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[Business](#), [Marketing](#)



THE ANSWER KEY IS AT THE END OF THIS DOCUMENT 1. Teel Distribution Co. has determined its December 31, 2007 inventory on a FIFO basis at \$250,000. Information pertaining to that inventory follows: Estimated selling price | \$255,000 | Estimated cost of disposal/completion | 10,000 | Normal profit margin | 30,000 | Current replacement cost | 225,000 | Teel records losses that result from applying the lower-of-cost-or-market rule. At December 31, 2007, the loss that Teel should recognize is a. \$0. b. \$5,000. c. \$20,000. d. \$25,000. 2. Marr Corporation has two products in its ending inventory, each accounted for at the lower of cost or market. A profit margin of 30% on selling price is considered normal for each product. Specific data with respect to each product follows: | Product 1 | Product 2 | Historical cost | \$40 | \$70 | Replacement cost | 45 | 54 | Estimated cost to complete/dispose | 10 | 26 | Estimated selling price | 80 | 130 | In pricing its ending inventory using the lower-of-cost-or-market, what unit values should Marr use for products #1 and #2, respectively? a. \$40.00 and \$60.00. b. \$46.00 and \$65.00. c. \$40.00 and \$65.00. d. \$45.00 and \$54.00. 3. Kellie Company sells product 2005WSC for \$20 per unit. The cost of one unit of 2005WSC is \$18, and the replacement cost is \$17. The estimated cost to complete/dispose of a unit is \$4, and the normal profit is 40% of selling price. At what amount per unit should product 2005WSC be reported, applying lower-of-cost-or-market? a. \$8. b. \$16. c. \$17. d. \$18. 4. Lynn Corporation has two products in its ending inventory, each accounted for at the lower of cost or market. A profit margin of 30% on selling price is considered normal for each product. Specific data with respect to each product follows: | Product 1 | Product 2 | Historical cost | \$15 | \$30 | Replacement cost | 18 | 27 | Estimated cost to dispose/complete |

5 | 13 | Estimated selling price | 35 | 60 | In pricing its ending inventory using the lower of cost or market, what unit values should Lynn use for products #1 and #2, respectively? a. \$15. 00 and \$29. 00. b. \$19. 50 and \$29. 00. c. \$19. 50 and \$30. 00. d. \$18. 00 and \$27. 00. 5. What is the rationale behind the ceiling when applying the lower-of-cost-or-market method to inventory? a. Prevents understatement of the inventory value. b. Allows for a normal profit to be earned. c. Allows for items to be valued at replacement cost. d. Prevents overstatement of the value of obsolete or damaged inventories. 6. Alex Corporation uses the FIFO method for internal reporting purposes and LIFO for external reporting purposes. The balance in the LIFO Reserve account at the end of 2010 was \$60, 000. The balance in the same account at the end of 2011 is \$90, 000. Alex's Cost of Goods Sold account has a balance of \$450, 000 from sales transactions recorded during the year. What amount should Alex report as Cost of Goods Sold in the 2011 income statement? a. \$420, 000. b. \$450, 000. c. \$480, 000. d. \$540, 000. 7. Kaka Company had 400 units of Product A in its inventory at a cost of \$4 each. It purchased 600 more units of Product A at a cost of \$6 each. Kaka then sold 700 units at a selling price of \$10 each. The LIFO liquidation overstated gross profit by a. \$ -0- b. \$200. c. \$400. d. \$600. 8. Xavi Company had 400 units of Product B in its inventory at a cost of \$6 each. It purchased 600 more units of Product B at a cost of \$9 each. Xavi then sold 700 units at a selling price of \$15 each. The tax rate for Xavi is 30%. The effect of LIFO liquidation on Xavi's net income is: a. Overstatement of \$210 b. Overstatement of \$300 c. Overstatement of \$500 d. Overstatement of \$350 9. Terry Company had January 1 inventory of \$100, 000 when it adopted dollar-value LIFO. During

the year, purchases were \$600, 000 and sales were \$1, 000, 000. December 31 inventory at year-end prices was \$143, 360, and the price index was 112 (Price Index for base year = 100). What is Terry's ending inventory and gross profit, respectively? a. \$131, 360 and 428, 000 b. \$128, 000 and 443, 460 c. \$131, 360 and 431, 360 d. \$143, 360 and 443, 460

