

Study Guide 20

Name	Perfect Score	Your Score
Identifying Accounting Terms	9 Pts.	
Analyzing Inventory Systems	10 Pts.	
Analyzing LIFO, FIFO, and Weighted-Average Methods	12 Pts.	
Total	31 Pts.	

Part One—Identifying Accounting Terms

Directions: Select the one term in Column I that best fits each definition in Column II. Print the letter identifying your choice in the Answers column.

Column I	Column II	Answers
A. first-in, first-out inventory costing method (FIFO)	1. A form used during a physical inventory to record information about each item of merchandise on hand. (p. 622)	1. _____
B. gross profit method of estimating inventory	2. A form used to show the kind of merchandise, quantity received, quantity sold, and balance on hand. (p. 623)	2. _____
C. inventory record	3. A file of stock records for all merchandise on hand. (p. 623)	3. _____
D. last-in, first-out inventory costing method (LIFO)	4. Using the price of merchandise purchased first to calculate the cost of merchandise sold first. (p. 626)	4. _____
E. lower of cost or market	5. Using the price of merchandise purchased last to calculate the cost of merchandise sold first. (p. 627)	5. _____
F. market value	6. Using the average cost of beginning inventory plus merchandise purchased during a fiscal period to calculate the cost of merchandise sold. (p. 628)	6. _____
G. stock ledger	7. The price that must be paid to replace an asset. (p. 630)	7. _____
H. stock record	8. Using the lower of cost or market price to calculate the cost of ending merchandise inventory. (p. 630)	8. _____
I. weighted-average inventory costing method	9. Estimating inventory by using the previous year's percentage of gross profit on operations. (p. 633)	9. _____

Part Two—Analyzing Inventory Systems

Directions: Place a T for True or an F for False in the Answers column to show whether each of the following statements is true or false.

Answers

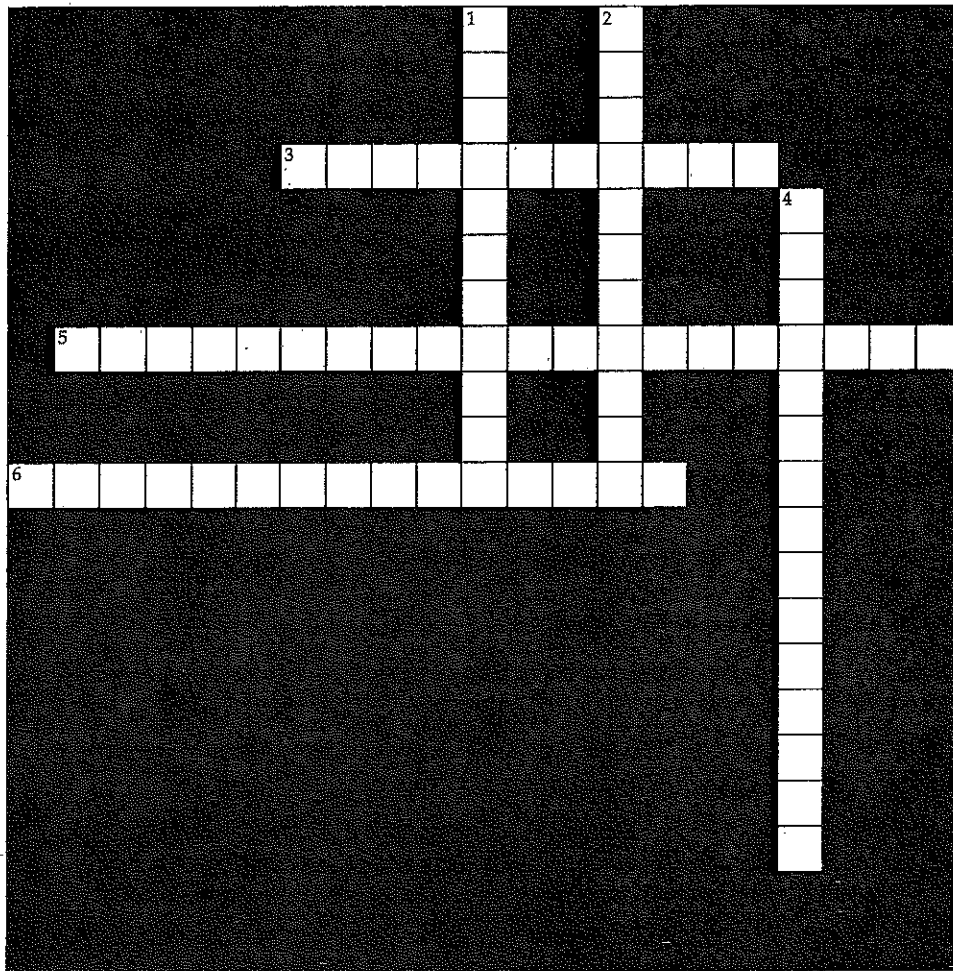
1. Merchandise inventory on hand is typically the largest asset of a merchandising business. (p. 620) 1. _____
2. The only financial statement on which the value of merchandise on hand is reported is the income statement. (p. 620) 2. _____
3. The net income of a business can be increased by maintaining a merchandise inventory that is larger than needed. (p. 621) 3. _____
4. A merchandise inventory evaluated at the end of a fiscal period is known as a periodic inventory. (p. 621) 4. _____
5. A periodic inventory conducted by counting, weighing, or measuring items of merchandise on hand is also called a physical inventory. (p. 622) 5. _____
6. A minimum inventory balance is the amount of merchandise that will typically last until ordered merchandise can be received from vendors. (p. 623) 6. _____
7. A perpetual inventory system provides day-to-day information about the quality of merchandise on hand. (p. 623) 7. _____
8. Many merchandising businesses use a POS terminal to read UPC codes on products and update the stock ledger. (p. 623) 8. _____
9. The first-in, first-out method is used to determine the quantity of each type of merchandise on hand. (p. 626) 9. _____
10. The gross profit method makes it possible to prepare monthly income statements without taking a physical inventory. (p. 633) 10. _____

