purchased FOB shipping point P70,000, and goods purchased, FOB destination, P90,000. How much is the cost of Roaster Manufacturing Company’s inventory at December 31, 2024?

- a. P1,282,000
- b. P1,302,000
- c. P1,432,000
- d. P1,632,000

23. The following information is presented for the inventory account of Boruto Company for the year ended December 31, 2024. Boruto uses periodic method of recording inventory. A physical count reveals P1,500,900 inventory on hand at December 31, 2024. The following needs consideration as of year-end:

- a. Included in the inventory is merchandise sold to Deidara on December 31, FOB Deidara. This merchandise was shipped after it was counted. The invoice was prepared and recorded as a sale on account for P480,000 on the same date. These merchandise cost P300,000 and Deidara received it on January 3, 2025.
- b. Included in inventory was P160,100 held by Boruto on consignment from Kakashi Industries. This was included in inventory at selling price, the consignor charge 30% profit on all consigned goods.
- c. Included in inventory is merchandise sold to Itachi FOB seller. This merchandise was shipped after it was counted. The invoice was prepared and recorded as a sale for P210,000 on December 31. The cost of this merchandise was P180,500, and Itachi received the merchandise on January 5, 2025.

How much is the correct balance of inventory as of December 31, 2024?

- a. P1,160,300
- b. P960,300
- c. P860,300
- d. P876,300

Venson Inc. is a wholesaler of office supplies. The activity for Model Casyu calculators during August is shown below:

| Date   | Balance/Transaction | Units | Cost   |
|--------|---------------------|-------|--------|
| Aug. 1 | Inventory           | 2,000 | P36.00 |
| 7      | Purchase            | 3,000 | 37.20  |
| 12     | Sales               | 3,600 |        |
| 21     | Purchase            | 4,800 | 38.00  |
| 22     | Sales               | 3,800 |        |
| 30     | Purchase            | 1,600 | 38.60  |

24. If Venson Inc. uses periodic inventory records and that said records are kept in units only, the ending inventory of Model Casyu calculators using average method at August 31, is reported at?

- b. P150,080
- b. P152,264
- c. P152,960
- d. P146,400

25. If Venson Inc. uses periodic inventory records and that said records are kept in units only, the ending inventory of Model Casyu calculators using FiFo method at August 31, is reported at?

- c. P150,080
- b. P152,264
- c. P152,960
- d. P146,400

26. If Venson Inc. uses perpetual inventory records and that said records are kept in units only, the ending inventory of Model Casyu calculators using average method at August 31, is reported at?

- d. P150,080
- b. P152,264
- c. P152,960
- d. P146,400

Oslo Corporation has two products in its ending inventory, each accounted for at the lower of cost or net realizable value. Specific data with respect to each product follows:

|                  | Product #1 | Product #2 |
|------------------|------------|------------|
| Selling price    | P60        | P130       |
| Historical cost  | 40         | 70         |
| Cost to sell     | 10         | 26         |
| Cost to complete | 15         | 40         |

27. In pricing its ending inventory using the lower-of-cost-or-net realizable value, what unit values should Oslo use for products #1 and #2, respectively?

- a. P35 and P64.
- b. P50 and P104.
- c. P40 and P70.
- d. P45 and P90.

Jeremiah Sugar Company has the policy of valuing inventory at lower of cost and net realizable value. Data pertaining to its three classes of sugar products for year 2024 are as follows:

|                                   | Splenda | Regular White | Muscuvado |
|-----------------------------------|---------|---------------|-----------|
| Estimated selling price/unit      | P3,000  | P2,000        | P2,500    |
| Estimated cost to sell/unit       | 600     | 400           | 500       |
| Cost per unit                     | 2,500   | 1,500         | 1,300     |
| Number of units (in 50 kilo bags) | 200     | 500           | 250       |

28. How much inventory should be shown in the company's December 31, 2023 statement of financial position?
- a. P1,555,000                      b. P1,575,000                      c. P1,650,000                      d. P1,780,000
29. How much inventory is the amount of inventory loss due to write down in its net realizable value?
- a. P255,000                      b. P205,000                      c. P50,000                      d. P20,000
30. Assuming that on January 1, 2024, the balance of allowance for inventory writedown were P3,000 for Splenda, P5,000 for Regular White and P7,500 for Muscuvado. Which of the following is true regarding the amount recognized in the Income Statement for year 2024?
- a. A loss of P15,000 for Splenda and a loss of P5,000 for Regular White.
- b. A loss of P20,000 for Splenda, a gain of P15,000 for Regular White and a loss of P25,000 for Muscuvado.
- c. A loss of P25,000 for Splenda and a loss of P5,000 for Muscuvado.
- d. A loss of P17,000 for Splenda, a gain of P5,000 for Regular White and a gain of P7,500 for Muscuvado.

