

What is the FIFO Method?

Worksheet

Under FIFO, the cost of goods sold is based on the oldest inventory costs first, while ending inventory reflects the most recent purchase costs.

Questions

1. FIFO assumes that

- A) the newest units are sold first
- B) the oldest units are sold first
- C) all units have the same cost
- D) inventory is never sold

2. 100 units bought at \$5, then 50 at \$7. If 120 units are sold under FIFO, what is COGS?

- A) \$600
- B) \$640
- C) \$700
- D) \$840

3. During rising prices, FIFO generally results in

- A) lower reported profit
- B) higher reported profit
- C) no change in profit
- D) negative inventory

4. Under FIFO, ending inventory is valued using

- A) the oldest purchase costs
- B) an average of all costs
- C) the most recent purchase costs
- D) market value only

5. A shop's inventory: 100 units bought at \$8 (Jan), then 150 units at \$10 (Feb). It sells 120 units in March. Under FIFO, what is COGS?

6. Using the same purchases (100 @ \$8, 150 @ \$10), find the ending inventory value after selling 120 units under FIFO.

7. A store bought 50 units at \$20 in Week 1 and sells all 50 units in Week 2 with no new purchases. What is FIFO COGS?

8. Define: What does FIFO stand for?

9. Define: How does FIFO affect COGS during inflation?

10. Define: What does ending inventory reflect under FIFO?

Answer Key

1. B) the oldest units are sold first - FIFO = First-In, First-Out: oldest purchases are expensed first.
2. B) $\$640 - 1005 = 500$, plus $207 = 140$ $500 + 140 = \$640$.
3. B) higher reported profit - FIFO expenses older, cheaper costs first, so profit looks higher when prices rise.
4. C) the most recent purchase costs - The units left in stock are assumed to be from the most recent purchases.
5. First 100 units come from the Jan batch: $100 \$8 = \800 Remaining 20 units come from the Feb batch: $20 \$10 = \200 $COGS = 800 + 200 = \$1,000$
6. Units sold (120) fully use the 100-unit Jan batch and 20 units of the Feb batch Remaining units = $150 - 20 = 130$ units, all from the Feb batch at $\$10$ Ending inventory = $130 \times 10 = \$1,300$
7. All 50 units sold come from the only batch available $COGS = 50 \times \$20 = \$1,000$
8. First-In, First-Out - the oldest inventory costs are recorded as sold first.
9. COGS is lower (based on older, cheaper costs), so reported profit is higher.
10. The most recently purchased (usually higher) unit costs.

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