CHAPTER 9

INVENTORIES: ADDITIONAL VALUATION ISSUES

TRUE-FALSE—Conceptual

1. A company should abandon the historical cost principle when the future utility of the inventory item falls below its original cost.

TRUE

2. The lower-of-cost-or-market method is used for inventory despite being less conservative than valuing inventory at market value.

FALSE

3. The purpose of the “floor” in lower-of-cost-or-market considerations is to avoid overstating inventory.

FALSE

4. Application of the lower-of-cost-or-market rule results in inconsistency because a company may value inventory at cost in one year and at market in the next year.

TRUE

5. GAAP requires reporting inventory at net realizable value, even if above cost, whenever there is a controlled market with a quoted price applicable to all quantities.

FALSE

6. A reason for valuing inventory at net realizable value is that sometimes it is too difficult to obtain the cost figures.

TRUE

7. In a basket purchase, the cost of the individual assets acquired is determined on the basis of their relative sales value.

TRUE

8. A basket purchase occurs when a company agrees to buy inventory weeks or months in advance.

FALSE

9. Most purchase commitments must be recorded as a liability.

FALSE

10. If the contract price on a noncancelable purchase commitment exceeds the market price, the buyer should record any expected losses on the commitment in the period in which the market decline takes place.

TRUE

11. When a buyer enters into a formal, noncancelable purchase contract, an asset and a liability are recorded at the inception of the contract.

FALSE

12. The gross profit method can be used to approximate the dollar amount of inventory on hand.

TRUE

13. In most situations, the gross profit percentage is stated as a percentage of cost.

FALSE

14. A disadvantage of the gross profit method is that it uses past percentages in determining the markup.

TRUE

15. When the conventional retail method includes both net markups and net markdowns in the cost-to-retail ratio, it approximates a lower-of-cost-or-market valuation.

FALSE

16. In the retail inventory method, the term markup means a markup on the original cost of an inventory item.

FALSE

17. In the retail inventory method, abnormal shortages are deducted from both the cost and retail amounts and reported as a loss.

TRUE

18. The inventory turnover ratio is computed by dividing the cost of goods sold by the ending inventory on hand.

FALSE

19. The average days to sell inventory represents the average number of days' sales for which a company has inventory on hand.

TRUE

*20. The LIFO retail method assumes that markups and markdowns apply only to the goods purchased during the period.

TRUE

True False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	T	6.	T	11.	F	16.	F
2.	F	7.	T	12.	T	17.	T
3.	F	8.	F	13.	F	18.	F
4.	T	9.	F	14.	T	19.	T
5.	F	10.	T	15.	F	20.	T

MULTIPLE CHOICE—Conceptual

21. Which of the following is true about lower-of-cost-or-market?
    a. It is inconsistent because losses are recognized but not gains.
    b. It usually understates assets.
    c. It can increase future income.
    d. All of these.

22. The primary basis of accounting for inventories is cost. A departure from the cost basis of pricing the inventory is required where there is evidence that when the goods are sold in the ordinary course of business their
    a. selling price will be less than their replacement cost.
    b. replacement cost will be more than their net realizable value.
    c. cost will be less than their replacement cost.
    d. future utility will be less than their cost.

23. When valuing raw materials inventory at lower-of-cost-or-market, what is the meaning of the term "market"?
    a. Net realizable value
    b. Net realizable value less a normal profit margin
    c. Current replacement cost

d. Discounted present value

24. In no case can "market" in the lower-of-cost-or-market rule be more than
a. estimated selling price in the ordinary course of business.
b. estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal.
c. estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal and an allowance for an approximately normal profit margin.
d. estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal, an allowance for an approximately normal profit margin, and an adequate reserve for possible future losses.

25. Designated market value
a. is always the middle value of replacement cost, net realizable value, and net realizable value less a normal profit margin.
b. should always be equal to net realizable value.
c. may sometimes exceed net realizable value.
d. should always be equal to net realizable value less a normal profit margin.

26. Lower-of-cost-or-market
a. is most conservative if applied to the total inventory.
b. is most conservative if applied to major categories of inventory.
c. is most conservative if applied to individual items of inventory.
d. must be applied to major categories for taxes.

27. An item of inventory purchased this period for $15.00 has been incorrectly written down to its current replacement cost of $10.00. It sells during the following period for $30.00, its normal selling price, with disposal costs of $3.00 and normal profit of $12.00. Which of the following statements is *not* true?
a. The cost of sales of the following year will be understated.
b. The current year's income is understated.
c. The closing inventory of the current year is understated.
d. Income of the following year will be understated.

[S]28. When the cost-of-goods-sold method is used to record inventory at market
a. there is a direct reduction in the selling price of the product that results in a loss being recorded on the income statement prior to the sale.
b. a loss is recorded directly in the inventory account by crediting inventory and debiting loss on inventory decline.
c. only the portion of the loss attributable to inventory sold during the period is recorded in the financial statements.
d. the market value figure for ending inventory is substituted for cost and the loss is buried in cost of goods sold.

29. Lower-of-cost-or-market as it applies to inventory is best described as the
a. drop of future utility below its original cost.
b. method of determining cost of goods sold.
c. assumption to determine inventory flow.
d. change in inventory value to market value.

30. The floor to be used in applying the lower-of-cost-or-market method to inventory is determined as the
    a. net realizable value.
    b. net realizable value less normal profit margin.
    c. replacement cost.
    d. selling price less costs of completion and disposal.

31. 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.

32. Why are inventories stated at lower-of-cost-or-market?
    a. To report a loss when there is a decrease in the future utility.
    b. To be conservative.
    c. To report a loss when there is a decrease in the future utility below the original cost.
    d. To permit future profits to be recognized.

33. Which of the following is not an acceptable approach in applying the lower-of-cost-or-market method to inventory?
    a. Inventory location.
    b. Categories of inventory items.
    c. Individual item.
    d. Total of the inventory.

34. Which method(s) may be used to record a loss due to a price decline in the value of inventory?
    a. Cost-of-goods-sold.
    b. Sales method.
    c. Loss method
    d. Both a and c.

35. Why might inventory be reported at sales prices (net realizable value or market price) rather than cost?
    a. When there is a controlled market with a quoted price applicable to all quantities and when there are no significant costs of disposal.
    b. When there are no significant costs of disposal.
    c. When a non-cancellable contract exists to sell the inventory.
    d. When there is a controlled market with a quoted price applicable to all quantities.

[S]36. Recording inventory at net realizable value is permitted, even if it is above cost, when there are no significant costs of disposal involved and
    a. the ending inventory is determined by a physical inventory count.
    b. a normal profit is not anticipated.
    c. there is a controlled market with a quoted price applicable to all quantities.
    d. the internal revenue service is assured that the practice is not used only to distort reported net income.

