Business and Personal Finance © 2012

Chapter 8: Managing Payroll and Inventory

Check Your Answers: Section Assessment

Section 2

Review Key Concepts

1. The amount of merchandise sold in each period and information about what is and is not selling well.

2. A perpetual inventory system keeps an up-to-date record of merchandise on hand. When an item is sold, it is deducted from the inventory. In a periodic inventory system, records are updated only when a physical count of the merchandise on hand is done.

3. Specific identification method: the exact cost of each item is assigned to an item. FIFO: assumes the first items purchased are the first items sold. LIFO: the last items bought are the first items sold.

4. Divide the cost of the merchandise sold in a given time period by the average inventory. A high turnover means your business has money tied up for shorter periods. A low turnover means that sales were lower or that too many items were bought.

5. Poor inventory management can lead to excess costs and a decrease in profits. Spending too much or too little on inventory can reduce profit.

Higher Order Thinking

6. Even if a business uses a perpetual inventory system, it should conduct a physical inventory to verify the accuracy of inventory records. Errors can be made, such as when entering inventory data.

English Language Arts

7. Inventory Control Because it is a small gallery, she should use a perpetual inventory system. She can conduct a physical inventory at year's end. She should use the specific identification costing method because she has few items and their prices differ.

Mathematics

8. Average Inventory Turnover Average inventory = ($225,000 + $187,500)/2 = $206,250; Inventory turnover = $475,000/$206,250 = 2.3; Inventory turnover of 2.3 means that Widget Co. sold its inventory 2.3 times during the year.