

CFA® SAMPLE QUESTION - LEVEL I

Financial Reporting and Analysis

Q: Which of the following statements BEST DESCRIBES the effects of inventory accounting on the financial statements?

CORRECT ANSWER:

- (b) The FIFO cost flow assumption assigns the costs of the most recent purchases to ending inventory and the costs of the earliest units purchased to cost of goods sold.**

When the FIFO cost flow assumption is used, the earliest units of inventory purchased flow to cost of goods sold, and the most recent purchases are accumulated in ending inventory.

Choice "a" is incorrect. Reductions in inventory are a source of cash and are shown as an addition to net income in the operating activities section of the statement of cash flows when calculating cash flow from operations using the indirect method.

Choice "c" is incorrect. Unrealized holding gains are **not** recognized on the income statement under either LIFO or FIFO.



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