37. When inventory declines in value below original (historical) cost, and this decline is considered other than temporary, what is the maximum amount that the inventory can be valued at?
    a. Sales price
    b. Net realizable value
    c. Historical cost
    d. Net realizable value reduced by a normal profit margin

38. Net realizable value is
    a. acquisition cost plus costs to complete and sell.
    b. selling price.
    c. selling price plus costs to complete and sell.
    d. selling price less costs to complete and sell.

39. If a unit of inventory has declined in value below original cost, but the market value exceeds net realizable value, the amount to be used for purposes of inventory valuation is
    a. net realizable value.
    b. original cost.
    c. market value.
    d. net realizable value less a normal profit margin.

40. Inventory may be recorded at net realizable value if
    a. there is a controlled market with a quoted price.
    b. there are no significant costs of disposal.
    c. the inventory consists of precious metals or agricultural products.
    d. all of these.

41. If a material amount of inventory has been ordered through a formal purchase contract at the balance sheet date for future delivery at firm prices,
    a. this fact must be disclosed.
    b. disclosure is required only if prices have declined since the date of the order.
    c. disclosure is required only if prices have since risen substantially.
    d. an appropriation of retained earnings is necessary.

42. The credit balance that arises when a net loss on a purchase commitment is recognized should be
    a. presented as a current liability.
    b. subtracted from ending inventory.
    c. presented as an appropriation of retained earnings.
    d. presented in the income statement.

P 43. In 2012, Orear Manufacturing signed a contract with a supplier to purchase raw materials in 2013 for $700,000. Before the December 31, 2012 balance sheet date, the market price for these materials dropped to $510,000. The journal entry to record this situation at December 31, 2012 will result in a credit that should be reported
    a. as a valuation account to Inventory on the balance sheet.
    b. as a current liability.
    c. as an appropriation of retained earnings.
    d. on the income statement.

44. At the end of the fiscal year, Apha Airlines has an outstanding non-cancellable purchase commitment for the purchase of 1 million gallons of jet fuel at a price of $4.10 per gallon for delivery during the coming summer. The company prices its inventory at the lower of cost or market. If the market price for jet fuel at the end of the year is $4.50, how would this situation be reflected in the annual financial statements?
    a. Record unrealized gains of $400,000 and disclose the existence of the purchase commitment.
    b. No impact.
    c. Record unrealized losses of $400,000 and disclose the existence of the purchase commitment.

d. Disclose the existence of the purchase commitment.

45. At the end of the fiscal year, Apha Airlines has an outstanding purchase commitment for the purchase of 1 million gallons of jet fuel at a price of $4.60 per gallon for delivery during the coming summer. The company prices its inventory at the lower of cost or market. If the market price for jet fuel at the end of the year is $4.25, how would this situation be reflected in the annual financial statements?
    a. Record unrealized gains of $350,000 and disclose the existence of the purchase commitment.
    b. No impact.
    c. Record unrealized losses of $350,000 and disclose the existence of the purchase commitment.
    d. Disclose the existence of the purchase commitment.

46. How is the gross profit method used as it relates to inventory valuation?
    a. Verify the accuracy of the perpetual inventory records.
    b. Verity the accuracy of the physical inventory.
    c. To estimate cost of goods sold.
    d. To provide an inventory value of LIFO inventories.

[S]47. Which of the following is not a basic assumption of the gross profit method?
    a. The beginning inventory plus the purchases equal total goods to be accounted for.
    b. Goods not sold must be on hand.
    c. If the sales, reduced to the cost basis, are deducted from the sum of the opening inventory plus purchases, the result is the amount of inventory on hand.
    d. The total amount of purchases and the total amount of sales remain relatively unchanged from the comparable previous period.

48. The gross profit method of inventory valuation is *invalid* when
    a. a portion of the inventory is destroyed.
    b. there is a substantial increase in inventory during the year.
    c. there is no beginning inventory because it is the first year of operation.
    d. none of these.

49. Which statement is *not* true about the gross profit method of inventory valuation?
    a. It may be used to estimate inventories for interim statements.
    b. It may be used to estimate inventories for annual statements.
    c. It may be used by auditors.
    d. None of these.

50. A major advantage of the retail inventory method is that it
    a. provides reliable results in cases where the distribution of items in the inventory is different from that of items sold during the period.
    b. hides costs from competitors and customers.
    c. gives a more accurate statement of inventory costs than other methods.
    d. provides a method for inventory control and facilitates determination of the periodic inventory for certain types of companies.

51. An inventory method which is designed to approximate inventory valuation at the lower of cost or market is
    a. last-in, first-out.
    b. first-in, first-out.

c. conventional retail method.
d. specific identification.

52. The retail inventory method is based on the assumption that the
a. final inventory and the total of goods available for sale contain the same proportion of high-cost and low-cost ratio goods.
b. ratio of gross margin to sales is approximately the same each period.
c. ratio of cost to retail changes at a constant rate.
d. proportions of markups and markdowns to selling price are the same.

53. Which statement is true about the retail inventory method?
a. It may not be used to estimate inventories for interim statements.
b. It may not be used to estimate inventories for annual statements.
c. It may not be used by auditors.
d. None of these.

54. When the conventional retail inventory method is used, markdowns are commonly ignored in the computation of the cost to retail ratio because
a. there may be no markdowns in a given year.
b. this tends to give a better approximation of the lower of cost or market.
c. markups are also ignored.
d. this tends to result in the showing of a normal profit margin in a period when no markdown goods have been sold.

55. To produce an inventory valuation which approximates the lower of cost or market using the conventional retail inventory method, the computation of the ratio of cost to retail should
a. include markups but not markdowns.
b. include markups and markdowns.
c. ignore both markups and markdowns.
d. include markdowns but not markups.

*56. When calculating the cost ratio for the retail inventory method,
a. if it is the conventional method, the beginning inventory is included and markdowns are deducted.
b. if it is the LIFO method, the beginning inventory is excluded and markdowns are deducted.
c. if it is the LIFO method, the beginning inventory is included and markdowns are not deducted.
d. if it is the conventional method, the beginning inventory is excluded and markdowns are not deducted.

S57. Which of the following is not required when using the retail inventory method?
a. All inventory items must be categorized according to the retail markup percentage which reflects the item's selling price.
b. A record of the total cost and retail value of goods purchased.
c. A record of the total cost and retail value of the goods available for sale.
d. Total sales for the period.

S58. Which of the following is not a reason the retail inventory method is used widely?
a. As a control measure in determining inventory shortages

b. For insurance information
c. To permit the computation of net income without a physical count of inventory
d. To defer income tax liability

59. What condition is not necessary in order to use the retail method to provide inventory results?
a. Retailer keeps a record of the total costs of products sold for the period.
b. Retailer keeps a record of the total costs and retail value of goods purchased.
c. Retailer keeps a record of the total costs and retail value of goods available for sale.
d. Retailer keeps a record of sales for the period.

