1. ABC Corp. received inventory and recorded the inventory at X ($2000-$7500). As part of this same entry, Y ($200-$530) of transportation costs were paid in cash. What was the recorded credit for accounts payable?

Answer : X - Y

Explanation : Since transportation costs are paid by cash, the total inventory cost minus transportation cost will be the total value of accounts payable incurred.

2. ABC Corp. received inventory and recorded the inventory at X ($2000-$7500). As part of this same entry, Y ($200-$530) of transportation costs were paid in cash. What was the recorded credit for cash?

Answer : Y

Explanation: Only transportation costs were paid by cash.

3. ABC Corp. received inventory and recorded the inventory at X ($2000-$7500). As part of this same entry, Y ($200-$530) of transportation costs were paid in cash by the seller. What was the credit to accounts payable for ABC Corp. in this transaction?

Answer : X

Explanation : Since transportation costs are paid by seller, the total accounts payable incurred is the total value of inventory.

4. Example : 3/25, n/45. Which of the following best describe the above discount format?

1) Get a 25% discount if paid in 3 days, otherwise pay full amount by 40 days.

2) Get a 3% discount if paid in 30 days, otherwise pay full amount by 45 days.

3) Get a 3% discount if paid in 25 days, otherwise pay full amount by 45 days.

4) None of the above

Answer : 3

Explanation:

The discount format is %/D1, n/D2. This means the first number is the discount percentage, followed by the days given for them to pay to get the discount. For the second part, n = full amount, D2 = days for full payment.

5. ABC corp purchased $1000 worth of inventory with 2/3, n/10 terms. If they pay within the discount period, how much is the discount given?

1) $20

2) $30

3) $$100

4) No discount given

Answer: 1

Explanation: Since the discount term is 2/3, this means that 2% discount will be given if the company pay within 3 days. Thus the discount given is 2% of 1000 = $20.

6. You purchased 15 bags of coffee beans @ $15 each. Since you purchased a large quantity, the owner gave you a $5 discount for each bag of coffee beans that you purchase subsequently. You then purchased another 20 bags.

Using the FIFO inventory tracking method, which is the total COGS when you sell 20 bags of coffee beans?

1) $100

2) $275

3) $200

4) $265

Answer : 2

Explanation : Using FIFO method (First in First Out), the total COGS = $15 x 15 + $10 x 5 = $275.

7. You purchased 15 bags of coffee beans @ $25 each. Since you purchased a large quantity, the owner gave you a $12 discount for each bag of coffee beans that you purchase subsequently. You purchased another 15 bags.

Using the LIFO inventory tracking method, which is the total COGS when you sell 20 bags of coffee beans?

1) $240

2) $180

3) $320

4) $500

Answer : 3

Explanation : Using LIFO method (Last in First Out), the total COGS = $13 x 15 + $25 x 5 = $320.

8. You purchased 15 bags of coffee beans @ $20 each. Since you purchased a large quantity, the owner gave you a $10 discount for each bag of coffee beans that you purchase later on. You purchased another 5 bags more.

Using the Average Cost inventory tracking method, which is the total COGS when you sell 10 bags of coffee beans?

1) $175

2) $300

3) $200

4) $375

Answer : 1

Explanation : Using Average cost method, the new unit cost = [(15 x $20) + (5 x $10)] / 20 =$17.5. Therefore, total COGS for 10 bags = $175.

9. You purchased 5 bags of tofu @ $5 each from Tofu SG. Later, you purchased 10 bags of tofu @ $8 each. Lastly, you purchased the last 15 bags of tofu @ $7 each. After all the purchases, you sold 20 bags of tofu to BuyTofuSG. Using the FIFO method, how much is the total COGS?

1) $145

2) $160

3) $100

4) $140

Answer : 4

Explanation : Using FIFO method, the total cogs = ($5 x 5) + ($8 x 10) + ($7 x 5) = $140

10. You purchased 5 pooh bear bags @ $5 each. Later on, you purchased 10 pooh bear bags @ $8 each. Lastly, you purchased 15 pooh bear bags @ $7 each from Pooh SG. After all the purchases, you sold 20 bags of pooh bear to Disney SG. Using the LIFO method, how much is the total COGS?

1) $140

2) $145

3) $150

4) $100

Answer : 2

Explanation : Using LIFO method, the total cogs = ($7 x 15) + ($8 x 5) = $145.

11. For a sale under a perpetual inventory system, there is only one entry to record, followed by an adjusting entry at the end of the year for total COGS and Inventory.

Answer : False

Explanation : This is true for a periodic inventory system.

12.  If the inventory account’s value is below Net Realizable Value (NRV), then a write down to NRV is required.

Answer : False

Explanation : Write down of inventory value is only required when inventory level is more than NRV and we are at the end of a period.