

Name: _____ Date: _____M

Discussion Section: _____ Row: _____ Seat: _____

PRINCIPLES OF FINANCIAL ACCOUNTING I
Chapter 6 – Inventory Procedures
Fall 2014 – Make-Up

“As a student of ORU, I pledge my full and hearty support to the Honor Code. I agree not only to be honest myself but to report all cases of dishonesty that are observed by me.”

The following items were available for sale (periodic system used):

Beginning Inventory	12 units at \$7
First Purchase	21 units at \$6
Second Purchase	7 units at \$10

(Show and label your work in good form.) Determine the cost of the ending inventory of 12 items by the following:

1-2. First-in, first-out method

3-4. Weighted average method

5-6. Determine the cost of goods sold by the last-in, first-out method.

Indicate whether the following statements are TRUE or FALSE by indicating “+” for true and “O” for false in the blank provided at the right:

- The inventory system employing accounting records that continuously disclose the amount of the inventory is called periodic. _____
- An overstatement of ending inventory will cause net income to be understated. _____
- The FIFO method of costing inventory is based on the assumption that costs should be charged against revenue in the order in which they are incurred. _____
- During a period of rising prices, FIFO will result in a higher net income for a company than if they had adopted LIFO _____

When you have finished, please put your paper face down at the end of your row.

Name: Solution Date: _____M

Discussion Section: _____ Row: _____ Seat: _____

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The following items were available for sale (periodic system used):

Beginning Inventory	12 units at	\$7	=	84
First Purchase	21 units at	\$6	=	126
Second Purchase	7 units at	\$10	=	<u>70</u>
GAFS	40		=	280

(Show and label your work in good form.) Determine the cost of the ending inventory of 12 items by the following:

1-2. First-in, first-out method

$$\begin{array}{r r r r r r}
 7 & \times & 10 & = & 70 & \\
 5 & \times & 6 & = & 30 & \\
 12 & & & = & \boxed{\$100} & \text{EI}
 \end{array}$$

3-4. Weighted average method

$$\frac{280}{40} = \$7 \times 12 = \boxed{\$84.00} \text{ EI}$$

5-6. Determine the cost of goods sold by the last-in, first-out method.

$$\begin{array}{r r r r r r}
 7 & \times & 10 & = & 70 & \\
 21 & \times & 6 & = & 126 & \\
 & & \text{COGS} & = & \boxed{\$196} &
 \end{array}$$

Indicate whether the following statements are TRUE or FALSE by indicating “+” for true and “O” for false in the blank provided at the right:

7. The inventory system employing accounting records that continuously disclose the amount of the inventory is called periodic. 0
8. An overstatement of ending inventory will cause net income to be understated. 0
9. The FIFO method of costing inventory is based on the assumption that costs should be charged against revenue in the order in which they are incurred. +
10. During a period of rising prices, FIFO will result in a higher net income for a company than if they had adopted LIFO +

When you have finished, please put your paper face down at the end of your row.