60. What method yields results that are essentially the same as those of the conventional retail method?
a. FIFO.
b. Lower-of-average-cost-or-market.
c. Average cost.
d. LIFO.

61. What is the effect of net markups on the cost-retail ratio when using the conventional retail method?
a. Increases the cost-retail ratio.
b. No effect on the cost-retail ratio.
c. Depends on the amount of the net markdowns.
d. Decreases the cost-retail ratio.

62. What is the effect of freight-in on the cost-retail ratio when using the conventional retail method?
a. Increases the cost-retail ratio.
b. No effect on the cost-retail ratio.
c. Depends on the amount of the net markups.
d. Decreases the cost-retail ratio.

63. Which of the following is not a common disclosure for inventories?
a. Inventory composition.
b. Inventory location.
c. Inventory financing arrangements.
d. Inventory costing methods employed.

P64. Which of the following statements is false regarding an assumption of inventory cost flow?
a. The cost flow assumption need not correspond to the actual physical flow of goods.
b. The assumption selected may be changed each accounting period.
c. The FIFO assumption uses the earliest acquired prices to cost the items sold during a period.
d. The LIFO assumption uses the earliest acquired prices to cost the items on hand at the end of an accounting period.

P65. The average days to sell inventory is computed by dividing
a. 365 days by the inventory turnover ratio.
b. the inventory turnover ratio by 365 days.
c. net sales by the inventory turnover ratio.
d. 365 days by cost of goods sold.

66. The inventory turnover ratio is computed by dividing the cost of goods sold by
    a. beginning inventory.
    b. ending inventory.
    c. average inventory.
    d. number of days in the year.

*67. When using dollar-value LIFO, if the incremental layer was added last year, it should be multiplied by
    a. last year's cost ratio and this year's index.
    b. this year's cost ratio and this year's index.
    c. last year's cost ratio and last year's index.
    d. this year's cost ratio and last year's index.

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	d	28.	d	35.	a	42.	a	49.	b	*56.	b	63.	b
22.	d	29.	a	36.	c	43.	b	50.	d	57.	a	64.	b
23.	c	30.	b	37.	b	44.	d	51.	c	58.	d	65.	a
24.	b	31.	d	38.	d	45.	c	52.	a	59.	a	66.	c
25.	a	32.	c	39.	a	46.	a	53.	d	60.	b	*67.	c
26.	c	33.	a	40.	d	47.	d	54.	b	61.	d		
27.	d	34.	d	41.	a	48.	d	55.	a	62.	a		

Solutions to those Multiple Choice questions for which the answer is “none of these.”

48. The gross profit percentage applicable to the goods in ending inventory is different from the percentage applicable to the goods sold during the period.

53. Many answers are possible.

MULTIPLE CHOICE—Computational

68. Oslo 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	$20.00	$ 35.00
Replacement cost	22.50	27.00
Estimated cost to dispose	5.00	13.00
Estimated selling price	40.00	65.00

In pricing its ending inventory using the lower-of-cost-or-market, what unit values should Oslo use for products #1 and #2, respectively?
a. $20.00 and $32.50.
b. $23.00 and $32.50.
c. $23.00 and $30.00.
d. $22.50 and $27.00.

68.a Product 1: RC = $22.50,
NRV = $40 – $5 = $35
NRV – PM = $35 – ($40 × .3) = $23,
cost = $20.
Product 2: RC = $27,
NRV = $65 – $13 = $52
NRV – PM = $52 – ($65 × .3) = $32.50,
cost = $35.

69. Muckenthaler Company sells product 2005WSC for $30 per unit. The cost of one unit of 2005WSC is $27, and the replacement cost is $26. The estimated cost to dispose of a unit is $6, and the normal profit is 40%. At what amount per unit should product 2005WSC be reported, applying lower-of-cost-or-market?
a. $12.
b. $24.
c. $26.
d. $27.

69. b NRV = $30 – $6 = $24, RC = $26
NRV – PM = $24 – ($30 × .40) = $12, cost = $27.

70. Lexington Company sells product 1976NLC for $50 per unit. The cost of one unit of 1976NLC is $45, and the replacement cost is $43. The estimated cost to dispose of a unit is $10, and the normal profit is 40%. At what amount per unit should product 1976NLC be reported, applying lower-of-cost-or-market?
a. $20.
b. $40.
c. $43.
d. $45.

70. b NRV = $50 – $10 = $40, RC = $43
NRV – PM = $40 – ($50 × .40) = $20, cost = $45.

71. Given the acquisition cost of product Z is $64, the net realizable value for product Z is $58, the normal profit for product Z is $5, and the market value (replacement cost) for product Z is $60, what is the proper per unit inventory price for product Z?
a. $64.
b. $60.
c. $53.
d. $58.

71. d $58 MV, $64 Cost, LCM = $58.

72. Given the acquisition cost of product ALPHA is $17, the net realizable value for product ALPHA is $16.70, the normal profit for product ALPHA is $1.24, and the market value (replacement cost) for product ALPHA is $14.72, what is the proper per unit inventory price for product ALPHA?
a. $17.00.
b. $15.46
c. $14.72.

d. $16.70.

72. b $15.46 ($16.70 – $1.24) MV, $17.00 Cost, LCM = $15.46.

73. Given the acquisition cost of product Dominoe is $43.31, the net realizable value for product Dominoe is $38.49, the normal profit for product Dominoe is $4.32, and the market value (replacement cost) for product Dominoe is $40.68, what is the proper per unit inventory price for product Dominoe?
a. $40.68.
b. $34.18.
c. $38.49.
d. $43.31

73. c $38.49 MV, $43.31 Cost, LCM = $38.49.

74. Given the historical cost of product Z is $80, the selling price of product Z is $95, costs to sell product Z are $11, the replacement cost for product Z is $83, and the normal profit margin is 40% of sales price, what is the market value that should be used in the lower-of-cost-or-market comparison?
a. $80.
b. $84.
c. $83.
d. $46.

74. c Ceiling $84 ($95 – $11); Floor $46 ($84 – $38), RC $83; $83 MV.

75. Given the historical cost of product Z is $80, the selling price of product Z is $95, costs to sell product Z are $11, the replacement cost for product Z is $83, and the normal profit margin is 40% of sales price, what is the amount that should be used to value the inventory under the lower-of-cost-or-market method?
a. $46.
b. $80.
c. $84.
d. $83.

75. b Ceiling $84 ($95 – $11), Floor $46 ($84 – $38), RC $83; $83 MV, $80 Cost, LCM = $80.

