Glencoe Accounting

Chapter 25: Inventories

I-Summary

The way a company accounts for inventory directly affects its financial statements. In this chapter, you learned about perpetual and periodic methods used to determine the quantity of merchandise on hand.

Using the LIFO FIFO specific-identification, and weighted-average methods, you also assigned value to these inventories and learned how the choice of inventory costing method can have an impact on gross profit on sales.

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I-Quiz

1. Businesses that keep constant, up-to-date records of merchandise on hand use which type of inventory system?

A. periodic inventory system
B. perpetual inventory system
C. physical inventory system

2. Which accounting principle maintains that it is best to present amounts that are least likely to result in an overstatement of income or assets?

A. the consistency principle
B. the lower-of-cost-or-market rule
C. the conservatism principle

3. Which inventory costing method assumes that the earliest costs are the ones used to assign a cost to the inventory?

A. LIFO
B. FIFO
C. average cost

4. Which inventory costing method assigns the actual cost to each item in inventory?

A. specific identification method
B. FIFO
C. LIFO

Answer Key

1. B
2. C
3. A
4. A