ACCOUNTING 2001
CLASS 17 REVIEW EXERCISE
(Answer these questions and check answers as soon as possible after each class)

Class 17 Key Concepts: Impact of changing prices on FIFO/LIFO
CHAPTER 9

(NOTE: Most of the situations we have encountered in class exercises and class discussions have involved increasing prices. These questions change the focus to one of FALLING prices!)

PROBLEM:

Gold Company and Black Company both make and sell computers. Gold Company uses FIFO and Black Company uses LIFO. Due to improvements in technology, the cost of making computers has been DECREASING over the past few years. Based on these assumptions, indicate which company (Gold Company or Black Company) would be more likely to:

A. Report a higher gross margin on the income statement.
B. Report a lower inventory value on the year-end balance sheet.
C. Pay less in income taxes.
D. Have a higher amount of owners’ equity.
E. Retain a higher amount cash within the company.
ANSWERS TO CLASS 17 QUIZ

A. Black Company, the LIFO company
B. Gold Company, the FIFO company
C. Gold Company, the FIFO company
D. Black Company, the LIFO company
E. Gold Company, the FIFO company