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.
A. First-In, First-Out (FIFO)
B. Last-In, First-Out (LIFO)
C. Weighted Average
D. Specific Identification
E. Lower-of-Cost-or-Market - Accounting principles require that inventory be reported at the market of replacing inventory when the market value is lower than the purchase cost.

Example:

|  | Unit <br> Cost | Unit <br> Market |
| :--- | :--- | :--- |
| Apple Jacks | $\$ 1.50$ |  |
| Rice Krispies | $\$ 1.75$ |  |
| Frosted Flakes | $\$ 1.00$ | $\$ 1.35$ |
|  |  | $\$ 1.42$ |


| 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 |  |  |

## FIFO

| Date | Purchases | Cost of Goods Sold | Unit | Total Cost |
| :---: | :---: | :---: | :---: | :---: |
|  | Quantity | Unit | Quantity |  |
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LIFO

| Date |  | Purchases | Cost of Goods Sold |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Quantity | Unit | Total Cost | Quantity | Total Cost |
|  |  |  | Quantity |  |  |
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| 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 |
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## Specific Identification

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

EX 5-3
FIFO

| Date | Purchases | Cost of Goods Sold | Inventory |
| :---: | :---: | :---: | :---: |
|  | Quantity Total Cost | Quantity Unit Total Cost | Quantity Unit |
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| Date | Purchases |  |  | Cost of Goods Sold |  |  | Inventory |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost |
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Weighted Average

| Date | Purchases | Cost of Goods Sold | Inventory |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Quantity Total Cost | Quantity | Unit | Quantity |
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## Sprecific 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

| $\begin{aligned} & \text { EX 5-7 } \\ & \text { FIFO } \end{aligned}$ |  |  |  |  |  |  |  |  |  |
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| Date | Purchases |  |  | Cost of Goods Sold |  |  | Inventory |  |  |
|  | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost |
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LIFO

| Date |  | rrchase |  | Cost of Goods Sold |  |  | Inventory |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost |
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## Weighted Average

| Date | Purchases |  |  | Cost of Goods Sold |  |  | Inventory |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost | Quantity | Unit | Total Cost |
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## Specific Identification