10. Scolari Company adopted the dollar-value LIFO method on January 1, 2007, at which time its inventory consisted of 6, 000 units of Item A at \$5. 00 each and 3, 000 units of Item B at \$16. 00 each. The inventory at December 31, 2007 consisted of 12, 000 units of Item A and 7, 000 units of Item B. The most recent actual purchases related to these items were as follows:

Items Purchased	Purchase Date	Quantity	Cost Per Unit
A	12/07/2007	2, 000	\$6. 00
A	12/11/2007	10, 000	5. 75
B	12/15/2007	10, 000	17

What is the price index for 2007 that should be computed by Scolari Company? a. 108. 33% b. 109. 59% c. 111. 05% d. 220. 51%

11. Which of the following is not considered an advantage of LIFO when prices are rising? a. The inventory will be overstated. b. The more recent costs are matched against current revenues. c. There will be a deferral of income tax. d. A company's future reported earnings will not be affected substantially by future price declines.

12. The original cost of an inventory item is above the replacement cost and the net realizable value. The replacement cost is below the net realizable value less the normal profit margin. As a result, under the lower-of-cost-or-market method, the inventory item should be reported at the a. net realizable value. b. net realizable value less the normal profit margin. c. replacement cost. d. original cost.

13. Del Bosque Co. began using dollar-value LIFO for costing its inventory two years ago. The ending inventory for the past two years in end-

of-year dollars was \$100,000 and \$150,000 and the year-end price indices were 1.0 and 1.2, respectively. Assuming the current inventory at end of year prices equals \$215,000 and the index for the current year is 1.25, what is the ending inventory using dollar-value LIFO? a. \$177,500. b. \$186,400. c. \$190,000. d. \$188,750.

14. Capello Co. adopted the dollar-value LIFO inventory method on December 31, 2010. Capello's entire inventory constitutes a single pool. On December 31, 2010, the inventory was \$320,000 under the dollar-value LIFO method. Inventory data for 2011 are as follows: 12/31/11 inventory at year-end prices: \$440,000 Relevant price index at year end (base year 2010): 1.10 Using dollar value LIFO, Capello's inventory at December 31, 2011 is a. \$352,000. b. \$408,000. c. \$400,000. d. \$440,000.

15. Ancelotti, Inc. is a calendar-year corporation. Its financial statements for the years 2011 and 2010 contained errors as follows: 1) Ending Inventory for 2011 is overstated by \$3,000 2) Ending Inventory for 2010 is overstated by \$8,000 3) Salaries expense for 2011 is understated by \$2,000 4) Salaries expense for 2010 is overstated by \$6,000 No correcting entries were made at December 31, 2010. Assuming no taxes, by how much will retained earnings at December 31, 2011 be overstated or understated? a. \$1,000 understated b. \$5,000 overstated c. \$5,000 understated d. \$9,000 understated

16. Goethe Co.'s allowance for uncollectible accounts was \$95,000 at the end of 2010 and \$90,000 at the end of 2009. For the year ended December 31, 2010, Goethe reported bad debt expense of \$13,000 in its income statement. How much receivables did Goethe write off in 2010? a. \$5,000 b. \$8,000 c. \$13,000 d. \$18,000

17. Wellington Corp. has outstanding accounts receivable totaling \$3 million as of December 31 and

sales on credit during the year of \$15 million. There is also a debit balance of \$12,000 in the allowance for doubtful accounts. If the company estimates that 8% of its outstanding receivables will be uncollectible, what will be the balance in the allowance for doubtful accounts after the year-end adjustment to record bad debt expense? a. \$1,200,000. b. \$228,000. c. \$240,000. d. \$252,000.

18. Moon Inc. factors \$1,000,000 of its accounts receivables with recourse for a finance charge of 4%. The finance company retains an amount equal to 8% of the accounts receivable for possible adjustments. Moon estimates the fair value of the recourse liability at \$100,000. What would be the debit to Cash in the journal entry to record this transaction? a. \$1,000,000. b. \$960,000. c. \$880,000. d. \$780,000.

19. If a company employs the gross method of recording accounts receivable from customers, then sales discounts taken should be reported as a. a deduction from sales in the income statement. b. an item of "other expense" in the income statement. c. a deduction from accounts receivable in determining the net realizable value of accounts receivable. d. sales discounts forfeited in the cost of goods sold section of the income statement.