The following information were gather to the work in process inventory of Narra Company as of December 31, 2024.

| Description               | Direct mats | Direct Labor | Overhead | Cost to complete | Selling price upon completion |
|---------------------------|-------------|--------------|----------|------------------|-------------------------------|
| Merchandise inventory – A | P55,000     | P60,000      | P25,000  | P15,000          | P180,000                      |
| Merchandise inventory – B | 120,000     | 210,000      | 60,000   | 24,000           | 450,000                       |
| Merchandise inventory – C | 125,000     | 110,000      | 75,000   | 32,000           | 378,000                       |

It was estimated that cost to sell of each merchandise is equivalent to 10% of its selling price and the gross profit rate is constant for all merchandise.

31. How much is the amount of work in process inventory should Narra Company report in its December 31, 2024 statement of financial position?
- a. P846,500                      b. P829,200                      c. P822,400                      d. P805,000
32. How much loss on inventory write down should Narra Company report in its income statement assuming a beginning balance of P3,000 in allowance for inventory write down?
- a. P10,800                      b. P7,800                      c. P5,800                      d. P3,800

New York Manufacturing, is an importer and wholesaler. Its merchandise is purchased from several suppliers and is warehoused until sold to customers.

|  |            |
|--|------------|
| Inventory, January 1, 2024                                     | P1,266,500 |
| Physical inventory, November 30, 2024                          | 1,400,000  |
| Sales for 11 months ended November 30                          | 12,600,000 |
| Sales for the year ended December 31                           | 14,400,000 |
| Purchases for 11 months ended November 30 (before adjustments) | 10,250,000 |
| Purchases for the year ended December 31 (before adjustments)  | 12,500,000 |

Additional information:

- [1.] Shipments received in November and not included in the physical inventory but recorded as December purchases for P120,500.
- [2.] Shipments received in unsalable condition and excluded from physical inventory. Credit memos had not been received nor returns to vendors been recorded:
- Total for the month of November                      22,500
- Total for the month of December                      7,500
- [3.] Deposit made with vendor and recorded as purchases in September 2024. Product was shipped and received in December 2024 costing P50,000.
- [4.] Deposit made with vendor and recorded as purchases in November 2024. Product was shipped FOB destination on November 29, 2024, P90,000 and received in December.

33. How much is the adjusted inventory balance as of November 30, 2024?
- a. P1,520,500                      b. P1,500,000                      c. P1,490,500                      d. P1,490,000
34. How much is the total cost of sales as of December 31, 2024?
- a. P10,935,000                      b. P11,250,000                      c. P11,376,000                      d. P11,384,000
35. How much is the estimated balance of inventory as of December 31, 2024?
- a. P2,310,500                      b. P2,360,500                      c. P2,375,000                      d. P2,382,500

Aliza Co., a manufacturer, had inventories at the beginning and end of its current year as follows:

|                 | Beginning | Ending  |
|-----------------|-----------|---------|
| Raw Materials   | P11,000   | P15,000 |
| Work in process | 20,000    | 24,000  |
| Finished goods  | 12,500    | 9,000   |

During the year, the following costs and expenses were incurred:

|  |          |
|--|----------|
| Raw materials purchased  | P150,000 |
| Direct labor   | 60,000   |
| Indirect factory labor   | 30,000   |
| Taxes and depreciation on factory building                     | 10,000   |
| Taxes and depreciation on sales office                         | 7,500    |
| Sales salaries   | 20,000   |
| Office salaries  | 12,000   |
| Utilities (60% applicable to factory, and 40% to sales office) | 25,000   |

36. How much is the estimated balance of inventory as of December 31, 2024?  
a. P53,000                      b. P52,500                      c. P48,000                      d. P37,500
37. How much is the estimated amount of cost of sales for year 2024?  
a. P260,500                      b. P270,300                      c. P274,500                      d. P280,000

The operations of a department of Ulysses Company that uses retail inventory method are presented below:

|  |           |
|--|-----------|
| Beginning inventory-sales price          | 2,500,000 |
| Beginning inventory-cost                 | 1,400,000 |
| Purchases-cost                           | 3,600,000 |
| Purchases-sales price                    | 4,800,000 |
| Freight-in                               | 200,000   |
| Departmental transfer-credit-cost        | 150,000   |
| Departmental transfer-credit-sales price | 320,000   |
| Net Markup                               | 180,000   |
| Net Markdown                             | 90,000    |
| Sales                                    | 4,000,000 |
| Employee discount                        | 100,000   |
| Sales returns                            | 50,000    |
| Abnormal loss from breakage-sales price  | 70,000    |
| Abnormal loss from breakage-cost         | 50,000    |

38. How much is the estimated cost of ending inventory using average?  
a. P2,107,185                      b. P2,950,000                      c. P2,080,340                      d. P2,360,000
39. How much is the estimated cost of ending inventory using FiFo?  
a. P2,107,185                      b. P2,950,000                      c. P2,080,340                      d. P2,360,000

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