

Inventory Practice Problems

PROBLEM 1 – MULTIPLE CHOICE

1. Choose the cost flow assumption in which the costs assigned to the ending inventory are the costs of the earliest units acquired.
 - a) FIFO method
 - b) LIFO method
 - c) weighted-average method
 - d) specific identification method
 - e) None of the above

2. Which cost flow assumption conforms to the physical inventory flows?
 - a) FIFO method
 - b) LIFO method
 - c) weighted-average method
 - d) specific identification method
 - e) None of the above

3. Choose the word or phrase which best completes the following sentence. A _____? _____ inventory system uses an inventory subsidiary ledger which provides up-to-date information about each type of product that the company buys and sells, including the per-unit cost and the number of units purchased, sold and currently on-hand.
 - a) FIFO
 - b) periodic
 - c) perpetual
 - d) detailed subledger
 - e) None of the above

4. Chime Inc. counted and valued its inventory using the first-in, first-out (FIFO) cost flow assumption at both December 31, 2004 and 2005 and reported these amounts on its financial statements. While there was no consignment inventory on hand at December 31, 2005, there was at December 31, 2004. If consignment inventory (inventory not belonging to Chime, but stored on its premises), had been inadvertently counted and included in the 2004 inventory valuation, the
 - a) net income would have been understated in 2004
 - b) net income would have been understated in 2005
 - c) inventory would have been understated at December 31, 2005
 - d) inventory would have been overstated at December 31, 2005
 - e) None of the above

5. The journal entry required for the purchase of inventories using a **periodic** system is

- a) Dr Inventory
 Cr Purchases
- b) Dr Purchases
 Cr Inventory
- c) Dr Purchases
 Cr Accounts Payable or Cash
- d) Dr Inventory
 Accounts Payable or Cash
- e) None of the above

Use the following information to answer questions 6 to 17 (Round to 2 decimal places):

The following information has been extracted from the records of Due North Sales (DNS) Co.:

January 1	Beginning Inventory	550 units @ \$26 each
January 9	Bought	1,000 units @ \$28 each
January 15	Sold	1,200 units @ \$40 each
January 25	Bought	750 units @ \$30 each

6. If Due North Sales (DNS) uses the FIFO cost flow assumption, under a **periodic** method, the cost of goods sold for January, is

- a) \$33,804
- b) \$32,748
- c) \$42,300
- d) \$32,500
- e) None of the above

7. If Due North Sales (DNS) uses the FIFO cost flow assumption, under a **perpetual** method, the cost of goods sold for January, is

- a) \$33,804
- b) \$32,748
- c) \$42,300
- d) \$32,500
- e) None of the above

8. If Due North Sales (DNS) uses the LIFO cost flow assumption, under a **periodic** method, the cost of goods sold for January, is

- a) \$33,804
- b) \$32,748
- c) \$33,200
- d) \$35,100
- e) None of the above

9. If Due North Sales (DNS) uses the LIFO cost flow assumption, under a **perpetual** method, the cost of goods sold for January, is
- a) \$33,804
 - b) \$32,748
 - c) \$33,200
 - d) \$35,100
 - e) None of the above
10. If Due North Sales (DNS) uses the Weighted Average cost flow assumption, under a **periodic** method, the cost of goods sold for January, is
- a) \$33,804
 - b) \$32,748
 - c) \$33,200
 - d) \$35,100
 - e) None of the above
11. If Due North Sales (DNS) uses the Weighted Average cost flow assumption, under a **perpetual** method, the cost of goods sold for January, is
- a) \$33,804
 - b) \$32,748
 - c) \$33,200
 - d) \$35,100
 - e) None of the above
12. If Due North Sales (DNS) uses the FIFO cost flow assumption, under a **perpetual** method, the ending inventory value at January 31st is
- a) \$32,300
 - b) \$31,600
 - c) \$30,987
 - d) \$32,052
 - e) None of the above
13. If Due North Sales (DNS) uses the FIFO cost flow assumption, under a **periodic** method, the ending inventory value at January 31st is
- a) \$32,300
 - b) \$31,600
 - c) \$30,987
 - d) \$32,052
 - e) None of the above

