



## **CFA® SAMPLE QUESTION - LEVEL I** Financial Reporting and Analysis

Q: At the end of 20X6, Tyler Company had 200 widgets in inventory valued at \$100 each. During 20X7, Tyler bought 100 more widgets at \$80 each, and sold 80 widgets.

At year-end 20X7, a recession caused the wholesale widget price to drop to \$60 each.

Based on FIFO cost flow assumptions, 20X7 year-end inventory for Tyler Company is CLOSEST to:

## **CORRECT ANSWER:**

## (a) \$13,200

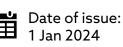
The answer was derived based on the following lower of cost-or-market calculation: Ending Inventory quantity: 200 + 100 - 80 = 220 units Lower of cost-or-market = 60/unitYear end inventory valuation:  $220 \times 60$  : 13,200Choice "b" is incorrect. This answer incorrectly valued the ending inventory at 80/unitand did not recognize the current drop in widget values. (i.e.  $220 \times 80 = 17,600$ ) Choice "c" is incorrect. The LIFO method was applied. i.e. (= $20\times80+200\times100$ ) = \$21,600



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