

Last Name: \_\_\_\_\_

First Name: \_\_\_\_\_

## Quiz: Inventory Valuation 02

Below is information for INO Listen, a subsidiary of G.Rook Inc. Use the information to answer the questions that follow.

Date	Units Purchased	Unit Cost	Total Cost	Net Sales	Operating Expenses
01-Jan	7,900	\$5.80	45,820	270,000	156,700
01-Apr	5,600	\$6.00	33,600		
01-Jul	6,800	\$6.60	44,880		
01-Oct	8,500	\$7.30	62,050		
01-Dec	2,600	\$8.20	21,320		
	<u>31,400</u>		<u>207,670</u>		

Beginning Inventory consists of 9,400 units at \$5.30 per unit.

Ending inventory was counted and holds 6,850 units

### Questions:

1. Create condensed Income Statements using the information above under all three inventory valuation assumptions (FIFO, LIFO, Average Cost). For average cost, round average cost per unit to two decimal places.
- 2(a). Which method of valuation produces the largest Net Income. Why? Explain clearly.  
2(b). Which method of valuation produces the largest amount of cash flow? Explain your answer.
3. Journalize the write downs for each method to the lower of cost and market (LCM) item by item if the market value of these units was \$6.60 each at year end.

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## Answer Space

### Question 1: Condensed Income Statement

	FIFO	Avg. Cost	LIFO
<b>Net Sales</b>			
<b>Cost of Goods Sold</b>	_____	_____	_____
<b>Gross Profit</b>			
<b>Operating Expenses</b>	_____	_____	_____
<b>Net Income</b>	=====	=====	=====

### Schedule of Cost of Goods Sold

	FIFO	Avg. Cost	LIFO
<b>Beginning Inventory</b>			
<b>Net Purchases</b>	_____	_____	_____
<b>Goods Available</b>			
<b>Ending Inventory</b>	_____	_____	_____
<b>Cost of Goods Sold</b>	=====	=====	=====

### Question 2:

### Question 3: LCM

	Date	
	Dec	31
1		
2		
3		
4	Dec	31
5		
6		
7		
8	Dec	31
9		
10		
11		
12		
13		
14		
15		

**Item by Item**

Particulars	P.R.	Debit	Credit	
				1
				2
				3
				4
				5
				6
				7
				8
				9
				10
				11
				12
				13
				14
				15

## Quiz: Inventory Valuation 02

### Answer Key

#### Question 1: Condensed Income Statement

	FIFO	Avg. Cost	LIFO
<b>Net Sales</b>	270,000.00	270,000.00	270,000.00
<b>Cost of Goods Sold</b>	<u>-205,145.00</u>	<u>-214,266.50</u>	<u>-221,185.00</u>
<b>Gross Profit</b>	64,855.00	55,733.50	48,815.00
<b>Operating Expenses</b>	<u>-156,700.00</u>	<u>-156,700.00</u>	<u>-156,700.00</u>
<b>Net Income</b>	<u><u>-91,845.00</u></u>	<u><u>-100,966.50</u></u>	<u><u>-107,885.00</u></u>

#### Schedule of Cost of Goods Sold

	FIFO	Avg. Cost	LIFO
<b>Beginning Inventory</b>	49,820.00	49,820.00	49,820.00
<b>Net Purchases</b>	<u>207,670.00</u>	<u>207,670.00</u>	<u>207,670.00</u>
<b>Goods Available</b>	257,490.00	257,490.00	257,490.00
<b>Ending Inventory</b>	<u>-52,345.00</u>	<u>-43,223.50</u>	<u>-36,305.00</u>
<b>Cost of Goods Sold</b>	<u><u>205,145.00</u></u>	<u><u>214,266.50</u></u>	<u><u>221,185.00</u></u>

#### Question 3: LCM Item by Item

		Date	Particulars	P.R.	Debit	Credit	
		Dec 31	Loss on write down to LCM		7,135.00		
1			Inventory			7,135.00	1
2			(write down for FIFO method)				2
3							3
4		Dec 31	Loss on write down to LCM		-		4
5			Inventory			-	5
6			(write down for Average Cost)				6
7							7
8		Dec 31	Loss on write down to LCM		-		8
9			Inventory			-	9
10			(write down for LIFO)				10
11							11
12							12
13							13
14							14
15							15