15 Lecture - MGT101

Important Subjective

1. What is the perpetual inventory system, and how is it different from the periodic inventory system?

Answer: The perpetual inventory system maintains a real-time record of inventory movements, while the periodic inventory system involves physically counting inventory at specific intervals.

2. Why is it important for businesses to keep accurate records of their inventory movements?

Answer: Accurate inventory records enable businesses to make informed decisions regarding their inventory levels, reduce the risk of stockouts, and determine the cost of goods sold.

- 3. What is the inventory turnover ratio, and how is it calculated?
 - Answer: The inventory turnover ratio measures how many times a business sells and replaces its inventory during a specific period. It is calculated by dividing the cost of goods sold by the average inventory level.
- 4. What is the difference between the FIFO and LIFO inventory valuation methods?

 Answer: FIFO assumes that the first inventory items purchased are the first to be sold, while LIFO assumes that the last inventory items purchased are the first to be sold.
- 5. How does the weighted average cost method work?

Answer: The weighted average cost method calculates the average cost of inventory by dividing the total cost of goods available for sale by the total units available for sale.

- 6. How is the cost of goods sold calculated using the periodic inventory system?

 Answer: The cost of goods sold is calculated by adding the beginning inventory to the purchases made during the period and subtracting the ending inventory.
- 7. What is the impact of using different inventory valuation methods on a business's financial results?

Answer: Different inventory valuation methods can have a significant impact on a business's financial results, such as its net income, taxes, and inventory levels.

8. What is the purpose of adjusting entries in the recording of stock?

Answer: Adjusting entries are made to update the inventory accounts and adjust the financial statements to reflect the correct inventory levels and costs.

9. How does the LIFO method affect a business's taxes?

Answer: The LIFO method can reduce a business's taxable income by assuming that the most recently purchased inventory items are the first to be sold.

10. What are the advantages and disadvantages of using the perpetual inventory system?

Answer: The advantages of using the perpetual inventory system include real-time inventory tracking and more accurate cost of goods sold calculations. The disadvantages include higher costs and the need for accurate record-keeping.