ACCOUNTING 201

CHAPTER 6

TRUE-FALSE STATEMENTS

1. Transactions that affect inventories on hand have an effect on both the balance sheet and the income statement.

2. The more inventory a company has in stock, the greater the company's profit.

3. Raw materials inventories are the goods that a manufacturer has completed and are ready to be sold to customers.

4. Goods that have been purchased FOB destination but are in transit, should be excluded from a physical count of goods.

5. Consigned goods are goods held for sale by one party although ownership of the goods is retained by another party.

6. The weighted average unit cost method of costing inventories tracks the actual physical flow of the goods available for sale.

7. Management may choose any inventory costing method it desires as long as the cost flow assumption chosen is consistent with the physical movement of goods in the company.

8. The First-in, First-out (FIFO) inventory method results in Cost of goods sold valued at the most recent cost.

9. The matching principle requires that the cost of goods sold be matched against the ending merchandise inventory in order to determine income.

10. The specific identification method of inventory valuation is desirable when a company sells a large number of low-unit cost items.

MULTIPLE CHOICE QUESTIONS

11. Inventories affect
    a. only the balance sheet.
    b. only the income statement.
    c. both the balance sheet and the income statement.
    d. neither the balance sheet nor the income statement.

12. Merchandise inventory is
    a. reported under the classification of Property, Plant, and Equipment on the balance sheet.
    b. often reported as a miscellaneous expense on the income statement.
    c. reported as a current asset on the balance sheet.
    d. generally valued at the price for which the goods can be sold.

13. If goods in transit are shipped FOB destination
    a. the seller has legal title to the goods until they are delivered.
    b. the buyer has legal title to the goods until they are delivered.
    c. the transportation company has legal title to the goods while the goods are in transit.
    d. no one has legal title to the goods until they are delivered.

Use the following information for questions 14-17.

A company just starting business made the following four inventory purchases in June:

June	1	150 units	$ 780
June	10	200 units	1,170
June	15	200 units	1,260
June	28	150 units	990
			$4,200

A physical count of merchandise inventory on June 30 reveals that there are 200 units on hand.

14. Using the LIFO inventory method, the value of the ending inventory on June 30 (rounded to the nearest dollar) is
    a. $1,073.
    b. $1,305.
    c. $2,895.
    d. $3,128.

15. Using the FIFO inventory method, the amount allocated to cost of goods sold for June is
    a. $1,305.
    b. $2,545.
    c. $2,895.
    d. $3,128.

16. Using the average cost method, the amount allocated to the ending inventory on June 30 is
    a. $4,200.
    b. $3,000.
    c. $1,150.
    d. $1,200.

17. The inventory method which results in the highest gross profit for June is
    a. the FIFO method.
    b. the LIFO method.
    c. the weighted average unit cost method.
    d. not determinable.

ANSWERS

True and False

1. T
2. F
3. F
4. T
5. T
6. F
7. F
8. F
9. F
10. F

Multiple Choice

11. C
12. C
13. A
14. A
15. C
16. D
17. A