Part Three—Analyzing LIFO, FIFO and Weighted-Average Methods

Directions: For each of the following items, select the choice that best completes the statement. Print the letter identifying your choice in the Answers column.

Answers

- | | |
|---|-----------|
| 1. Calculating an accurate inventory cost to assure that gross profit and net income are reported correctly on the income statement is an application of the accounting concept (A) Consistent Reporting (B) Perpetual Inventory (C) Adequate Disclosure (D) none of the above. (p. 620) | 1. _____ |
| 2. When the FIFO method is used, cost of merchandise sold is valued at (A) the average cost (B) the most recent cost (C) the earliest cost (D) none of these. (p. 626) | 2. _____ |
| 3. The LIFO method is based on the assumption that the merchandise purchased first is the merchandise (A) sold first (B) sold last (C) that cost the most (D) none of these. (p. 627) | 3. _____ |
| 4. When the LIFO method is used, ending inventory units are priced at the (A) average price (B) earliest price (C) most recent price (D) none of these. (p. 627) | 4. _____ |
| 5. Using an inventory costing method to charge costs of merchandise against current revenue is an application of the accounting concept (A) Adequate Disclosure (B) Consistent Reporting (C) Matching Expenses with Revenue (D) none of these. (p. 627) | 5. _____ |
| 6. The FIFO method is based on the assumption that the merchandise purchased first is the merchandise (A) sold first (B) sold last (C) in ending inventory (D) none of these. (p. 626) | 6. _____ |
| 7. When the FIFO method is used, cost of merchandise sold is priced at (A) the average price (B) the earliest price (C) the most recent price (D) none of these. (p. 626) | 7. _____ |
| 8. The weighted-average method is based on the assumption that the cost of merchandise sold should be calculated using the (A) average price per unit of beginning inventory (B) average price of ending inventory (C) average price of beginning inventory plus purchases during the fiscal period (D) average price of ending inventory plus purchases during the fiscal period. (p. 628) | 8. _____ |
| 9. When the weighted-average method is used, units sold are priced at (A) the earliest price (B) the most recent price (C) the average price (D) none of these. (p. 628) | 9. _____ |
| 10. A business that uses the same inventory costing method for all fiscal periods is applying the accounting concept (A) Consistent Reporting (B) Accounting Period Cycle (C) Perpetual Inventory (D) Adequate Disclosure. (p. 630) | 10. _____ |
| 11. In a year of rising prices, the inventory method that gives the highest possible value for ending inventory is (A) FIFO (B) LIFO (C) weighted-average (D) gross profit. (p. 630) | 11. _____ |
| 12. In a year of falling prices, the inventory method that gives the highest possible value for ending inventory is (A) weighted-average (B) LIFO (C) FIFO (D) gross profit. (p. 630) | 12. _____ |



Across

- 3. A form used to show the kind of merchandise, quantity received, quantity sold, and balance on hand.
- 5. Allocating factory overhead based on the level of major activities.
- 6. A form used during a physical inventory to record information about each item of merchandise on hand.

Down

- 1. The price that must be paid to replace an asset.
- 2. A file of stock records for all merchandise on hand.
- 4. All expenses other than direct materials and direct labor that apply to making products.