

**Sen Finance ACC201, Accounting-II, Practice Questions - II**  
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**Question 21: I) LIFO and FIFO are methods for inventory valuation.  
II) US firms prefer to use LIFO due to it producing lower taxes  
I&II are: A) TT B) TF C) FT D) FF**

**Question 22: During a time of rising prices, compared to FIFO  
A) LIFO gives higher Inventory Value and higher COGS  
B) LIFO gives higher Inventory Value and lower COGS  
C) LIFO gives lower Inventory Value and higher COGS  
D) LIFO gives lower Inventory Value and lower COGS**

**Question 23: During a time of rising prices, compared to FIFO  
A) LIFO gives higher Costs and higher EBIT  
B) LIFO gives higher Costs and lower EBIT  
C) LIFO gives lower Costs and higher EBIT  
D) LIFO gives lower Costs and lower EBIT**

**Question 24: During a time of rising prices, compared to FIFO  
A) LIFO gives higher Taxes and higher Total Assets  
B) LIFO gives higher Taxes and lower Total Assets  
C) LIFO gives lower Taxes and higher Total Assets  
D) LIFO gives lower Taxes and lower Total Assets**

**Question 25: I) When prices are increasing LIFO produces more accurate Balance Sheet statements when compared to FIFO.  
II) When prices are increasing LIFO produces more accurate Net Income statements when compared to FIFO.  
I&II are: A) TT B) TF C) FT D) FF**

**Question 26: I) Lower of cost or market (LCM) value is taken as Inventory value  
II) A firm that first sells the last in physical units in inventory is legally required to adopt LIFO for accounting purposes.  
I&II are: A) TT B) TF C) FT D) FF**

**Question 27: During a year, a firm's LIFO reserve increases by \$10,000. The tax rate for the firm is 36%. If the firm had used FIFO instead of LIFO, then:  
A) Total assets would be higher by \$6,400 and COGS would be lower by \$6,400.  
B) Total assets would be higher by \$6,400 and COGS would be lower by \$10,000.  
C) Total assets would be the same and COGS would be lower by \$6,400.  
D) Total assets would be the same and COGS would be lower by \$10,00.**

**Information for 28 to 31: Suppose a firm over a year (the accounting period) has the following inventory transactions:  
Beginning Inventory : 70 Units @ \$200 per unit**

**Purchases during the year:**

**April 15 : 40 units @ \$250 per unit**

**August 21 : 60 units @ \$300 per unit**

**December 15 : 30 units @ \$320 per unit**

**The firm sells 180 units during the year**

**Question 28: FIFO COGS for the year will be:**

- A) \$45,200**
- B) \$46,440**
- C) \$47,600**
- D) \$48,150**

**Question 29: LIFO COGS for the year will be:**

- A) \$45,200**
- B) \$46,440**
- C) \$47,600**
- D) \$48,150**

**Question 30: FIFO Ending Inventory value will be:**

- A) \$4,000**
- B) \$5,350**
- C) \$6,400**
- D) \$14,000**

**Question 31: LIFO Ending Inventory value will be:**

- A) \$4,000**
- B) \$5,350**
- C) \$6,400**
- D) \$14,000**

**Question 32: During a time of rising prices, compared to FIFO**

- A) LIFO gives higher Liquidity and higher ratio of COGS to Average Inventory**
- B) LIFO gives higher Liquidity and lower ratio of COGS to Average Inventory**
- C) LIFO gives lower Liquidity and higher ratio of COGS to Average Inventory**
- D) LIFO gives lower Liquidity and lower ratio of COGS to Average Inventory**

**Question 33: During a time of rising prices, compared to FIFO**

- A) LIFO gives higher ratio of Inventory to Sales and higher ratio of Inventory to Assets**
- B) LIFO gives higher ratio of Inventory to Sales and lower ratio of Inventory to Assets**
- C) LIFO gives lower ratio of Inventory to Sales and higher ratio of Inventory to Assets**
- D) LIFO gives lower ratio of Inventory to Sales and lower ratio of Inventory to Assets**

