

1. TMM.7-1

Learning Objective 1

Use the above video link to answer the following questions.

1. Which of the following would not be classified as inventory?

- a. goods acquired for resale.
 - b. parts for assembly in the production process.
 - c. incomplete units in the production process.
 - d. equipment that is not for resale.
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2. Which of the following costs would not flow into Work in Process Inventory?

- a. raw materials inventory.
 - b. direct labor.
 - c. cost of goods sold.
 - d. manufacturing overhead.
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2. TMM.7-2

Learning Objective 2

Use the above video link to answer the following questions.

1. Which of the following does not apply to a perpetual inventory system?

- a. keeps a continuous record of the quantities of inventory.
 - b. relies on a physical count to determine inventory amounts.
 - c. records the cost of goods sold with each sale of merchandise.
 - d. debits Inventory to record purchases of inventory.
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2. Which of the following does not apply to a periodic inventory system?

- a. relies on a physical count to determine inventory amounts.
 - b. debits Purchases to record purchases of inventory.
 - c. records the cost of goods sold with each sale of merchandise.
 - d. makes an adjusting entry for cost of goods sold at the end of the accounting period.
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3. TMM.7-3

Learning Objective 3

Use the above video link to answer the following questions.

1. When counting inventory, which of the following should be excluded?

- a. items out on consignment.
 - b. items in transit shipped FOB shipping point from supplier.
 - c. items held on consignment.
 - d. items in transit shipped FOB destination to customer.
-

2. Purchase obligations

- a. are counted in inventory if the agreement is noncancelable.
- b. are disclosed in the notes to the financial statements.
- c. may cause a recognized loss if the market price increases.
- d. none of these choices.

4. TMM.7-4

[Learning Objective 4](#)

Use the above video link to answer the following questions.

1. The costs of purchased inventory (product costs) should include
- a. the cost of insurance.
 - b. any taxes or import duties.
 - c. payments for freight in.
 - d. all of these.

-
2. Under the gross price method, the journal entry for the purchase of merchandise with terms 1/10, n/30 will include

- a. a debit to Purchases Discounts Taken.
- b. a credit to Purchases Discounts Taken.
- c. a debit to Inventory for the gross amount of the purchase.
- d. a debit to Inventory for the net amount of the purchase.

5. TMM.7-5

[Learning Objective 5](#)

Use the above video link to answer the following questions.

1. The FIFO cost flow assumption assumes
- a. that the oldest purchases are the first ones sold.
 - b. that the oldest purchases are the last ones sold.
 - c. that the cost of inventory is a weighted average of all purchases.
 - d. none of these choices.

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2. When the average cost method is used with a perpetual inventory system, it is known as the

- a. weighted average method.
- b. the moving average method.
- c. the LIFO method.
- d. specific identification method.

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3. In a period of rising prices, which cost flow assumption produces the lowest cost of goods sold?

- a. the weighted average method.
- b. the FIFO method.
- c. the LIFO method.
- d. the specific identification method.

6. TMM.7-6

[Learning Objective 6](#)

Use the above video link to answer the following questions.

1. When facing a period of lower income, a company may intentionally manage income upward by
- a. delaying purchases to achieve LIFO liquidation.
 - b. delaying shipments to achieve FIFO retention.

- c. switching to LIFO for financial reporting purposes but using FIFO for income tax purposes.
 - d. none of these choices.
-

2. Which of the following is true regarding the choice of cost flow assumption?

- a. A company must choose the cost flow assumption that best matches its actual flow of goods.
 - b. A company must choose FIFO during a period of high inflation.
 - c. A company must choose the cost flow assumption consistent with its industry to enhance comparability.
 - d. A company is free to choose whichever cost flow assumption it prefers.
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7. TMM.7-7

[Learning Objective 7](#)

Use the above video link to answer the following questions.

1. Dollar-value LIFO overcomes the record keeping difficulties of LIFO by the use of

- a. current costs and cost indexes.
 - b. current costs and inventory pools.
 - c. inventory pools and cost indexes.
 - d. none of these choices.
-

2. Dollar-value LIFO overcomes the difficulties of LIFO liquidation and technology change by the use of

- a. current costs.
 - b. inventory pools.
 - c. cost indexes.
 - d. none of these choices.
-

8. TMM.7-8

[Learning Objective 8](#)

Use the above video link to answer the following questions.

1. Which of the inventory cost flow assumptions is most used by companies today?

- a. FIFO.
 - b. LIFO.
 - c. weighted average.
 - d. specific identification.
-

2. To make financial statements among companies comparable, the SEC requires

- a. the use of LIFO for both financial reporting and income tax purposes.
 - b. a company using FIFO to also report inventory under LIFO.
 - c. a company using LIFO to disclose the amount of its LIFO reserve in its financial statements.
 - d. none of these choices.
-

9. Q.7-01

eBook

Inventory

Manufacturing companies typically have which of the following types of inventory accounts in the financial statements?

