

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.