1. When prices are rising, which cost flow method will produce the highest cost of goods sold?

A. LIFO

B. FIFO

C. Weighted Average

D. Cost of goods sold is not affected by cost flow method.

2. When prices are rising, which cost flow method will produce the highest gross margin?

A. LIFO

B. FIFO

C. Weighted Average

D. Gross margin is not affected by cost flow method.

3. When prices are rising, which cost flow method will produce the greatest cash outflow from operating activities?

A. LIFO

B. FIFO

C. Weighted Average

D. Cash flows are not affected by cost flow method.

4. When prices are declining, which cost flow method will produce the highest ending inventory cost?

A. LIFO

B. FIFO

C. Weighted Average

D. Ending inventory cost is not affected by cost flow method.

5. When prices are declining, which cost flow method will produce the lowest gross margin?

A. LIFO

B. FIFO

C. Weighted Average

D. Gross margin is not affected by cost flow method.

6. Which cost flow method is most frequently used in the United States?

A. LIFO

B. FIFO

C. Weighted Average

D. Specific Identification.

7. Which cost flow method will result in a cost of goods sold that is closest to current market value?

A. LIFO

B. FIFO

C. Weighted Average

D. Either A or B

8. Dayton Company started the accounting period with one unit of inventory that cost $50. During the period, Dayton purchased one more unit at $55 and later purchased two more for $60. During the period, Dayton sold three units for $90 each. Which of the following is true?

A. If Dayton uses weighted average, cost of goods sold will be $165.

B. If Dayton uses FIFO, cost of goods sold will be $175.

C. If Dayton uses LIFO, cost of goods sold will be $180.

D. None of the above is true.

9. Jefferson Company reported the following:



Jefferson uses the FIFO cost flow method. What will Jefferson report as ending inventory?

A. $2,300.

B. $3,775.

C. $2,100.

D. $2,500.

10. Jefferson Company reported the following:



Jefferson uses the LIFO cost flow method. What will Jefferson report as gross margin?

A. $2,100.

B. $2,150.

C. $2,350.

D. None of the above.

11. Jefferson Company reported the following:



Jefferson uses the weighted average cost flow method. Jefferson’s cost of goods sold will be closest to which of the following?

A. $3,792.

B. $4,375.

C. $3,866.

D. $2,259.

12. When prices are rising, which cost flow method will result in the lowest income tax expense?

A. FIFO

B. LIFO

C. Weighted Average

D. Specific Identification

13. Chavez Company purchased one item for $60, and then purchased a second identical item for $50. One item was sold for $90. Which of the following statements is true?

A. Gross margin will be higher if Chavez uses FIFO than LIFO.

B. Cost of goods sold will be higher if Chavez uses FIFO than weighted average.

C. Chavez will pay more income tax if it uses weighted average than if it uses LIFO.

D. Chavez will report equal net operating income whether if uses LIFO or FIFO.

14. Inventory records for Timberville Company show the following:



What was Timberville’s weighted average cost per unit?

A. $114.33

B. $112.50

C. $116.67

D. $112.00

15. Richmond Company purchased 100 units of inventory that cost $5.00 each on January 1. On April 1, the company purchased 200 additional units for $5.50. On July 1, they purchased 250 more for $6.50. On September 1, Richmond sold 50 units on account for $10 each. Assuming Richmond uses a perpetual inventory system and weighted average cost flow, what is the correct journal entry to record the sale?

A. 

B. 

C. 

D. None of the above.

16. Venice Company purchased 150 units of inventory that cost $3.00 each on January 1. On April 1, the company purchased 200 additional units for $3.50. On July 1, they purchased 250 more for $4.50. On September 1, Venice sold 270 units on account for $8 each. Assuming Venice uses a perpetual inventory system and LIFO cost flow, what is the correct journal entry to record the sale?

A. 

B. 

C. 

D. 

17. Coleman Company purchased one item for $160, and then purchased a second identical item for $150. One item was sold for $200. Which of the following statements is true?

A. Cost of goods sold will be lower if Coleman uses FIFO than LIFO.

B. Gross margin will be higher if Coleman uses FIFO than weighted average.

C. Coleman will pay less income tax if it uses weighted average than if it uses FIFO.

D. Ending inventory will be lower if Coleman uses FIFO than LIFO.

18. Flannigan Company reported the following inventory:



If Flannigan applies the lower-of-cost-or-market rule to individual lines of inventory, what journal entry, if any, will Flannigan prepare as a result?

A. 

B. 

C. 

D. No entry would be necessary.

19. Flannigan Company reported the following inventory:



If Flannigan applies the lower-of-cost-or-market rule to inventory in aggregate, what journal entry, if any, will Flannigan prepare as a result?

A. 

B. 

C. 

D. No entry would be necessary.

20. If a company applies the lower-of-cost-or-market rule in aggregate,

A. it will always report a larger write down than if the rule were applied to individual lines of inventory.

B. it will usually write inventory to a higher amount than writing it down.

C. write downs will generally be smaller than if the rule were applied to individual lines of inventory.

D. it will be in violation of GAAP unless the write down is immaterial.