14. If Due North Sales (DNS) uses the LIFO cost flow assumption, under a **perpetual** method, the ending inventory value at January 31st is
- a) \$32,300
 - b) \$31,600
 - c) \$30,987
 - d) \$32,052
 - e) None of the above
15. If Due North Sales (DNS) uses the LIFO cost flow assumption, under a **periodic** method, the ending inventory value at January 31st is
- a) \$29,700
 - b) \$31,600
 - c) \$30,987
 - d) \$32,052
 - e) None of the above
16. If Due North Sales (DNS) uses the Weighted Average cost flow assumption, under a **perpetual** method, the ending inventory value at January 31st is
- a) \$32,300
 - b) \$31,600
 - c) \$30,987
 - d) \$32,054
 - e) None of the above
17. If Due North Sales (DNS) uses the Weighted Average cost flow assumption, under a **periodic** method, the ending inventory value at January 31st is
- a) \$32,300
 - b) \$31,600
 - c) \$30,987
 - d) \$32,054
 - e) None of the above

Use the following information to answer questions 18 to 20 (Round to 2 decimal places):

Hammer Co. is in the business of buying hammers at wholesale prices and reselling them at retail prices. The following information for the month of February was collected by Hammer Co.'s Purchase and Sales departments:

Date	Transactions	Units	Unit cost/sales price
Feb 4	Beginning inventory	300	\$15
9	Purchase	100	18
12	Sale	320	27
17	Purchase	150	20
26	Sale	100	30

18. If the company uses a LIFO **perpetual** inventory system, what was the cost of the inventory on hand after the February 26th sale and the Cost of Goods Sold for February?

	<u>Inventory on Hand</u>	<u>Cost of Goods Sold</u>
a)	\$2,200	\$7,350
b)	\$1,950	\$7,350
c)	\$2,200	\$7,100
d)	\$1,950	\$7,100
e)	None of the above	

19. If the company uses a LIFO **periodic** inventory system, what was the cost of the inventory on hand after the February 26th sale and the Cost of Goods Sold for February?

	<u>Inventory on Hand</u>	<u>Cost of Goods Sold</u>
a)	\$2,200	\$7,350
b)	\$1,950	\$7,350
c)	\$2,200	\$7,100
d)	\$1,950	\$7,100
e)	None of the above	

20. If the company uses a FIFO cost flow assumption, what was the cost of the inventory on hand after the February 26th sale if a **periodic** inventory system and a **perpetual** inventory system was used?

	<u>Periodic System</u>	<u>Perpetual System</u>
a)	\$2,600	\$2,600
b)	\$2,200	\$1,950
c)	\$2,200	\$2,600
d)	\$2,600	\$2,200
e)	None of the above	

PROBLEM 2 (Understanding Cost of Goods Sold on the Income Statement)

Place the correct number in the space provided for each of the following.

Beginning Inventory	10,000	(c)	(e)	45,000	(i)
Net Purchases	(a)	40,000	85,000	(g)	275,000
Total Goods Available	110,000	45,000	85,000	245,000	350,000
Ending Inventory	9,000	(d)	0	(h)	90,000
Cost of Goods Sold	(b)	38,000	(f)	215,000	(j)

PROBLEM 3 (Journal Entries for Periodic and Perpetual Inventory Systems)

Using the information provided, present the necessary journal entries at the time of the sale:

Goods that cost \$1,500 are sold for \$2,000 cash.

- a. When a periodic inventory is used.
- b. When a perpetual inventory is used.

PROBLEM 4 (Computations Involving Different Cost Flow Assumptions)

The inventory at September 1 and the purchases during September of Hanna Ltd.'s raw material were as follows:

Date	Explanation	Quantity	Amount
Sept 1	Opening inventory	1,000 kg	\$4,500
Sept 5	Purchase	3,000 kg	\$13,500
Sept 14	Purchase	3,500 kg	\$17,500
Sept 27	Purchase	3,000 kg	\$16,500
Sept 29	Purchase	1,000 kg	\$8,000

The inventory at September 30, is 1,800 kilograms. Assume a periodic inventory system.

