1. Sergio and Bruno want to open a small, boutique café in Singapore. The only inventory comprises coffee beans and cups, which can be easily counted. The cost of producing each cup of coffee is 5% of the selling price. The best inventory system for them to use is:
   1. FIFO
   2. Perpetual
   3. LIFO
   4. Periodic

Ans: d. Periodic systems are more suitable for smaller businesses with easily countable inventory.  
FIFO and LIFO are not inventory systems

1. Costa bought $100,000 worth of coffee beans shipped FOB destination. Shipping costs are $100. The amount debited to inventory will be $100,100. True or False?  
     
   Ans: False. FOB destination means that the transaction occurs at the destination point, therefore the supplier pays for the shipping.
2. Costa bought $100,000 worth of coffee beans FOB shipping point. Shipping costs are $100. The supplier offers a discount rate of 2/10, n/30. Costa makes payment for the coffee beans one week after the purchase. The overall change in Costa’s inventory account is:
   1. 100,000
   2. 100,100
   3. 98,098
   4. 98,100

Ans: d. Costa has to pay for the shipping. They receive a 2% percent for the coffee beans but not for the shipping fee. (100,000 X 0.98) + 100 = 98 100

1. Costa bought $100,000 worth of coffee beans, half paid for within a week, half paid for two weeks later. The supplier offers a discount rate of 5/10, n/30. 20% of the beans were defective and returned to the supplier. Calculate the overall change in inventory
   1. 78,000
   2. 77,500
   3. 80,000
   4. 78,500

Ans: a. From the original $100,000, subtract the 20% returned to the supplier, then apply the discount rate to the half that was paid for within 10 days.  
100,000 x 0.8 = 80,000   
0.95 (40,000) + 40,000 = **78,000**

1. Costa wants to sell their ground coffee to Starbucks FOB destination. To account for shipping fees, which account should be debited/credited?
   1. DR Inventory
   2. CR Inventory
   3. DR Delivery expense
   4. Trick question, Costa doesn’t have to pay shipping, Starbucks does.

Ans: c. Costa, the seller, must pay for the shipping as the transaction only occurs at the destination. The shipping fees are recorded separately under Delivery expense.

1. Costa had part of their sales of ground coffee returned to them. Complete the relevant journal entry for the return of goods.  
   DR ?  
    CR Cash
   1. Inventory
   2. Accounts Payable
   3. Sales returns and allowances
   4. Loss

Ans: c. DR Sales returns and allowances to account for returns.

1. Rainforest Alliance sells a shipment of beans to Costa Coffee. Due to timely payment, Costa receives a discount. Complete the relevant entries.

Rainforest Alliance

|  |  |
| --- | --- |
| DR Cash |  |
| ? |  |
| CR Accounts receivable |  |

Costa Coffee

|  |  |
| --- | --- |
| DR Accounts Payable |  |
| ? |  |
| CR Cash |  |

1. Rainforest Alliance: DR Inventory, Costa Coffee: CR Sales discount
2. Rainforest Alliance: DR Sales discount, Costa Coffee: CR Inventory
3. Rainforest Alliance: CR Inventory, Costa Coffee: DR Sales discount
4. Rainforest Alliance: CR Sales discount, Costa Coffee: DR Inventory

Ans: b. Rainforest Alliance is the seller, and hence offers the sales discount.

1. Due to an increase in coffee prices, Costa wants to readjust some previously impaired inventory value back up to its original amount. Complete the relevant entry.

|  |  |
| --- | --- |
| DR Inventory |  |
| CR ? |  |

* 1. Gain
  2. Inventory Write-down
  3. Inventory Write-up
  4. Trick question, you cannot write-up inventory

Ans: a. Inventory can only be adjusted back up after being written down, in which case Gains will be credited.

1. Costa sells coffee at a mark up. Revenue from sales of coffee this month was . What is Costa’s COGS for the month?

Ans: d.

1. Costa sells coffee at a fixed gross margin of . Revenue from sales of coffee this month was . What is Costa’s COGS for the month?

Ans: c.

1. Costa uses average cost inventory tracking and a perpetual inventory system. Find total COGS.

|  |
| --- |
| 1. Starting inventory: 1000 cups at 0.5 cents each |
| 1. Bought 500 cups at 1 cent each |
| 1. Sold 700 cups |
| 1. Bought 400 cups at 0.3 cents each |
| 1. Sold 300 cups |

* 1. 630
  2. 589.47
  3. 548.39
  4. 522.15  
     Ans: a.

|  |  |
| --- | --- |
| Starting inventory: 1000 cups at 0.5 cents each | Inventory |
| Bought 500 cups at 1 cent each | 1500 x 2/3 |
| Sold 700 cups | 800 x 2/3 |
| Bought 400 cups at 0.3 cents each | 1200 x 49/90 |
| Sold 300 cups | 900 x 49/90 |
| Total COGS = 700 x 2/3 + 300 x 49/90 = **630** | |

1. Costa uses average cost inventory tracking and a periodic inventory system. Find total COGS.

|  |
| --- |
| 1. Starting inventory: 1000 cups at 0.5 cents each |
| 1. Bought 500 cups at 1 cent each |
| 1. Sold 700 cups |
| 1. Bought 400 cups at 0.3 cents each |
| 1. Sold 300 cups |

* 1. 630
  2. 589.47
  3. 548.39
  4. 522.15  
     Ans: b.

Average cost per cup:

Total COGS = 1000 cups \* 0.58947 = 589.47