

Inventory Valuation

1. Alyse Designer Handbags had the following inventory figures for its Nicole Model during 2013 as shown below.

	# Units	Unit Cost
Beginning Inventory, January 1, 2013	36	\$15
Purchases:		
January 18	20	16
March 3	25	16
June 30	30	14
October 18	36	15
Ending Inventory, December 31, 2013	15	

What is the cost of the ending inventory and the cost of goods sold?

1. Assume the company utilizes the FIFO method
2. Assume the company utilizes the LIFO method
3. Assume the company utilizes the average cost method

2. The following data concerns selected inventory items.

Description	Quantity	Unit Cost	Market Value
Department A:			
Stock No. AX2	80	\$ 8.00	\$ 8.80
Stock No. AX5	105	9.50	9.25
Department B:			
Stock No. BX4	125	10.75	10.00
Stock No. BX9	90	12.00	12.20

Determine the amount to be reported as the inventory valuation at cost or market, whichever is lower, under each of the following methods.

1. Lower of cost or market for each item separately
2. Lower of total cost or total market
3. Lower of total cost or total market by department

3. For each of the following statements, determine which method of inventory valuation (FIFO or LIFO) it depicts.

1. _____ The ending inventory is higher under this method when costs are rising.

2. _____ The cost of goods sold is higher under this method when costs are rising.

3. _____ When prices are rising, this method results in higher net income.

4. _____ If this method is used for federal tax purposes, it must also be adopted for it financial accounting.

5. _____ This method is not accepted in some countries.

6. _____ When prices are rising, the average cost method will result in an ending inventory that is higher than which method?

KEY

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2. Assume the company utilizes the LIFO method
3. Assume the company utilizes the average cost method

1. (FIFO) EI: $\$225.00 = 15 \times \15 ; COGS: $\$1,995 = \$2,220 - \$225$

2. (LIFO) EI: $\$225.00 = 15 \times \15 ; COGS: $\$1,995 = \$2,220 - \$225$

3. $\$226.53$ (with no rounding until final calculation) or $\$226.50$ (if per item number is rounded to nearest penny) (average cost method) = $15 \times (\$2,220/147)$; COGS: $\$1,993.50 = \$2,220.00 - \$226.50$

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1. Lower of cost or market for each item separately
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1. \$3,941.25;

2. \$4,023.25 (lower of total market);

3. \$3,985.50 (Dept. A, lower of total cost, \$1,637.50; Dept. B, lower of total market, \$2,348.00)

3. For each of the following statements, determine which method of inventory valuation (FIFO or LIFO) it depicts.

1. _____ **FIFO** _____ The ending inventory is higher under this method when costs are rising.

2. _____ **LIFO** _____ The cost of goods sold is higher under this method when costs are rising.

3. _____ **FIFO** _____ When prices are rising, this method results in higher net income.

4. _____ **LIFO** _____ If this method is used for federal tax purposes, it must also be adopted for its financial accounting.

5. _____ **LIFO** _____ This method is not accepted in some countries.

6. _____ **LIFO** _____ When prices are rising, the average cost method will result in an ending inventory that is higher than which method?

1. FIFO; 2. LIFO; 3. FIFO; 4. LIFO; 5. LIFO; 6. LIFO

Inventory Valuation Summary

<u>Category</u>	<u># of Questions</u>
AACSB: Analytic	3
AICPA BB: Critical Thinking	3
Blooms: Apply	2
Blooms: Remember	1
Difficulty: 1 Easy	1
Difficulty: 2 Medium	2
Learning Objective: 17- 01 Compute inventory cost by applying four commonly used costing methods.	1
Learning Objective: 17- 02 Compare the effects of different methods of inventory costing.	1
Learning Objective: 17- 03 Compute inventory value under the lower of cost or market rule.	1
Price - Chapter 17	3
Topic: Inventory Costing Methods	2
Topic: Inventory Valuation and Control	1