Mehta, Vikas ACCT 215 Quiz 3 Fall 2004

6

1. Northland Company failed to record a valid sale on account of merchandise that had been shipped to a customer prior to the end of the current year. The merchandise had been properly excluded from inventory at the end of the current year. What is the effect of this error? (1 point)

COGS Exp ↑
Inventory A ↓
Not rec (A/R / cash) A ↑
(Sales) Rev ↑

a. Understatement of total expenses for the current year
b. Overstatement of net income for the current year
c. No effect on net income for the current year
d. Understatement of total assets at the end of the current year

2. In a time of rising prices, unrealized holding gains on ending inventory are (1 point)

Rising Prices

LIFO		FIFO
COGS	>	COGS
Inventory	<	Inventory
\$35	MP = \$45	\$42
\$10		\$3

a. higher under LIFO than FIFO
b. higher under FIFO than LIFO
c. same under LIFO and FIFO
d. None of the above

3. Which of the following accounts would you not expect to find on the balance sheet of a manufacturing company? (1 point)

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

Raw Materials → WIP → Finished Goods → A/R → Cash → Raw Materials
Cash → Profits

4. Whenever Morton Shoe Company must use market rather than cost to value an inventory item, the inventory account is reduced and the account 'loss due to market decline of inventory' is increased. The balance of this account would be reflected as a separate item on the (1 point)

a. Statement of financial position as a deduction from retained earnings
b. Statement of income as an extraordinary loss
c. Statement of income as a deduction from gross profit on sales
d. Statement of income as an operating expense

$\boxed{I/S}$

Sales
Less: Cost of Goods Sold
Less: Inventory write-off
Gross profit

5. Which of the following is not a generally accepted basis for inventory valuation? (1 point)

a. net realizable value
b. standard cost
c. replacement cost
d. acquisition cost

6. Western Inc. uses a periodic inventory system. Beginning inventory is $20,000 and purchases for the year are $80,000. A physical inventory shows that $15,000 of the inventory remains. How much is recorded as cost of goods sold for the year? (1 point)

COGS = Beg + P − End

85000 = [20,000 + 80,000] − 15,000

a. $75,000
b. $80,000
c. $85,000
d. $95,000

7. The Spirit Company, a manufacturer of cheerleading products, had a beginning balance in raw materials inventory of $20,000. During the year, an additional $80,000 of raw materials was purchased. Raw materials worth $75,000 was transferred to work-in-process inventory during the year. What is Spirit's ending raw materials inventory (1 point)

a. $15,000
b. $20,000
c. $25,000
D. $75,000

8. LIFO inventory layers (1 point)

a. occur when ending inventory is less than beginning inventory
b. are liquidated when ending inventory exceeds beginning inventory
c. are created in years in which inventory purchases exceed sales
d. must be disclosed in the annual report

Opening + purchase − COGS = closing inventory

9. Jordan Inc. is a profitable company with the goal to maximize cash flow. A valid reason for Jordan not to adopt the last-in, first-out (LIFO) method of inventory valuation is (1 point)

a. prices are rising.
b. prices are falling.
c. the company has high administrative costs.
d. the reduction effect on inventory.
e. the difficulty in segregating goods in the warehouse.

d

Rising Prices

LIFO		FIFO
↑COGS	>	COGS
Inventory	<	Inventory
↕Profits	<	profits
↓Taxes	<	Taxes

Falling Prices

all cases of rising prices switched around

10. At the end of a manufacturing company's accounting period, Work-in-process is generally (1 point)

WIP

a. zero because all units are in finished goods inventory
b. the product costs incurred for units not yet transferred to finished goods inventory
c. an amount which includes all raw materials purchased but not yet sold as finished goods
d. all product and period costs for units not yet completed

11. During Year 4, Franklin Corporation purchased $1,200,000 of merchandise inventory. The cost of sales for year 4 was $1,320,000 and the ending merchandise inventory at December 31, Year 4 was $240,000. What was the inventory turnover for Year 4? (1 point)

a. 1
b. 2.2
c. 4.4
d. 1.2

Opening + purchases − closing = COGS

$X + 1.2 - .24 = 1.32$

$\cancel{X = 1.32 - 1.2 - .24}$

$X = .36$

$$\text{Inventory Turnover} = \frac{\text{COGS}}{\text{Avg. Inventory}}$$

$$\frac{1.32}{.30} = 4.4$$