76. Given the historical cost of product Dominoe is $43, the selling price of product Dominoe is $60, costs to sell product Dominoe are $11, the replacement cost for product Dominoe is $40, and the normal profit margin is 20% of sales price, what is the cost amount that should be used in the lower-of-cost-or-market comparison?
a. $49.
b. $40.
c. $37.
d. $43.

76. d $43 Cost.

77. Given the historical cost of product Dominoe is $43, the selling price of product Dominoe is $60, costs to sell product Dominoe are $11, the replacement cost for product Dominoe

is $40, 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. $43.
b. $37.
c. $40.
d. $49.

77. c Ceiling $49 ($60 – $11), Floor $37 ($49 – $12), RC $40; $40 MV, $43 Cost, LCM = $40.

78. Robust Inc. has the following information related to an item in its ending inventory. Product 66 has a cost of $3,250, a replacement cost of $3,100, a net realizable value of $3,200, and a normal profit margin of $200. What is the final lower-of-cost-or-market inventory value for product 66?
a. $3,200.
b. $3,100.
c. $3,250.
d. $3,100.

78. b $3,100 MV, $3,250 Cost, LCM = $3,100.

79. Robust Inc. has the following information related to an item in its ending inventory. Packit (Product # 874) has a cost of $524, a replacement cost of $402, a net realizable value of $468, and a normal profit margin of $21. What is the final lower-of-cost-or-market inventory value for Packit?
a. $447.
b. $524.
c. $402.
d. $468.

79. a $447 ($468 – $21) MV, $524 Cost, LCM = $447.

80. Robust Inc. has the following information related to an item in its ending inventory. Acer Top has a cost of $251, a replacement cost of $234, a net realizable value of $266, and a normal profit margin of $34. What is the final lower-of-cost-or-market inventory value for Acer Top?
a. $232.
b. $251.
c. $234.
d. $266.

80. c $234 MV, $251 Cost, LCM = $234.

81. Mortenson Corporation sells its product, a rare metal, in a controlled market with a quoted price applicable to all quantities. The total cost of 5,000 pounds of the metal now held in inventory is $150,000. The total selling price is $360,000, and estimated costs of disposal are $10,000. At what amount should the inventory of 5,000 pounds be reported in the balance sheet?
a. $140,000.
b. $150,000.
c. $350,000.

d. $360,000.

81. c $360,000 – $10,000 = $350,000.

82. Rodriguez Corporation sells its product, a rare metal, in a controlled market with a quoted price applicable to all quantities. The total cost of 5,000 pounds of the metal now held in inventory is $210,000. The total selling price is $490,000, and estimated costs of disposal are $5,000. At what amount should the inventory of 5,000 pounds be reported in the balance sheet?
a. $205,000.
b. $210,000.
c. $485,000.
d. $490,000.

82. c $490,000 – $5,000 = $485,000.

83. Turner Corporation acquired two inventory items at a lump-sum cost of $80,000. The acquisition included 3,000 units of product LF, and 7,000 units of product 1B. LF normally sells for $24 per unit, and 1B for $8 per unit. If Turner sells 1,000 units of LF, what amount of gross profit should it recognize?
a. $3,000
b. $9,000.
c. $16,000.
d. $19,000.

83. b LF 3,000 × $24 = ($72,000 ÷ $128,000) × $80,000 = $45,000
1B 7,000 × $8 = $56,000; $56,000 + $72,000 = $128,000
(1,000 × $24) – ($45,000 × 1,000/3,000) = $9,000.

84. Robertson Corporation acquired two inventory items at a lump-sum cost of $60,000. The acquisition included 3,000 units of product CF, and 7,000 units of product 3B. CF normally sells for $18 per unit, and 3B for $6 per unit. If Robertson sells 1,000 units of CF, what amount of gross profit should it recognize?
a. $2,250.
b. $6,750.
c. $12,000.
d. $14,250.

84. b CF 3,000 × $18 = ($54,000 ÷ $96,000) × $60,000 = $33,750
3B 7,000 × $6 = $42,000; $42,000 + $54,000 = $96,000
(1,000 × $18) – ($33,750 × 1,000/3,000) = $6,750.

85. At a lump-sum cost of $72,000, Pratt Company recently purchased the following items for resale:

Item	No. of Items Purchased	Resale Price Per Unit
M	4,000	$3.75
N	2,000	12.00
O	6,000	6.00

The appropriate cost per unit of inventory is:

	M	N	O
a.	$3.75	$12.00	$6.00
b.	$3.11	$19.86	$3.32
c.	**$3.60**	**$11.52**	**$5.76**
d.	$6.00	$6.00	$6.00

85.c

Item	# of Items × Price
M	4,000 × $3.75 = $15,00015 ÷ 75 × $72,000 = $14,400 ÷ 4,000 = $3.60
N	2,000 × $12.00= 24,000 24 ÷ 75 × $72,000 = $23,040 ÷ 2,000 = $11.52
O	6,000 × $6.00 = 36,000 36 ÷ 75 × $72,000 = $34,560 ÷ 6,000 = $5.76
	$75,000

86. Confectioners, a chain of candy stores, purchases its candy in bulk from its suppliers. For a recent shipment, the company paid $1,800 and received 8,500 pieces of candy that are allocated among three groups. Group 1 consists of 2,500 pieces that are expected to sell for $0.15 each. Group 2 consists of 5,500 pieces that are expected to sell for $0.36 each. Group 3 consists of 500 pieces that are expected to sell for $0.72 each. Using the relative sales value method, what is the cost per item in Group 1?

a. $0.150.
b. $0.100.
c. $0.120.
d. $0.225.

86. b (2,500 × $0.15) + (5,500 × $0.36) + (500 × $0.72) = $2,715;
[(2,500 × $0.15) ÷ $2,715] × $1,800 = $249 ÷ 2,500 = $0.100.

87. Confectioners, a chain of candy stores, purchases its candy in bulk from its suppliers. For a recent shipment, the company paid $1,800 and received 8,500 pieces of candy that are allocated among three groups. Group 1 consists of 2,500 pieces that are expected to sell for $0.15 each. Group 2 consists of 5,500 pieces that are expected to sell for $0.36 each. Group 3 consists of 500 pieces that are expected to sell for $0.72 each. Using the relative sales value method, what is the cost per item in Group 2?

a. $0.225.
b. $0.360.
c. $0.210.
d. $0.239.

87. d (2,500 × $0.15) + (5,500 × $0.36) + (500 × $0.72) = $2,715;
[(5,500 × $0.36) ÷ $2,715] × $1,800 = $1,313 ÷ 5,500 = $0.239.

88. Confectioners, a chain of candy stores, purchases its candy in bulk from its suppliers. For a recent shipment, the company paid $1,800 and received 8,500 pieces of candy that are allocated among three groups. Group 1 consists of 2,500 pieces that are expected to sell for $0.15 each. Group 2 consists of 5,500 pieces that are expected to sell for $0.36 each.

