Assessment

Basics of Inventory Management

First Edition

The objectives of this book are:

- To discuss inventory management policies and objectives
- To provide inventory management tools and techniques
- To review financial analysis of inventory management

CRISP series

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Assessment Questions for
Basics of Inventory Management, First Edition

Select the best response.

1. Excessive inventory can lead to:
    A. Write-offs
    B. Lower profit margins
    C. Lower product costs
    D. All of the above
    E. A and B

2. Inventory management is needed because of fluctuations in:
    A. Forecast
    B. Warehouse staff
    C. Supply and demand
    D. All of the above
    E. A and C

3. You must carry greater inventory if you have a large forecast error and a:
    A. High customer service level
    B. Low customer service level

4. High inventories may be the result of:
    A. Production priorities
    B. Providing greater customer options
    C. Budget restrictions
    D. A and B
    E. B and C

5. Cycle stock is to high demand as buffer stock is to:
    A. Forecast fluctuations
    B. Low customer demands
    C. Marketing
    D. A and B
    E. A and C

6. The fixed reorder inventory model is based on a:
    A. Fixed quantity
    B. Fixed time period
    C. Either of the above

7. A two-bin replacement system is most useful for a:
    A. Joint replenishment inventory system
    B. Visual scanning inventory system
    C. Fixed reorder inventory system

8. The problem of reconciling information flow with physical flow can be helped by:
    A. Passing an order change cost information to the customer
    B. Information control software
    C. Both of the above

9. Inventory forecasting is meaningful only if it:
    A. Improves customer service
    B. Reduces inventory
    C. Increases productivity
    D. Improves supplier deliveries
    E. All of the above

10. Standard deviation is:
    A. The number of times each year that you run the risk of not having enough inventory
    B. Shown as a percentage of on-time versus promised delivery dates
    C. A statistical calculation of the difference between forecasted and actual shipments

11. *Bias* in inventory management shows a long-term pattern of forecast errors that deviates from the mean.
    A. True
    B. False

12. Fixed and economic order lot-size inventory methods:
    A. Have constant order quantities
    B. Help to reduce ordering, setup and carrying costs
    C. Include the lot-for-lot method
    D. A and B

13. The least unit cost inventory ordering method adds costs for a trial lot size and divides by the units in the lot size.
    A. True
    B. False

14. The mean absolute deviation (MAD):
    A. Disregards if the forecast error is negative or positive
    B. Is easier to calculate than standard deviation
    C. Both of the above

15. Any manufacturing professional should:
    A. Master accounting rules of debits and credits
    B. Understand business financial ramifications
    C. Both of the above

16. An income statement shows:
    A. Revenue, cost of sales, and gross profit
    B. The difference between assets and debts

17. In a financial statement, stockholders’ equity should be listed in order of:
    A. Greatest individual holdings first
    B. Common stockholders first
    C. Priority of pay at corporation liquidation

18. To determine profit or loss before taxes, you should add sales expenses and overhead to gross profit.
    A. True
    B. False

19. The basic manufacturing equation:
    A. Replaces dollars with units
    B. Must balance at month and year end
    C. Is beginning inventory plus items produced equals what is available to be sold
    D. All of the above

20. To calculate the *inventory turnover*, use the equation:
    A. $\frac{\text{current assets}}{\text{current liabilities}}$
    B. $\frac{\text{cost of sales}}{\text{inventory}}$
    C. $\frac{\text{net income}}{\text{equity}}$
    D. $\frac{\text{total liabilities}}{\text{equity}}$

21. To calculate the current ratio, use the formula:
    A. $\frac{\text{current assets}}{\text{current liabilities}}$
    B. $\frac{\text{cost of sales}}{\text{inventory}}$
    C. $\frac{\text{net income}}{\text{equity}}$
    D. $\frac{\text{total liabilities}}{\text{equity}}$

22. Supplier cash flow problems can be suspected if:
    - A. Deliveries are not timely
    - B. They factor their receivables
    - C. They request early payment from customers
    - D. All of the above

23. A conservative accounting system is to value inventory at the lower of original cost or market value.
    - A. True
    - B. False

24. If a product is stored based on availability of warehouse space, the system is called:
    - A. A cycle system
    - B. Floating location

25. A pull system of inventory control:
    - A. Has replenishment decisions made at the field warehouse
    - B. May have excess inventory if there are several warehouses
    - C. Uses sales data and customer demand for principal forecasting
    - D. A and B
    - E. B and C

Answer Key for
Basics of Inventory Management, First Edition

Recommended response (Corresponding workbook page)

1. E (4)	6. C (16, 17)	11. A (32)	16. A (59)	21. A (64)
2. E (3)	7. B (20)	12. D (41, 42)	17. C (58)	22. D (68)
3. A (4)	8. C (25)	13. A (46)	18. B (60)	23. A (73)
4. D (6)	9. E (29)	14. C (32)	19. D (62)	24. B (81)
5. A (8)	10. C (31)	15. B (55)	20. B (64)	25. D (95)