

## ACCT 101 – Chapter 5

### I. Internal Controls of Inventory

Inventory consists of the items a business has for resale to customers in the normal course of business.

#### A. Costs included in inventory

1. Cost of the merchandise
2. Transportation
3. Insurance
4. Import duties and taxes

B. Inventory will always be the largest Current Asset on the Balance Sheet and the Cost of Goods Sold will be the largest expense on the Income Statement.

Two primary objectives of Internal Control over inventory are

1. Safeguarding the inventory
2. Properly reporting it on the financial statements

### II. Cost of Goods Sold Calculation

### III. Inventory Cost Flow

A primary concern for inventory is properly calculating its value for the Balance Sheet and Income Statement. However, often times the inventory consists of identical units of merchandise which were acquired at different unit costs. When a unit is sold, it is impossible to determine what amount was paid for the particular unit sold.

Therefore, the company must **assume** an Inventory Cost Flow Assumption for use in assigning costs to the inventory on hand and the units sold.





Item MBA512	Units	Cost
Jan. 1 Inventory	10	\$20
4 Purchase	9	\$21
10 Sale	8	
22 Sale	4	
28 Purchase	6	\$22
30 Sale	10	

**Weighted Average**

Date	Purchases			Cost of Goods Sold			Inventory		
	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost

**Specific Identification**

Ending Inventory consists of 1 units from the Jan. 4 purchase, and 2 units from the Jan. 28 purchase



## Weighted Average

Date	Purchases			Cost of Goods Sold			Inventory		
	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost

Specific Identification:

Ending inventory consists of 30 units from beginning inventory, 25 units from the Jan. 20 purchase and 75 units from the Jan. 30 purchase







### Weighted Average

Date	Purchases			Cost of Goods Sold			Inventory		
	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost

### Specific Identification