Group 3 consists of 500 pieces that are expected to sell for $0.72 each. Using the relative sales value method, what is the cost per item in Group 3?

a. $0.477.
b. $0.225.
c. $0.720.
d. $0.540.

88. a (2,500 × $0.15) + (5,500 × $0.36) + (500 × $0.72) = $2,715;
[(500 × $0.72) ÷ $2,715] × $1,800 = $239 ÷ 500 = $0.477.

89. During the current fiscal year, Jeremiah Corp. signed a long-term noncancellable purchase commitment with its primary supplier. Jeremiah agreed to purchase $2.5 million of raw materials during the next fiscal year under this contract. At the end of the current fiscal year, the raw material to be purchased under this contract had a market value of $2.3 million. What is the journal entry at the end of the current fiscal year?

a. Debit Unrealized Holding Gain or Loss for $200,000 and credit Estimated Liability on Purchase Commitment for $200,000.
b. Debit Estimated liability on Purchase Commitments for $200,000 and credit Unrealized Holding Gain or Loss for $200,000.
c. Debit Unrealized Holding Gain or Loss for $2,300,000 and credit Estimated Liability on Purchase Commitments for $2,300,000.
d. No journal entry is required.

89. a $2.5 million – $2.3 million = $200,000.

90. During the prior fiscal year, Jeremiah Corp. signed a long-term noncancellable purchase commitment with its primary supplier to purchase $2.5 million of raw materials. Jeremiah paid the $2.5 million to acquire the raw materials when the raw materials were only worth $2.3 million. Assume that the purchase commitment was properly recorded. What is the journal entry to record the purchase?

a. Debit Inventory for $2,300,000, and credit Cash for $2,300,000.
b. Debit Inventory for $2,300,000, debit Unrealized Holding Gain or Loss for $200,000, and credit Cash for $2,500,000.
c. Debit Inventory for $2,300,000, debit Estimated Liability on Purchase Commitments for $200,000 and credit Cash for $2,500,000.
d. Debit Inventory for $2,500,000, and credit Cash for $2,500,000.

90. c $2.5 million – $2.3 million = $200,000.

91. During 2012, Larue Co., a manufacturer of chocolate candies, contracted to purchase 200,000 pounds of cocoa beans at $4.00 per pound, delivery to be made in the spring of 2013. Because a record harvest is predicted for 2013, the price per pound for cocoa beans had fallen to $3.30 by December 31, 2012.

Of the following journal entries, the one which would properly reflect in 2012 the effect of the commitment of Larue Co. to purchase the 100,000 pounds of cocoa is

a.	Cocoa Inventory	400,000	
	Accounts Payable		400,000
b.	Cocoa Inventory	330,000	
	Loss on Purchase Commitments	70,000	
	Accounts Payable		400,000

c. Unrealized Holding Gain or Loss-Income 70,000
Estimated Liability on Purchase Commitments 70,000

d. No entry would be necessary in 2012

91. c ($4.00 – $3.30) × 100,000 = $70,000.

92. RS Corporation, a manufacturer of ethnic foods, contracted in 2012 to purchase 500 pounds of a spice mixture at $5.00 per pound, delivery to be made in spring of 2013. By 12/31/12, the price per pound of the spice mixture had risen to $5.40 per pound. In 2012, AJ should recognize
a. a loss of $2,500.
b. a loss of $200.
c. no gain or loss.
d. a gain of $200.

92. c No gain or loss since 12/31 price ($5.40) > contract price ($5.00).

93. LF Corporation, a manufacturer of Mexican foods, contracted in 2012 to purchase 1,000 pounds of a spice mixture at $5.00 per pound, delivery to be made in spring of 2013. By 12/31/12, the price per pound of the spice mixture had dropped to $4.70 per pound. In 2012, LF should recognize
a a loss of $5,000.
b. a loss of $300.
c. no gain or loss.
d. a gain of $300.

93. b ($5.00 – $4.70) × 1,000 = $300.

94. The following information is available for October for Barton Company.

Beginning inventory	$150,000
Net purchases	450,000
Net sales	900,000
Percentage markup on cost	66.67%

A fire destroyed Barton's October 31 inventory, leaving undamaged inventory with a cost of $9,000. Using the gross profit method, the estimated ending inventory destroyed by fire is
a. $51,000.
b. $231,000.
c. $240,000.
d. $300,000.

94. a ($150,000 + $450,000) – ($900,000 ÷ 5/3) – $9,000 = $51,000.

95. The following information is available for October for Norton Company.

Beginning inventory	$200,000
Net purchases	600,000
Net sales	1,200,000
Percentage markup on cost	66.67%

A fire destroyed Norton's October 31 inventory, leaving undamaged inventory with a cost of $12,000. Using the gross profit method, the estimated ending inventory destroyed by fire is

a. $68,000.
b. $308,000.
c. $320,000.
d. $400,000.

95. a ($200,000 + $600,000) – ($1,200,000 ÷ 5/3) – $12,000 = $68,000.

Use the following information for questions 96 and 97.

Miles Company, a wholesaler, budgeted the following sales for the indicated months:

	June	July	August
Sales on account	$2,700,000	$2,760,000	$2,850,000
Cash sales	270,000	300,000	390,000
Total sales	$2,970,000	$3,060,000	$3,240,000

All merchandise is marked up to sell at its invoice cost plus 20%. Merchandise inventories at the beginning of each month are at 30% of that month's projected cost of goods sold.

96. The cost of goods sold for the month of June is anticipated to be
a. $2,160,000.
b. $2,250,000.
c. $2,280,000.
d. $2,475,000.

96. d (1 + .2)C = 2,970,000; C = $2,475,000.

97. Merchandise purchases for July are anticipated to be
a. $2,448,000.
b. $3,114,000.
c. $2,550,000.
d. $2,595,000.

97. d COGS: July = $3,060,000 ÷ 1.2 = $2,550,000
Aug. = $3,240,000 ÷ 1.2 = $2,700,000
July's purchase = ($2,550,000 × .7) + ($2,700,000 × .3) = $2,595,000.

98. Reyes Company had a gross profit of $480,000, total purchases of $560,000, and an ending inventory of $320,000 in its *first* year of operations as a retailer. Reyes's sales in its first year must have been

a. $720,000.
b. $880,000.
c. $240,000.
d. $800,000.

98. a $480,000 + ($540,000 – $320,000) = $720,000.

99. A markup of 30% on cost is equivalent to what markup on selling price?
a. 23%

b. 30%
c. 70%
d. 77%

99. a $\frac{.30}{1+.30} = .23 = 23\%$

100. Kesler, Inc. estimates the cost of its physical inventory at March 31 for use in an interim financial statement. The rate of markup on cost is 25%. The following account balances are available:

Inventory, March 1	$385,000
Purchases	301,000
Purchase returns	14,000
Sales during March	525,000

The estimate of the cost of inventory at March 31 would be
a. $147,000.
b. $252,000.
c. $278,250.
d. $196,000.

