

## Chapter 6 Questions

### Multiple Choice

1. Harper Corporation overstated its ending inventory by \$3,500 on December 31, 2020. It did not correct the error in 2020 or in 2021. As a result, Harper Corporation's Stockholders' equity was

- a. Overstated at 12/31/2020 and understated at 12/31/2021
- b. Overstated at 12/31/2020 and properly stated at 12/31/2021
- c. Understated at 12/31/2020 and understated at 12/31/2021
- d. Overstated at 12/31/2020 and overstated at 12/31/2021

2. Honey Beez Company has the following:

<u>Units</u>	<u>Unit Cost</u>	
Inventory, Jan. 1	5,000	\$8
Purchase, April 2	15,000	\$10
Purchase, Aug. 28	20,000	\$12

If Honey Beez Company has 7,000 units on hand at December 31, the cost of ending inventory under the **average-cost** method is:

- a. \$75,250.
- b. \$84,000.
- c. \$70,000.
- d. \$56,000.

3. Simpson Inc. purchased inventory as follows:

Jan. 5	500 units at \$10.00
Jan. 15	1,000 units at \$15.00
Jan. 25	200 units at \$20.00

What is the **average unit cost** of inventory?

- a. \$14.12
- b. \$15.00
- c. \$13.00
- d. \$15.83

4. Delightful Discs has the following inventory data:

Nov. 1	Inventory	30 units @ \$6.00 each
8	Purchase	120 units @ \$6.45 each
17	Purchase	60 units @ \$6.30 each
25	Purchase	90 units @ \$6.60 each

A physical count of merchandise inventory on November 30 reveals that there are 100 units on hand.

**Ending inventory** under **LIFO periodic** inventory system is

- a. \$657
- b. \$632
- c. \$1,269
- d. \$1,295

5. Hardaway Inc. purchased inventory as follows:

Jan. 10	200 units at \$5.00
Jan. 20	500 units at \$10.00
Jan. 30	800 units at \$15.00

Hardaway Inc. had no beginning inventory and has 500 units on hand as of January 31. Assuming the **specific identification method** is used and ending inventory consists of 100 units from the Jan. 10 purchase, 300 units from the Jan. 20 purchase, and 100 units from the Jan. 30 purchase, **ending inventory** would be

- a. \$13,000
- b. \$4,000
- c. \$7,500
- d. \$5,000

6. Hardaway Inc. purchased inventory as follows:

Jan. 10	200 units at \$5.00
Jan. 20	500 units at \$10.00
Jan. 30	800 units at \$15.00

Hardaway Inc. had no beginning inventory and has 500 units on hand as of January 31. Assuming the **specific identification method** is used and ending inventory consists of 100 units from the Jan. 10 purchase, 300 units from the Jan. 20 purchase, and 100 units from the Jan. 30 purchase, **cost of goods sold** would be

- a. \$13,000
- b. \$4,000
- c. \$7,500
- d. \$5,000

7. Baker Bakery Company just began business and made the following four inventory purchases in June:

June	1	150 units	\$ 1,040
June	10	200 units	1,560
June	15	200 units	1,680
June	28	150 units	<u>1,320</u>
			<u>\$5,600</u>

A physical count of merchandise inventory on June 30 reveals that there are 210 units on hand. Using the **FIFO periodic** inventory method, the amount allocated to ending inventory for June is

- a. \$1,456
- b. \$1,508
- c. \$1,824
- d. \$1,848

8. Goods held on **consignment** are
- never owned by the consignee.
  - included in the consignee's ending inventory.
  - kept for sale on the premises of the consignor.
  - included as part of no one's ending inventory.
9. Reeves Company is taking a **physical inventory** on March 31, the last day of its fiscal year. Which of the following must be included in this inventory count?
- Goods in transit to Reeves, FOB destination
  - Goods that Reeves is holding on consignment for Parker Company
  - Goods in transit that Reeves has sold to Smith Company, FOB shipping point
  - Goods that Reeves is holding in inventory on March 31 for which the related Accounts Payable is 15 days past due
10. At December 31, 2019 Mohling Company's inventory records indicated a balance of \$632,000. Upon further investigation it was determined that this amount included the following:
- \$112,000 in inventory purchases made by Mohling shipped from the seller 12/27/19 terms FOB destination, but not due to be received until January 2<sup>nd</sup>,
  - \$74,000 in goods sold by Mohling with terms FOB destination on December 27<sup>th</sup>. The goods are not expected to reach their destination until January 6<sup>th</sup>.
  - \$6,000 of goods received on consignment from Dollywood Company

What is Mohling's correct **ending inventory** balance at December 31, 2019?

