

Inventory Review Questions:

Applying FIFO, LIFO, Average-Cost Methods

This answer key shows the tables adjusted to each question

1. Company XYZ, Inc. uses a perpetual inventory System. They began business in 2007. These are their purchases first quarter:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	50	\$10	\$500
January 31, 2007	50	\$11	\$550
March 15, 2007	100	\$12	\$1200
Total on hand	200		\$2250

XYZ, Inc. sells 50 units on February 15, 2007. If XYZ, Inc. uses the FIFO method what is the Cost of Goods Sold? **50 @ \$10 = \$500**

- A. \$600
B. \$2270
C. **\$500**
D. \$2170

If this is the only sale of the first quarter, what is the ending inventory?

Inventory left = 500 + 550 + 1200 = \$2250

- A. \$600
B. **\$2250**
C. \$500
D. \$2170

2. Company XYZ, Inc. uses a perpetual Inventory System. They began business in the beginning of 2007. These are their purchases first quarter:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	100	\$10	\$1000
January 31, 2007	0	\$11	\$0
March 15, 2007	100	\$12	\$1200
Total on hand	200		\$2200

XYZ, Inc. sells 50 units on February 15, 2007. If XYZ, Inc. uses the LIFO inventory method, what is the Cost of Goods Sold? **50 @ \$11 = \$550**

- A. \$600
B. **\$550**
C. \$500
D. \$2220

If this is the only sale in the first quarter, what is the value of the ending inventory? **Inventory left = 1000 + 0 + 1200 = \$2200.**

- A. \$550
B. **\$2200**
C. \$2170
D. \$2270

3. Company XYZ, Inc. uses a perpetual Inventory System. They began business the beginning of 2007. These are their purchases first quarter:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	0	\$0	\$0
January 31, 2007	100	\$10.33	\$1033
March 15, 2007	100	\$12	\$1200
Total on hand	200		\$2233

XYZ, Inc. sells 50 units on February 15, 2007. If XYZ, Inc. uses the average-cost inventory method, what is the Cost of Goods Sold? **Price per item sold = Total Cost per Total Quantity = 1550 per 150 = \$10.33 per item. COGS = \$10.33 @ 50 items = \$517.**

- A. \$554
 B. \$600
 C. **\$517**
 D. \$550

If this is the only sale in the first quarter, what is the value of the ending inventory? **Inventory left = \$1033 + \$1200 = \$2233**

- A. **\$2233**
 B. \$2220
 C. \$2270
 D. \$ 2216

4. Company XYZ, Inc. uses a periodic Inventory System. They began business the beginning of 2007. As of March 31, 2007 their inventory includes:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	50	\$10	\$500
January 31, 2007	50	\$11	\$550
March 15, 2007	100	\$12	\$1200
Total on hand	200		\$2250

On March 15, 2007, XYZ has 200 units left in ending inventory. If XYZ, Inc. uses the FIFO inventory method, what is the amount of units sold 1st quarter? **50**

What is the value of Cost of Goods Sold? **50 @ \$10 = \$500**

- A. \$600
 B. \$554
 C. **\$500**
 D. \$550

What is the value of the ending inventory? **\$500 + \$550 + \$1200 = \$2250**

A. \$2216

C. \$2220

B. \$2170

D. \$2250

5. Company XYZ, Inc. uses a periodic Inventory System. They began business the beginning of 2007. As of March 31, 2007 their inventory includes:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	100	\$10	\$1000
January 31, 2007	50	\$11	\$550
March 15, 2007	50	\$12	\$600
Total on hand	200		\$2150

On March 15, 2007, XYZ has 200 units left in ending inventory. If XYZ, Inc. uses the LIFO inventory method, what is the amount of units sold 1st quarter? **50**

What is the value of Cost of Goods Sold? **50 @ \$12 = \$600**

A. \$500

C. \$550

B. \$600

D. \$554

What is the value of the ending inventory? **\$1000 + \$550 + \$600 = \$2150**

A. \$2150

C. \$2270

B. \$2220

D. \$2216

6. Company XYZ, Inc. uses a periodic Inventory System. They began business the beginning of 2007. As of March 31, 2007 their inventory includes:

Purchase Date	Quantity	Unit Cost	Total Cost
January 3, 2007	0	\$0	\$0
January 31, 2007	200	\$11.08	\$2216
March 15, 2007	0	\$0	\$0
Total on hand	200		\$2216

On March 15, 2007, XYZ has 200 units left in ending inventory. If XYZ, Inc. uses the average cost inventory method, what is the amount of units sold 1st quarter? **50**

What is the value of Cost of Goods Sold? **$\$2750 \text{ per } 250 = \$11.00 * 50 = \$550$**

A. **\$550**

C. \$500

B. \$517

D. \$554

What is the value of the ending inventory? **$2750 - 550 = 2200$**

A. **\$2200**

C. \$2170

B. \$2270

D. \$2220

Questions to think about.

1. Why is the COGS for the perpetual and periodic inventory system the same when using FIFO? Why is it different when using LIFO?

In the perpetual inventory system, inventory is recorded as it happens. So, the dates of purchases and sales matter in the perpetual inventory system. When using FIFO in these particular problems, the dates do not affect the end results... but the dates do affect the results when using LIFO.

2. When prices are rising what happens to COGS?

COGS will be larger when using LIFO, than when using FIFO.

3. When prices are rising, how is Income affected?

Net Income will be smaller when using LIFO than when using FIFO.

*** SALES – COGS = NET INCOME, so when COGS is larger it makes NI smaller.**