100. b COGS = $525,000 ÷ 1.25 = $420,000
($385,000 + $301,000 – $14,000) – $420,000 = $252,000.

101. On January 1, 2012, the merchandise inventory of Glaus, Inc. was $1,000,000. During 2012 Glaus purchased $2,000,000 of merchandise and recorded sales of $2,500,000. The gross profit rate on these sales was 25%. What is the merchandise inventory of Glaus at December 31, 2012?
a. $500,000.
b. $625,000.
c. $1,125,000.
d. $1,875,000.

101. c COGS = $2,500,000 × .75 = $1,875,000
$1,000,000 + $2,000,000 – $1,875,000 = $1,125,000.

102. For 2012, cost of goods available for sale for Tate Corporation was $1,800,000. The gross profit rate was 20%. Sales for the year were $1,600,000. What was the amount of the ending inventory?
a. $0.
b. $520,000.
c. $360,000.
d. $320,000.

102. b $1,800,000 – ($1,600,000 × .80) = $520,000.

103. On April 15 of the current year, a fire destroyed the entire uninsured inventory of a retail store. The following data are available:

Sales, January 1 through April 15	$360,000

Inventory, January 1	60,000
Purchases, January 1 through April 15	300,000
Markup on cost	25%

The amount of the inventory loss is estimated to be

a. $72,000.
b. $36,000.
c. $90,000.
d. $60,000.

103. a $60,000 + $300,000 – $\frac{\$360,000}{1.25}$ = $72,000.

104. The inventory account of Irick Company at December 31, 2012, included the following items:

	Inventory Amount
Merchandise out on consignment at sales price (including markup of 40% on selling price)	$30,000
Goods purchased, in transit (shipped f.o.b. shipping point)	24,000
Goods held on consignment by Irick	26,000
Goods out on approval (sales price $15,200, cost $12,800)	15,200

Based on the above information, the inventory account at December 31, 2012, should be reduced by

a. $40,400.
b. $45,200.
c. $64,400.
d. $64,000.

104. a ($30,000 × 40%) + $26,000 + ($15,200 – $12,800) = $40,400.

105. The sales price for a product provides a gross profit of 20% of sales price. What is the gross profit as a percentage of cost?

a. 20%.
b. 17%.
c. 25%.
d. Not enough information is provided to determine.

105. c 20% ÷ (100% – 20%) = 25%.

106. Gamma Ray Corp. has annual sales totaling $975,000 and an average gross profit of 20% of cost. What is the dollar amount of the gross profit?

a. $195,000.
b. $146,250.
c. $162,500.
d. $243,750.

106. c $975,000 – ($975,000 ÷ 1.20) = $162,500.

107. On August 31, a hurricane destroyed a retail location of Vinny's Clothier including the entire inventory on hand at the location. The inventory on hand as of June 30 totaled $640,000. Since June 30 until the time of the hurricane, the company made purchases

of $170,000 and had sales of $500,000. Assuming the rate of gross profit to selling price is 40%, what is the approximate value of the inventory that was destroyed?
a. $640,000.
b. $363,000.
c. $410,000.
d. $510,000.

107. d ($640,000 + $170,000) – [$500,000 × (1 – .40)] = $510,000.

108. On October 31, a fire destroyed PH Inc.'s entire retail inventory. The inventory on hand as of January 1 totaled $1,360,000. From January 1 through the time of the fire, the company made purchases of $330,000 and had sales of $720,000. Assuming the rate of gross profit to selling price is 40%, what is the approximate value of the inventory that was destroyed?
a. $1,360,000.
b. $1,346,000.
c. $970,000.
d. $1,258,000.

108. d ($1,360,000 + $330,000) – [$720,000 × (1 – .40)] = $1,258,000.

109. On March 15, a fire destroyed Interlock Company's entire retail inventory. The inventory on hand as of January 1 totaled $3,300,000. From January 1 through the time of the fire, the company made purchases of $1,366,000, incurred freight-in of $156,000, and had sales of $2,420,000. Assuming the rate of gross profit to selling price is 30%, what is the approximate value of the inventory that was destroyed?
a. $4,096,000.
b. $2,972,000.
c. $3,128,000.
d. $4,822,000.

109. c $3,300,000 + $1,366,000 + $156,000 – [$2,420,000 × (1 – .30)] = $3,128,000.

110. Dicer uses the conventional retail method to determine its ending inventory at cost. Assume the beginning inventory at cost (retail) were $260,000 ($396,000), purchases during the current year at cost (retail) were $1,370,000 ($2,200,000), freight-in on these purchases totaled $86,000, sales during the current year totaled $2,100,000, and net markups (markdowns) were $48,000 ($72,000). What is the ending inventory value at cost?
a. $306,328.
b. $312,330.
c. $314,824.
d. $472,000.

110. a $396,000 + $2,200,000 + $48,000 – $2,100,000 – $72,000 = $472,000;
($260,000 + $1,370,000 + $86,000) ÷ ($396,000 + $2,200,000 + $48,000) = .649;
$472,000 × .649 = $306,328.

111. Boxer Inc. uses the conventional retail method to determine its ending inventory at cost. Assume the beginning inventory at cost (retail) were $196,500 ($297,000), purchases

during the current year at cost (retail) were $1,704,000 ($2,596,800), freight-in on these purchases totaled $79,500, sales during the current year totaled $2,433,000, and net markups were $207,000. What is the ending inventory value at cost?

a. $667,800.
b. $523,098.
c. $426,723.
d. $456,924.

111. c $297,000 + $2,596,800 + $207,000 – $2,433,000 = $667,800;
($196,500 + $1,704,000 + $79,500) ÷ ($297,000 + $2,596,800 + $207,000) = 63.9%;
$667,800 × .639 = $426,723.

112. Barker Pet supply uses the conventional retail method to determine its ending inventory at cost. Assume the beginning inventory at cost (retail) were $531,200 ($653,800), purchases during the current year at cost (retail) were $2,137,200 ($2,772,200), freight-in on these purchases totaled $127,800, sales during the current year totaled $2,604,000, and net markups (markdowns) were $4,000 ($192,600). What is the ending inventory value at cost?

a. $633,400.
b. $516,222.
c. $822,000.
d. $493,334.

112. b $653,800 + $1,386,100 + $4,000 – $2,604,000 – $192,600 = $633,400;
($531,200 + $2,137,200 + $127,800) ÷ ($653,800 + $2,772,200 + $4,000) = 81.5%;
$633,400 × .815 = $516,222.