- \$520,000
- \$626,000
- \$440,000
- \$514,000

11. Zimmerman Inc. uses a **periodic inventory system**. Details for the inventory account for the month of October are shown below:

Date	Explanation	Units	Unit Cost	Total Cost
Oct. 1	Beginning Inventory	50	\$ 4.00	\$ 200.00
Oct. 10	Purchase	100	\$ 4.50	\$ 450.00
Oct. 20	Purchase	150	\$ 5.00	\$ 750.00
	<b>Total</b>	<u>300</u>		<u>\$ 1,400.00</u>

Assume that on October 31, there is 80 units on hand. If the company uses **FIFO**, what is the value of **ending inventory**?

- \$400
- \$335
- \$373
- \$360

12. Zimmerman Inc. uses a **periodic** inventory system. Details for the inventory account for the month of October are shown below:

Date	Explanation	Units	Unit Cost	Total Cost
Oct. 1	Beginning Inventory	50	\$ 4.00	\$ 200.00
Oct. 10	Purchase	100	\$ 4.50	\$ 450.00
Oct. 20	Purchase	150	\$ 5.00	\$ 750.00
	<b>Total</b>	<u>300</u>		<u>\$1,400.00</u>

Assume that on October 31, there is 80 units on hand. If the company uses **LIFO**, what is the value of cost of goods sold for October?

- a. \$1,000
- b. \$1,200
- c. \$1,065
- d. \$1,028

13. Nelson Corporation sells three different products. The following information is available on Dec 31:

Inventory Item	Units	Cost per unit	Market value per unit
X	300	\$4.00	\$3.50
Y	600	\$2.00	\$1.50
Z	1,500	\$3.00	\$4.00

When applying the **lower of cost or market rule** to each item, what will Nelson's total ending inventory balance be?

- a. \$6,900
- b. \$6,450
- c. \$7,950
- d. \$6,600

14. Inventory costing methods place primary reliance on assumptions about the flow of

- a. goods.
- b. costs.
- c. resale prices.
- d. values.

15. Sox's Enterprise has the following:

<u>Units</u>	<u>Unit Cost</u>	
• Inventory, Jan. 1	8,000	\$11
• Purchase, July 15	13,000	\$12
• Purchase, Nov. 30	5,000	\$13

If 9,000 units are on hand at December 31, the cost of the **ending inventory** under **FIFO** is:

- a. \$95,000.
- b. \$100,000.
- c. \$109,000.
- d. \$113,000.

### **EXERCISES**

1. Hawks Corporation has the following inventory, purchases, and sales data for the month of December.

Inventory:	Dec 1	200 units @ \$4.00	\$800
Purchases:	Dec 10	500 units @ \$4.50	\$2,250
	Dec 20	400 units @ \$4.75	\$1,900
	Dec 20	300 units @ \$5.00	\$1,500
Sales:	Dec 15	15,500 units	
	Dec 25	400 units	

The physical inventory count on Dec 31 shows 500 units on hand.

#### **Instructions:**

Under a **periodic** inventory system, determine the

1. cost of inventory on hand at Dec 31 and 2. the cost of goods sold for Dec under
  - (a) FIFO,
  - (b) LIFO, and
  - (c) average-cost. (For average-cost, carry weighted-average unit cost to three decimal places.)