20. When should a transfer of receivables be recorded as a sale? a. The transferred assets are isolated from the transferor. b. The transferor does not maintain effective control over the transferred assets through an agreement to repurchase or redeem them prior to their maturity. c. The transferee has the right to pledge or exchange the transferred assets. d. All of the above.

21. Given the historical cost of product Dominoe is \$65, the selling price of product Dominoe is \$90, costs to sell product Dominoe are \$16, the replacement cost for product Dominoe is \$60, and the normal profit margin is 20% of sales

price, what is the amount that should be used to value the inventory under the lower-of-cost-or-market method? a. \$65. b. \$56. c. \$60. d. \$74. 22. LF Corporation, a manufacturer of Mexican foods, contracted in 2010 to purchase 1,000 pounds of a spice mixture at \$5.00 per pound, delivery to be made in spring of 2011. By 12/31/10, the price per pound of the spice mixture had dropped to \$4.60 per pound. In 2010, LF should recognize a a loss of \$5,000. b. a loss of \$400. c. no gain or loss. d. a gain of \$400. 23. On January 1, 2010, the merchandise inventory of Glaus, Inc. was \$800,000. During 2010 Glaus purchased \$1,600,000 of merchandise and recorded sales of \$2,000,000. The gross profit rate on these sales was 25%. What is the merchandise inventory of Glaus at December 31, 2010? a. \$400,000. b. \$500,000. c. \$900,000. d. \$1,500,000. 24. The inventory account of Irick Company at December 31, 2010, included the following items: Inventory Amount Merchandise out on consignment at sales price (including markup of 40% on selling price) \$15,000 Goods purchased, in transit (shipped f. o. b. shipping point) 12,000 Goods held on consignment by Irick 13,000 Goods out on approval (sales price \$7,600, cost \$6,400) 7,600 Based on the above information, the inventory account at December 31, 2010, should be reduced by a. \$20,200. b. \$22,600. c. \$32,200. d. \$32,000. 25. On October 31, a fire destroyed PH Inc.'s entire retail inventory. The inventory on hand as of January 1 totaled \$680,000. From January 1 through the time of the fire, the company made purchases of \$165,000 and had sales of \$360,000. Assuming the rate of gross profit to selling price is 40%, what is the approximate value of the inventory that was destroyed? a. \$680,000. b. \$673,000. c. \$485,000. d. \$629,000. Use the following information for the

next two questions: The following data concerning the retail inventory method are taken from the financial records of Welch Company. Cost Retail

Beginning inventory	\$ 49, 000	\$ 70, 000
Purchases	224, 000	320, 000
Freight-in	6, 000	
Net markups		20, 000
Net markdowns		14, 000
Sales		336, 000

26. The ending inventory at retail should be a. \$74, 000. b. \$60, 000. c. \$64, 000. d. \$42, 000. 27. If the ending inventory is to be valued at approximately the lower of cost or market, the calculation of the cost to retail ratio should be based on goods available for sale at (1) cost and (2) retail, respectively of a. \$279, 000 and \$410, 000. b. \$279, 000 and \$396, 000. c. \$279, 000 and \$390, 000. d. \$273, 000 and \$390, 000. Use the following information for the next three questions: Plank Co. uses the retail inventory method. The following information is available for the current year.

Cost Retail	Beginning inventory	\$ 78, 000	\$122, 000
	Purchases	295, 000	415, 000
	Freight-in	5, 000	
	Employee discounts		2, 000
	Net markups		15, 000
	Net Markdowns		20, 000
	Sales		390, 000

28. If the ending inventory is to be valued at approximately lower of average cost or market, the calculation of the cost ratio should be based on cost and retail of a. \$300, 000 and \$430, 000. b. \$300, 000 and \$428, 000. c. \$373, 000 and \$550, 000. d. \$378, 000 and \$552, 000. 29. The ending inventory at retail should be a. \$160, 000. b. \$150, 000. c. \$144, 000. d. \$140, 000. 30. The approximate cost of the ending inventory by the conventional retail method is a. \$95, 900. b. \$94, 920. c. \$98, 000. d. \$102, 480. Answer Key: 1-d / 2-c / 3-b / 4-a / 5-d / 6-c / 7-b / 8-a / 9-c / 10-b / 11-a / 12-b / 13-d / 14-b / 15-a / 16-b / 17-c / 18-c / 19-a / 20-d / 21-c / 22-b / 23-c / 24-a / 25-d / 26-b / 27-a / 28-d / 29-d / 30-a