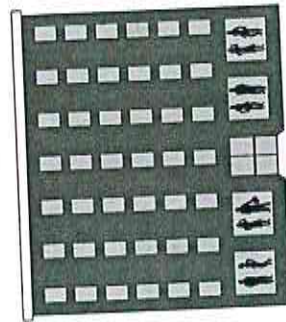


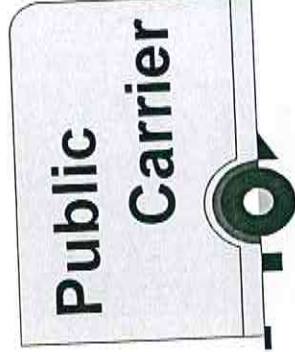
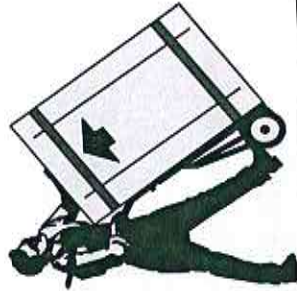
Counting

# Goods in Transit

FOB Shipping Point

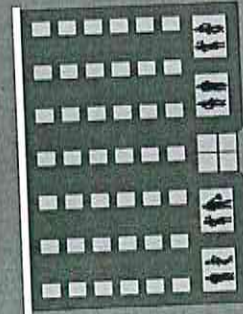


Seller



Buyer

Ownership passes to the buyer here.



Seller



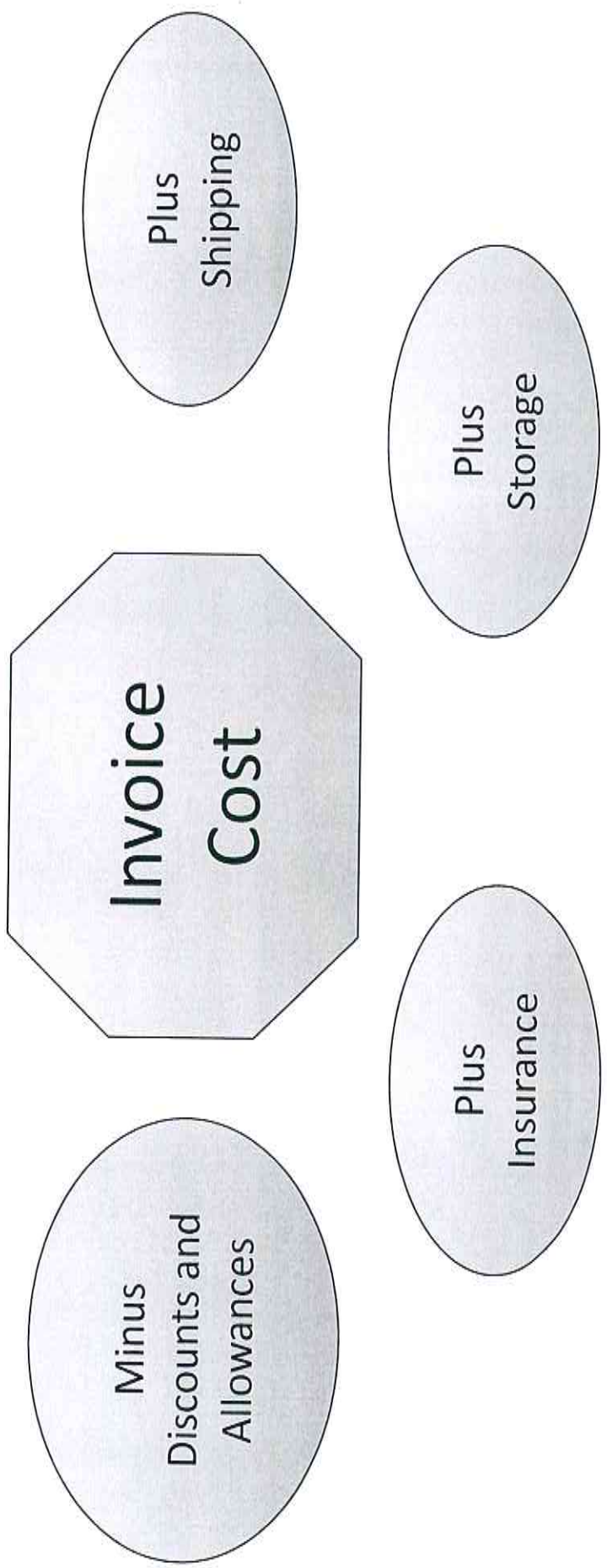
Buyer

FOB Destination Point

"Cost"

# Determining Inventory Costs

Include all expenditures necessary to bring an item to a salable condition and location.