2. The Cain Company has just completed a physical inventory count at year end, December 31, 2017. Only the items on the shelves, in storage, and in the receiving area were counted and costed on the **FIFO** basis. The inventory amounted to \$80,000. During the audit, the independent CPA discovered the following additional information:

- (a) There were goods in transit on December 31, 2017, from a supplier with terms FOB destination, costing \$10,000. Because the goods had not arrived, they were excluded from the physical inventory count.
- (b) On December 27, 2017, a regular customer purchased goods for cash amounting to \$1,000 and had them shipped to a bonded warehouse for temporary storage on December 28, 2017. The goods were shipped via common carrier with terms FOB shipping point. The customer picked the goods up from the warehouse on January 4, 2018. Cain Company had paid \$500 for the goods and, because they were in storage, Cain included them in the physical inventory count.
- (c) Cain Company, on the date of the inventory, received notice from a supplier that goods ordered earlier, at a cost of \$4,000, had been delivered to the transportation company on December 28, 2017; the terms were FOB shipping point. Because the shipment had not arrived on December 31, 2017, it was excluded from the physical inventory.
- (d) On December 31, 2017, there were goods in transit to customers, with terms FOB shipping point, amounting to \$800 (expected delivery on January 8, 2018). Because the goods had been shipped, they were excluded from the physical inventory count.
- (e) On December 31, 2017, Cain Company shipped \$2,500 worth of goods to a customer, FOB destination. The goods arrived on January 5, 2017. Because the goods were not on hand, they were not included in the physical inventory count.
- (f) Cain Company, as the consignee, had goods on consignment that cost \$3,000. Because these goods were on hand as of December 31, 2017, they were included in the physical inventory count.

**Instructions**

Analyze the above information and calculate a corrected amount for the ending inventory. Explain the basis for your treatment of each item.

3. Hanlin Company uses the **periodic** inventory system to account for inventories. Information related to Hanlin Company's inventory at January 31 is given below:

January	1	Beginning inventory	400	units @ \$12.00 =	\$ 4,800
	8	Purchase	800	units @ \$12.40 =	9,920
	16	Purchase	600	units @ \$12.80 =	7,680
	24	Purchase	<u>200</u>	units @ \$13.20 =	<u>2,640</u>
		Total units and cost	<u>2,000</u>	units	<u>\$25,040</u>

#### Instructions

- Show computations to value the **ending inventory** using the **FIFO** cost assumption if 600 units remain on hand at January 31.
- Show computations to value the **ending inventory** using the **weighted-average** cost method if 600 units remain on hand at January 31.
- Show computations to value the **ending inventory** using the **LIFO** cost assumption if 600 units remain on hand at January 31.

4. Wolf Camera Shop Inc. uses **the lower-of-cost-or-market basis** for its inventory. The following data are available at December 31.

	<u>Units</u>	<u>Cost/Unit</u>	<u>Market Value/Unit</u>
Cameras			
Minolta	5	\$175	\$168
Canon	7	148	152
Light Meters			
Vivitar	15	125	119
Kodak	10	120	135

**Instructions** What amount should be reported on Wolf Camera Shop's financial statements, assuming the lower-of-cost-or-market rule is applied?

5. Match the items below by entering the appropriate code letter in the space provided.

- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| A. Merchandise Inventory          | F. First-in, first-out (FIFO) method |
| B. Work in process                | G. Last-in, first-out (LIFO) method  |
| C. FOB shipping point             | H. Average cost method               |
| D. FOB destination                | I. LIFO reserve                      |
| E. Specific identification method | J. Inventory turnover ratio          |

- \_\_\_ 1. The difference between inventory reported using LIFO and inventory using FIFO.
- \_\_\_ 2. Tracks the actual physical flow for each inventory item available for sale.
- \_\_\_ 3. Goods that are only partially completed in a manufacturing company.
- \_\_\_ 4. Cost of goods sold consists of the most recent inventory purchases.
- \_\_\_ 5. Goods ready for sale to customers by retailers and wholesalers.
- \_\_\_ 6. Title to the goods transfers when the public carrier accepts the goods from the seller.
- \_\_\_ 7. Ending inventory valuation consists of the most recent inventory purchases.
- \_\_\_ 8. The same unit cost is used to value ending inventory and cost of goods sold.
- \_\_\_ 9. Title to goods transfers when the goods are delivered to the buyer.
- \_\_\_ 10. Measures the number of times the inventory sold during the period.