- ☐ a. Merchandise inventory, finished goods inventory, and work in process inventory.
- ☐ b. Raw materials inventory, merchandise inventory, and work in process inventory.
- ☐ c. Raw materials inventory, finished goods inventory, and work in process inventory.
- ☐ d. Raw materials inventory, merchandise inventory, and finished goods inventory.

10. Q.7-02

eBook

Component Costs of Inventory

Work in process inventory includes costs associated with

- ☐ a. Raw materials, indirect and direct labor.
- ☐ b. Raw materials, direct labor and manufacturing overhead.
- ☐ c. Direct labor, manufacturing overhead and indirect materials.
- ☐ d. Raw materials, manufacturing overhead and merchandise inventory.

11. Q.7-06

eBook

Costs included in Inventory

Which of the following statements is correct regarding inventory?

- ☐ a. A company includes in inventory all items that it legally owns.
- ☐ b. For goods in transit shipped F.O.B. destination, control is transferred from the seller to the buyer when the goods are delivered to the transportation company.
- ☐ c. Goods on consignment are included at cost in the inventory of the consignor.
- ☐ d. All of the choices are correct regarding inventory.

12. Q.7-05

eBook

Perpetual vs. Periodic Inventory Systems

Which of the following statements is correct with regard to the perpetual and periodic inventory systems?

- ☐ a. Use of a periodic system typically includes a Purchases account where the cost of purchases is recorded.
- ☐ b. Use of the perpetual inventory system will result in a higher ending inventory quantity.
- ☐ c. Use of the perpetual system eliminates the need for taking a physical inventory count.
- ☐ d. Use of a periodic inventory system allows the company to maintain up-to-date inventory records throughout the year.

13. Q.7-11

eBook

Inventory Methods

Which unit costs are allocated to ending inventory and cost of goods sold for FIFO , average cost, and LIFO?

	FIFO	Average cost	LIFO
End inventory	<input type="text"/>	<input type="text"/>	<input type="text"/>
Cost of goods sold	<input type="text"/>	<input type="text"/>	<input type="text"/>

14. Q.7-18

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Inventory Methods under IFRS

Under _____ the _____ method of inventory valuation is prohibited because it _____ .

15. Q.7-19

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Dollar-Value LIFO

Advantages of dollar-value LIFO include:

- I. It eliminates the necessity for detailed record-keeping of the flow of physical quantities and unit costs.
- II. It eliminates the effects of fluctuations in similar inventory items that may cause liquidations.
- III. It uses a new pool for each new inventory item which reduces or eliminates liquidations.

- ☐ a. I and II only.
- ☐ b. II and III only.
- ☐ c. I and III only.
- ☐ d. I, II, and III.

16. Q.7-20

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Dollar-Value LIFO

A company will use the _____ method to compute an internal cost index when there is little change in the type of inventory items and will use the _____ method to compute an internal cost index when there are frequent changes in the types of inventory items.

17. MC.7-01

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Consignment

Goods on consignment should be included in the inventory of:

- ☐ a. neither the consignor nor the consignee
- ☐ b. the consignee but not the consignor
- ☐ c. both the consignor and the consignee
- ☐ d. the consignor but not the consignee

18. MC.7-10

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Dollar-Value LIFO

When the double-extension approach to the dollar-value LIFO inventory cost flow method is used, the inventory layer added in the current year is multiplied by an index number. How would the following be used in the calculation of this index number?

- ☐ a.

Ending Inventory at Current-Year Cost	Ending Inventory at Base-Year Cost
Numerator	Not Used
- ☐ b.

Ending Inventory at Current-Year Cost	Ending Inventory at Base-Year Cost
Numerator	Denominator
- ☐ c.

Ending Inventory at Current-Year Cost	Ending Inventory at Base-Year Cost
Denominator	Numerator
- ☐ d.

Ending Inventory at Current-Year Cost	Ending Inventory at Base-Year Cost
Not Used	Denominator

19. RE.7-02

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Ending Inventory

On January 1, Pope Enterprises’ inventory was \$625,000. Pope made \$950,000 of net purchases during the year. On its year-end income statement, Pope reported cost of goods sold of \$1,025,000. Calculate Pope’s December 31 ending inventory.

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20. RE7-6

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Instructions



On July 10, Stevens Company purchases \$50,000 of inventory on credit with payment terms of 2/10, net 30.

Required:

Using the gross price method, prepare journal entries to record Stevens’s purchases on July 10 and the subsequent payment on July 18.