113. Crane Sales Company uses the retail inventory method to value its merchandise inventory. The following information is available for the current year:

	Cost	Retail
Beginning inventory	$ 30,000	$ 50,000
Purchases	175,000	240,000
Freight-in	2,500	—
Net markups	—	8,500
Net markdowns	—	10,000
Employee discounts	—	1,000
Sales	—	205,000

If the ending inventory is to be valued at the lower-of-cost-or-market, what is the cost to retail ratio?

a. $207,500 ÷ $290,000
b. $207,500 ÷ $298,500
c. $205,000 ÷ $300,000
d. $207,500 ÷ $288,500

113. b Cost: $30,000 + $175,000 + $2,500 = $207,500.
Retail: $50,000 + $240,000 + $8,500 = $298,500.

Use the following information for questions 114 through 118.

The following data concerning the retail inventory method are taken from the financial records of Welch Company.

	Cost	Retail
Beginning inventory	$ 98,000	$ 140,000
Purchases	448,000	640,000
Freight-in	12,000	—
Net markups	—	40,000
Net markdowns	—	28,000
Sales	—	672,000

114. The ending inventory at retail should be
a. $148,000.
b. $120,000.
c. $128,000.
d. $84,000.

114. b $140,000 + $640,000 + $40,000 – $28,000 – $672,000 = $120,000.

115. 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. $558,000 and $820,000.
b. $558,000 and $792,000.
c. $558,000 and $780,000.
d. $546,000 and $780,000.

115. a Cost: $98,000 + $448,000 + $12,000 = $558,000.
Retail: $140,000 + $640,000 + $40,000 = $820,000.

116. If the foregoing figures are verified and a count of the ending inventory reveals that merchandise actually on hand amounts to $108,000 at retail, the business has
a. realized a windfall gain.
b. sustained a loss.
c. no gain or loss as there is close coincidence of the inventories.
d. none of these.

*117. Assuming no change in the price level if the LIFO inventory method were used in conjunction with the data, the ending inventory at cost would be
a. $85,200.
b. $84,000.
c. $81,600.
d. $86,400.

*117. b $\frac{\$98,000}{\$140,000} \times \$120,000 = \$84,000.$

*118. Assuming that the LIFO inventory method were used in conjunction with the data and that the inventory at retail had increased during the period, then the computation of retail in the cost to retail ratio would

a. exclude both markups and markdowns and include beginning inventory.
b. include markups and exclude both markdowns and beginning inventory.
c. include both markups and markdowns and exclude beginning inventory.
d. exclude markups and include both markdowns and beginning inventory.

*118. c Conceptual.

119. Drake Corporation had the following amounts, all at retail:

Beginning inventory	$ 3,600	Purchases	$140,000
Purchase returns	6,000	Net markups	18,000
Abnormal shortage	4,000	Net markdowns	2,800
Sales	72,000	Sales returns	1,800
Employee discounts	1,600	Normal shortage	2,600

What is Drake's ending inventory at retail?
a. $74,400.
b. $76,000.
c. $77,600.
d. $78,400

119. a $3,600 + $134,000 + $18,000 – $4,000 – $70,200 – $1,600 – $2,800 – $2,600 = $74,400.

120. Goren Corporation had the following amounts, all at retail:

Beginning inventory	$ 3,600	Purchases	$110,000
Purchase returns	6,000	Net markups	18,000
Abnormal shortage	4,000	Net markdowns	2,800
Sales	72,000	Sales returns	1,800
Employee discounts	1,600	Normal shortage	2,600

What is Goren's ending inventory at retail?
a. $44,400.
b. $46,000.
c. $47,600.
d. $48,400

120. a $3,600 + $104,000 + $18,000 – $4,000 – $70,200 – $1,600 – $2,800 – $2,600 = $44,400.

121. Fry Corporation's computation of cost of goods sold is:

Beginning inventory	$ 60,000
Add: Cost of goods purchased	530,000
Cost of goods available for sale	590,000
Ending inventory	90,000
Cost of goods sold	$500,000

The average days to sell inventory for Fry are
a. 43.5 days.
b. 50.3 days.

c. 54.5 days.
d. 65.2 days.

121. c $500,000 ÷ [($60,000 + $90,000) ÷ 2] = 6.7; 365 ÷ 6.7 = 54.5.

122. East Corporation's computation of cost of goods sold is:

Beginning inventory	$ 60,000
Add: Cost of goods purchased	482,000
Cost of goods available for sale	542,000
Ending inventory	80,000
Cost of goods sold	$462,000

The average days to sell inventory for East are
a. 68.3 days.
b. 75.7 days.
c. 55.3 days.
d. 90.9 days.

122. c $462,000 ÷ [($60,000 + $80,000) ÷ 2] = 6.6; 365 ÷ 6.6 = 55.3.

123. The 2012 financial statements of Sito Company reported a beginning inventory of $80,000, an ending inventory of $120,000, and cost of goods sold of $800,000 for the year. Sito's inventory turnover ratio for 2012 is
a. 10.0 times.
b. 8.0 times.
c. 6.7 times.
d. 5.7 times.

123. b $800,000 ÷ [($80,000 + $120,000) ÷ 2] = 8 times

124. Boxer Inc. reported inventory at the beginning of the current year of $360,000 and at the end of the current year of $411,000. If net sales for the current year are $3,321,900 and the corresponding cost of sales totaled $2,819,100, what is the inventory turnover ratio for the current year?
a. 8.61.
b. 6.86.
c. 7.83.
d. 7.31.

124. d $2,819,100 ÷ [($360,000 + $411,000) ÷ 2] = 7.31.

Use the following information for questions 125 through 129.

Plank Co. uses the retail inventory method. The following information is available for the current year.

	Cost	Retail
Beginning inventory	$ 156,000	$244,000
Purchases	590,000	830,000
Freight-in	10,000	—
Employee discounts	—	4,000
Net markups	—	30,000
Net Markdowns	—	40,000
Sales	—	780,000

125. 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. $600,000 and $860,000.
b. $600,000 and $856,000.
c. $746,000 and $1,100,000.
d. $756,000 and $1,104,000.

125. d Cost: $156,000 + $590,000 + $10,000 = $756,000.
Retail: $244,000 + $830,000 + $30,000 = $1,104,000.

126. The ending inventory at retail should be
a. $320,000.
b. $300,000.
c. $288,000.
d. $280,000.

126. d $244,000 + $830,000 – $4,000 + $30,000 – $40,000 – $780,000 = $280,000.

127. The approximate cost of the ending inventory by the conventional retail method is
a. $191,800.
b. $189,840.
c. $196,000.
d. $204,960.

127. a $280,000 × .685 = $191,800.