**Chapter 6 Solutions**

**Multiple Choice Solutions**

1. **B**
2. **A**
3. **A**
4. **B**
5. **D**
6. **A**
7. **C**
8. **A**
9. **D**
10. **D**
11. **A**
12. **C**
13. **B**
14. **B**
15. **D**

## Chapter 6 Solutions (Cont.)

### Exercise Solutions

1 Harper Corporations cost of goods available for sale is \$6,450, as follows.

Inventory:		200 units @ \$4.00	\$800
Purchases:	Dec 10	500 units @ \$4.50	2,250
	Dec 20	400 units @ \$4.75	1,900
	Dec 30	300 units @ \$5.00	1,500
Total goods available for sale			\$6,450

#### 1. FIFO Method

Ending inventory:

<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>	
Dec 30	300	\$5.00	\$1,500	
Dec 20	200	4.75	950	\$2,450
Cost of goods sold: \$6,450 – \$2,450 =				\$4,000

#### 2. LIFO Method

Ending inventory:

<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>	
Dec 1	200	\$4.00	\$800	
Dec 10	300	4.50	1,350	\$2,150
Cost of goods sold: \$6,450 – \$2,150 =				\$4,300

#### 3. Average-Cost Method

Weighted-average unit cost:  $\$6,450 \div 1,400 = \$4.607$

Ending inventory:  $500 \times \$4.607 =$  \$2,303.50

Cost of goods sold:  $\$6,450 - \$2,303.50 =$  \$4,146.50

**EXERCISE SOLUTIONS CON'T**

2.

Start with	\$80,000	
Item (a)	–	(Because the goods were shipped FOB destination title will pass to Cain upon arrival. Properly excluded.)
Item (b)	– 500	(Goods should be excluded. The customer accepted title when the goods left Cain FOB shipping point.)
Item (c)	+ 4,000	(Goods belong to Cain. Title passed when supplier delivered the goods to the transportation company.)
Item (d)	–	(Because the goods were shipped FOB shipping point Cain no longer has title to these goods. Properly excluded.)
Item (e)	+ 2,500	(Goods were shipped FOB destination. Cain retains title until the customer receives them.)
Item (f)	– 3,000	(These goods are owned by the consignor, not the consignee, and should not be included in Cain's inventory.)

**Corrected inventory \$83,000**

3.

A. 600 units in ending inventory.

Under FIFO, the units remaining in inventory are the ones purchased most recently.

1/24	200 units @	\$13.20 =	\$2,640	(1/24 units × 1/24 cost)
1/16	400 units @	\$12.80 =	<u>5,120</u>	((1/31 units – 1/24 units) × 1/16 cost)
	<b>600 units</b>		<b><u>\$7,760</u></b>	

B. 600 units in ending inventory.

Under average cost method, the weighted-average cost per unit must be computed.

\$25,040 ÷ 2,000 units = \$12.52

600 units × \$12.52 = **\$7,512** (Tot. cost/tot. units) × end. inv. units

C. 600 units in ending inventory.

Under LIFO, the units remaining are the ones purchased earliest.

1/1	400 units @	12.00 =	\$4,800	1/1 units × 1/1 cost
1/8	200 units @	12.40 =	<u>2,480</u>	((1/31 units – 1/1 units) × 1/8 cost)
	<b>600 units</b>		<b><u>\$7,280</u></b>	

4.

	Cost/Unit	Market Value/Unit	Lower-of-Cost- or-Market	Units	Lower-of-Cost- or-Market
Cameras:					
Minolta	\$175	\$168	\$168	5	\$ 840
Canon	148	152	148	7	1,036
Light Meters:					
Vivitar	125	119	119	15	1,785
Kodak	120	135	120	10	<u>1,200</u>
Total					<b>\$4,861</b>

5. **Answers to Matching**

- |      |       |
|------|-------|
| 1. I | 6. C  |
| 2. E | 7. F  |
| 3. B | 8. H  |
| 4. G | 9. D  |
| 5. A | 10. J |