**Question 34: I) LIFO Liquidation occurs when number of units in the inventory increase.**

**II) In times of rising prices, LIFO liquidation will result in the firm appearing to have higher profits than is sustainable.**

**I&II are: A) TT B) TF C) FT D) FF**

**Question 35: I) In US GAAP inventory is valued at the lower of cost or market price (LCM)**

**II) In US GAAP increases and decreases in value of inventory are both accounted for (holding period loss).**

**I&II are: A) TT B) TF C) FT D) FF**

**Information for questions 36 to 43: A firm begins a year with a LIFO inventory of \$7,800 and at the end of a year has FIFO ending inventory of \$10,000 and LIFO ending inventory of \$8,000. The LIFO reserve at the beginning of the year was \$4,500. COGS-LIFO for the year is \$12,600. By LIFO basis accounting the NI for the year is \$8,100, and ROE 9%. The corporate income tax rate is 36%.**

**Question 36: The  $LIFO_{Reserve}$  at the end of the year will be:**

- A) \$2,000**
- B) \$2,500**
- C) \$6,500**
- D) \$10,600**

**Question 37: The  $COGS_{FIFO}$  for the year will be:**

- A) \$8,100**
- B) \$10,100**
- C) \$14,600**
- D) \$15,100**

**Question 38: The NI for the year by FIFO basis accounting will be:**

- A) \$6,638**
- B) \$6,510**
- C) \$8,110**
- D) \$9,710**

**Question 39: What is LIFO Turnover (ratio of COGS to Average Inventory):**

- A) 1.027**
- B) 1.4**
- C) 1.595**
- D) 3.877**

**Question 40: What is FIFO Turnover (ratio of COGS to Average Inventory):**

- A) 0.8709**
- B) 1.3543**
- C) 1.4**

D) 1.6966

**Question 41: What is Equity measured by LIFO accounting?**

- A) \$73,756
- B) \$10,100
- C) \$6,638
- D) \$90,111

**Question 42: What is Equity measured by FIFO accounting?**

- A) \$12,180
- B) \$8,718
- C) \$75,836
- D) \$92,191

**Question 43: What is ROE measured by FIFO accounting?**

- A) 0.1053
- B) 0.0880
- C) 0.1280
- D) 0.1069

**Question 44: I) IAS2 says LIFO methods should be favored over FIFO**

**II) IAS requires LCM writedowns to be made for items separately, whereas GAAP allows aggregates for similar items.**

**I&II are: A) TT B) TF C) FT D) FF**

- 21) C 33) D
- 22) C 34) C
- 23) B 35) C
- 24) D 36) A\*
- 25) C 37) D\*
- 26) B 38) D\*
- 27) B 39) C
- 28) A 40) B\*
- 29) C 41) D
- 30) C 42) D\*
- 31) A 43) A\*
- 32) A 44) D

**Answer 36:  $LIFO_{Reserve} = FIFO_{Inventory} - LIFO_{Inventory}$**

**Answer 37:  $COGS_{FIFO} = COGS_{LIFO} - \text{Increase in } LIFO_{Reserve}$**

**$LIFO_{Reserve}$  falls, hence  $COGS_{FIFO} > COGS_{LIFO}$**

**Answer 38: NI FIFO basis will be NI LIFO minus excess COGS due to FIFO accounting after paying income tax. Here FIFO COGS is smaller, hence the excess is negative.**

**Answer 40: Turnover is  $COGS_{FIFO}$  divided by average of  $FIFO_{Inventory}_{Begin}$  and  $FIFO_{Inventory}_{End}$ .**

**Answer 42: Add the tax-adjusted average LIFO\_Reserve to the LIFO\_Equity.**  
**Answer 43: Divide FIFO NI by FIFO Equity**

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