*128. If the ending inventory is to be valued at approximately LIFO cost, the calculation of the cost ratio should be based on cost and retail of
a. $756,000 and $1,104,000.
b. $756,000 and $1,064,000.
c. $600,000 and $820,000.
d. $600,000 and $860,000.

*128. c Cost: $590,000 + $10,000 = $600,000.
Retail: $830,000 + $30,000 – $40,000 = $820,000.

*129. Assuming that the LIFO inventory method is used, that the beginning inventory is the base inventory when the index was 100, and that the index at year end is 112, the ending inventory at dollar-value LIFO retail cost is
a. $160,920.
b. $185,514.
c. $191,800.
d. $204,960.

*129. a Base year price = EI = $\frac{\$280,000}{1.12} = \$250,000$

$244,000 @ cost = $156,000
$6,000 × .732* × 1.12 = 4,920
$160,920
(*600,000/820,000=0.732)

Use the following information for questions 130 and 131.

Eaton Company, which uses the retail LIFO method to determine inventory cost, has provided the following information for 2012:

	Cost	Retail
Inventory, 1/1/12	$ 141,000	$210,000
Net purchases	567,000	843,000
Net markups		102,000
Net markdowns		45,000
Net sales		795,000

*130. Assuming stable prices (no change in the price index during 2012), what is the cost of Eaton's inventory at December 31, 2012?

a. $192,150.
b. $207,150.
c. $204,000.
d. $198,450.

*130. b Cost to retail ratio = $567,000 ÷ ($843,000 + $102,000 – $45,000) = 0.63
EI = $210,000 + $843,000 + $102,000 – $45,000 – $795,000
= $315,000 at retail
$315,000 – $210,000 = $105,000
Cost of inventory = $141,000 + ($105,000 × .63) = $207,150.

*131. Assuming that the price index was 105 at December 31, 2012 and 100 at January 1, 2012, what is the cost of Eaton's inventory at December 31, 2012 under the dollar-value-LIFO retail method?

a. $200,535.
b. $208,372.
c. $210,458.
d. $197,700.

*131. a Base year price: EI = $315,000 ÷ 1.05 = $300,000

$210,000	@ cost =	$ 141,000
90,000	× .63 × 1.05 =	59,535
$300,000		$200,535

Multiple Choice Answers—Computational

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans
68.	a	78.	b	88.	a	98.	a	108.	d	*118.	c	*128.	c
69.	b	79.	a	89.	a	99.	a	109.	c	119.	a	*129.	a
70.	b	80.	c	90.	c	100.	b	110.	a	120.	a	*130.	b
71.	d	81.	c	91.	c	101.	c	111.	c	121.	c	*131.	a
72.	b	82.	c	92.	c	102.	b	112.	b	122.	c		
73.	c	83.	b	93.	b	103.	a	113.	b	123.	b		
74.	c	84.	b	94.	a	104.	a	114.	b	124.	d		
75.	b	85.	c	95.	a	105.	c	115.	a	125.	d		
76.	d	86.	b	96.	d	106.	c	116.	b	126.	d		

77.	c	87.	d	97.	d	107.	d	*117.	b	127.	a		

MULTIPLE CHOICE—CPA Adapted

132. Ryan Distribution Co. has determined its December 31, 2012 inventory on a FIFO basis at $500,000. Information pertaining to that inventory follows:

Estimated selling price	$510,000
Estimated cost of disposal	20,000
Normal profit margin	60,000
Current replacement cost	450,000

Ryan records losses that result from applying the lower-of-cost-or-market rule. At December 31, 2012, the loss that Ryan should recognize is

a. $0.
b. $10,000.
c. $40,000.
d. $50,000.

132. d $500,000 – $450,000 (RC) = $50,000.

133. Under the lower-of-cost-or-market method, the replacement cost of an inventory item would be used as the designated market value

a. when it is below the net realizable value less the normal profit margin.
b. when it is below the net realizable value and above the net realizable value less the normal profit margin.
c. when it is above the net realizable value.
d. regardless of net realizable value.

134. 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.

135. Keen Company's accounting records indicated the following information:

Inventory, 1/1/12	$ 900,000
Purchases during 2012	4,500,000
Sales during 2012	5,700,000

A physical inventory taken on December 31, 2012, resulted in an ending inventory of $1,050,000. Keen's gross profit on sales has remained constant at 25% in recent years. Keen suspects some inventory may have been taken by a new employee. At December 31, 2012, what is the estimated cost of missing inventory?

a. $75,000.
b. $225,000.
c. $300,000.
d. $375,000.

135. a $5,700,000 × .75 = $4,275,000 (COGS)
$900,000 + $4,500,000 – $4,275,000 – $1,050,000 = $75,000.

136. Henke Co. uses the retail inventory method to estimate its inventory for interim statement purposes. Data relating to the computation of the inventory at July 31, 2012, are as follows:

	Cost	Retail
Inventory, 2/1/12	$ 200,000	$ 250,000
Purchases	1,000,000	1,575,000
Markups, net		175,000
Sales		1,650,000
Estimated normal shoplifting losses		20,000
Markdowns, net		110,000

Under the lower-of-cost-or-market method, Henke's estimated inventory at July 31, 2012 is

a. $132,000.
b. $144,000.
c. $156,000.
d. $220,000.

136. a ($200,000 + $1,000,000) ÷ ($250,000 + $1,575,000 + $175,000) = 0.6
($250,000 + $1,575,000 + $175,000 – $20,000 – $110,000 – $1,650,000) × 0.6 = $132,000.

137. At December 31, 2012, the following information was available from Kohl Co.'s accounting records:

	Cost	Retail
Inventory, 1/1/12	$147,000	$ 203,000
Purchases	833,000	1,155,000
Additional markups		42,000
Available for sale	$980,000	$1,400,000

Sales for the year totaled $1,150,000. Markdowns amounted to $10,000. Under the lower-of-cost-or-market method, Kohl's inventory at December 31, 2012 was

a. $294,000.
b. $175,000.
c. $182,000.
d. $168,000.

137. d $980,000 ÷ $1,400,000 = 0.7
($1,400,000 – $10,000 – $1,150,000) × 0.7 = $168,000.

*138. On December 31, 2012, Pacer Co. adopted the dollar-value LIFO retail inventory method. Inventory data for 2013 are as follows:

	LIFO Cost	Retail
Inventory, 12/31/12	$450,000	$630,000
Inventory, 12/31/13	?	825,000
Increase in price level for 2013		10%
Cost to retail ratio for 2013		70%

Under the LIFO retail method, Pacer's inventory at December 31, 2013, should be

a. $542,400.
b. $577,500.

c. $586,500.
d $600,150.

*138. a $825,000 ÷ 1.1 = $750,000
$450,000 + ($120,000 × 1.1 × .7) = $542,400.

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
132.	d	133.	b	134.	b	135.	a	136.	a	137.	d	*138.	a