Compute the cost of the inventory on September 30 under each of the following cost flow assumptions:

- a. FIFO
- b. Weighted Average
- c. LIFO

PROBLEM 5 (Journal Entries for a Perpetual Inventory Systems with Trade Discounts)

Ducru Ltd. ordered from an overseas supplier 10,000 shirts that had a list price of \$12 each, requesting the normal trade discount. The invoice arrived showing a discount of 40 percent from list price. Ducru Ltd. paid its customs broker \$750 for taxes and paid a trucking company \$250 to deliver the goods. Later, it sold 1,000 shirts for \$12 each on account. Ducru Ltd. uses a perpetual inventory system.

Prepare journal entries to record the sales transaction.

PROBLEM 6 (Calculating Income under Different Cost Flow Assumptions)

Gazin Inc. was in business for four years. The following table shows its purchases and sales during that four-year period.

	Purchases	Purchases	Sales	Sales
	Units	Unit Costs	Units	Unit Costs
Year 1	12,000	\$10	9,000	\$15
Year 2	11,000	\$11	10,000	\$17
Year 3	10,000	\$12	11,000	\$19
Year 4	9,000	\$13	12,000	\$21
TOTALS	42,000		42,000	

Note: In order to calculate income you need to calculate cost of goods sold

- a. Compute income for each of the four years assuming FIFO cost flow.
- b. Compute income for each of the four years assuming LIFO cost flow.
- c. Compare total income over the four-year period. Does the cost flow assumption matter?

PROBLEM 7 (Determining Cost of Goods Sold in an Inventory system using FIFO)

The following are July inventory data for Merrit Company, which uses a perpetual inventory system.

- July 1 Beginning inventory, 75 units @ \$30 per unit
- July 10 Purchased 50 units @ \$35 per unit.
- July 15 Sold 90 units.
- July 26 Purchased 80 units @ \$36 per unit.

Compute the cost of goods sold for July 15 using FIFO.

PROBLEM 8 (Inventory Valuation Using FIFO)

Pierce Sales, Inc., had a beginning inventory for May comprising 500 units that had cost \$40 per unit. A summary of purchases and sales during May follows:

Date	Unit Cost	Units Purchased	Units Sold
May 2			300
May 6	\$43	1,000	
May 10			800
May 19	\$45	600	
May 23			700
May 30	\$48	300	

Assuming Pierce uses a periodic inventory system, calculate the amount of ending inventory under FIFO.

PROBLEM 9 (Journal Entries with Purchase Discounts and Returns)

Assume that Lemly Company had a \$20,000 ending inventory balance at the close of the last period. The following sales and purchase transactions occurred during the current period:

- Purchased merchandise on account, \$9,500, terms 1/10, n/30.
 - Returned part of the above merchandise that had an original gross purchase price of \$500.
 - Paid the balance of the purchase in time to receive the purchases discount.
 - Sold goods costing \$16,000 for \$25,000; cash of \$6,500 was received, with the balance due on account.
- (a) Record these transactions assuming that (1) a periodic inventory system is used and (2) a perpetual inventory system is used. Assume that accounts payable are initially recorded at the full invoice price.
- (b) Suppose that a physical inventory at the end of the current period shows inventory costing \$12,300 to be on hand. Present the journal entries (if any) required under each inventory system to establish the proper balance in the Inventory account.
- (c) Which system would best disclose any possible inventory loss in the income statement. Why?

PROBLEM 10 (Maintaining Perpetual Inventory Records)

Hunt Company uses a perpetual inventory system. Transactions for an inventory item during April were as follows:

- April 1 Had beginning inventory of 40 units @ \$210 per unit.
- 9 Purchased 10 units @ \$225 per unit.
- 14 Sold 30 units @ \$400 per unit.
- 23 Purchased 20 units @ \$227 per unit.
- 29 Sold 15 units @ \$420 per unit.

Record the beginning inventory, purchases, cost of goods sold, and the continuous (perpetual) inventory balance (assuming a FIFO flow of goods) for April on an inventory control schedule with the following columns?

Date	Received	Received	Sold	Sold	Balance	Balance
April xx	Quantity	\$\$\$	Quantity	\$\$\$	Quantity	\$\$\$

PROBLEM 11 (The Inventory and Cost of Goods Sold Equation)

For each independent situation below, determine the amounts indicated by the question marks.

Number of Units	A	B	C	D
Beginning Inventory	8,000	?	6,000	?
Produced	14,000	26,000	?	57,000
Available	?	?	24,000	89,000
Sold	17,000	27,000	?	?
Ending inventory	?	12,000	7,000	15,000