

16 Lecture - MGT101

Important Subjective

1. **What is the Cost of Goods Sold (COGS) statement, and why is it important for businesses?**

Answer: The COGS statement reflects the cost of the goods sold by a business and is important for determining the gross profit and net income.

2. **What are some methods used for valuing inventory, and how do they differ?**

Answer: Methods such as FIFO, LIFO, and weighted average are used to value inventory, and they differ in how they assign costs to the goods sold.

3. **How does the LIFO method impact the COGS and taxes of a business?**

Answer: The LIFO method can reduce the COGS, which in turn can increase the gross profit and reduce taxes.

4. **What is the FIFO method, and how does it differ from the LIFO method?**

Answer: The FIFO method assumes that the first goods purchased are the first sold, while the LIFO method assumes that the last goods purchased are the first sold.

5. **Why is accurate valuation of inventory important for financial decision-making?**

Answer: Accurate valuation of inventory ensures that the COGS statement reflects the correct cost of goods sold and helps businesses make informed decisions on pricing and liquidation.

6. **What is the weighted average method, and how is it used to value inventory?**

Answer: The weighted average method calculates the average cost of all the goods available for sale and uses this average cost to calculate the COGS.

7. **How can businesses use inventory valuation to identify slow-moving or obsolete inventory?**

Answer: Accurate inventory valuation can help businesses identify slow-moving or obsolete inventory, which can help them make informed decisions on pricing and liquidation.

8. **What is the impact of using the LIFO method on the accuracy of the COGS statement?**

Answer: The LIFO method may not accurately reflect the actual cost of the goods sold.

9. **What are the potential drawbacks of using the FIFO method?**

Answer: The FIFO method may result in higher taxes, but it may provide a more accurate representation of the cost of the goods sold.

10. **Why is accurate valuation of inventory important for determining the net income of a business?**

Answer: Accurate valuation of inventory is critical for determining the COGS and gross profit, which in turn impact the net income of a business.