

# 12 Lecture - MGT401

## Important Subjective

1. **What is the purpose of inventory valuation?**

Answer: The purpose of inventory valuation is to assign a monetary value to a company's inventory for financial reporting purposes.

2. **What are the three most commonly used inventory valuation methods?**

Answer: The three most commonly used inventory valuation methods are FIFO, LIFO, and weighted average cost.

3. **How does the choice of inventory valuation method impact a company's financial statements?**

Answer: The choice of inventory valuation method can impact the cost of goods sold and net income reported on the income statement, as well as the inventory levels reported on the balance sheet.

4. **What is the difference between the FIFO and LIFO inventory valuation methods?**

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

5. **How does the specific identification inventory valuation method work?**

Answer: The specific identification method allows for the use of specific costs for specific units of inventory, rather than using an averaged cost.

6. **Which inventory valuation method is most commonly used for tax purposes in the United States?**

Answer: The LIFO method is most commonly used for tax purposes in the United States.

7. **What is the impact of rising prices on the cost of goods sold under the FIFO and LIFO inventory valuation methods?**

Answer: Under the FIFO method, the cost of goods sold is lower during times of rising prices, while under the LIFO method, the cost of goods sold is higher.

8. **How is the weighted average cost inventory valuation method calculated?**

Answer: The weighted average cost is calculated by dividing the total cost of inventory by the total number of units.

9. **How does the ABC analysis method relate to inventory valuation?**

Answer: The ABC analysis method is a method of classifying inventory based on its relative importance, which can impact the valuation of inventory.

10. **What is the importance of proper inventory valuation for businesses?**

Answer: Proper inventory valuation is important for accurate financial reporting, which can impact a company's profitability and cash flow.