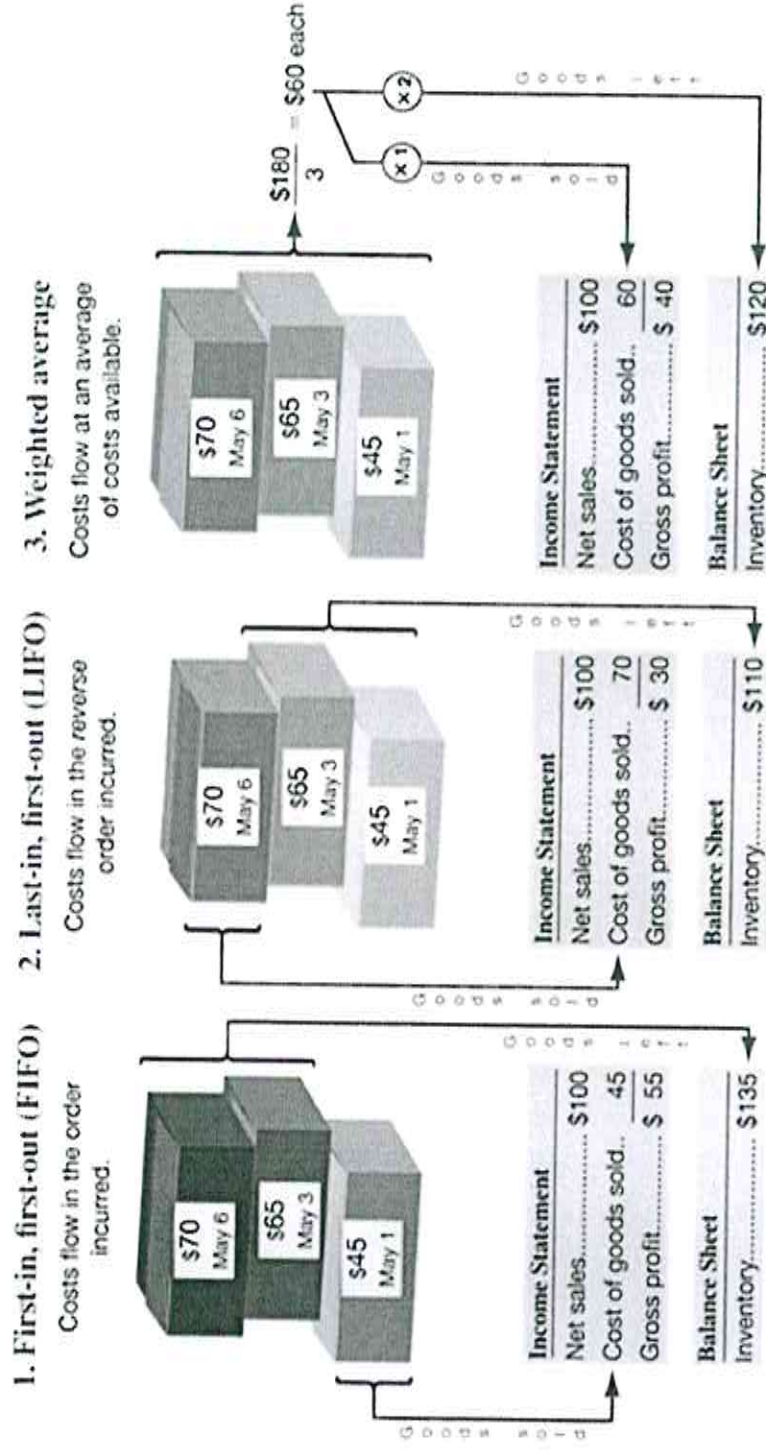


Learning Objective C2: Identify the costs of merchandise inventory

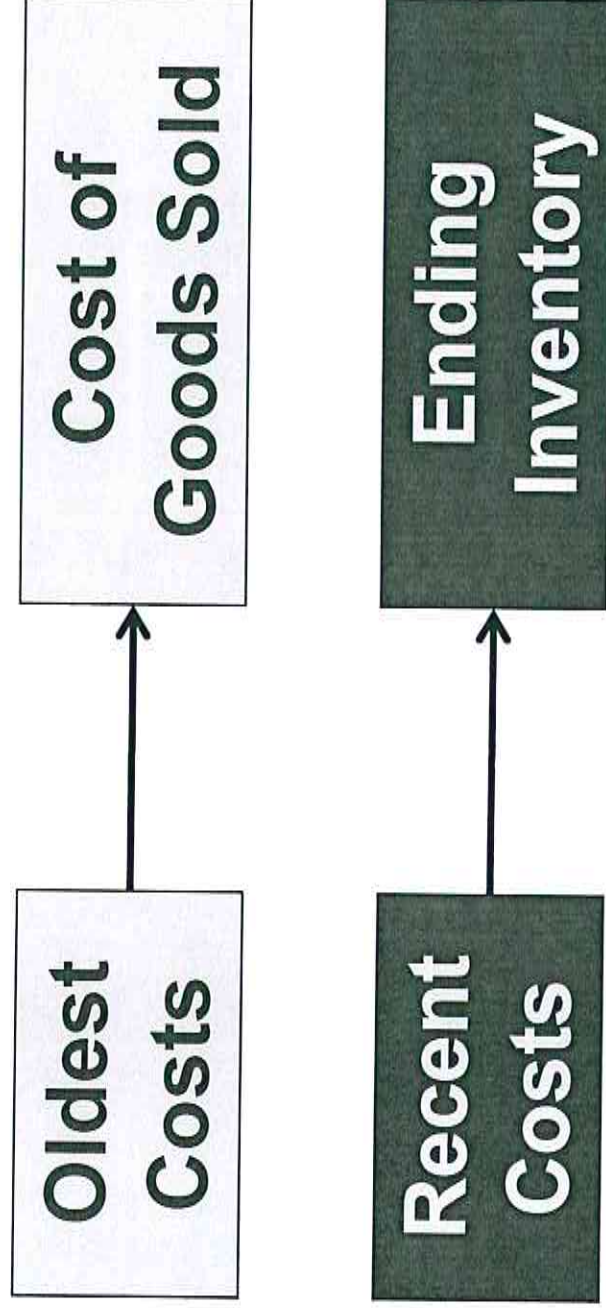


# Inventory Cost Flow Assumptions

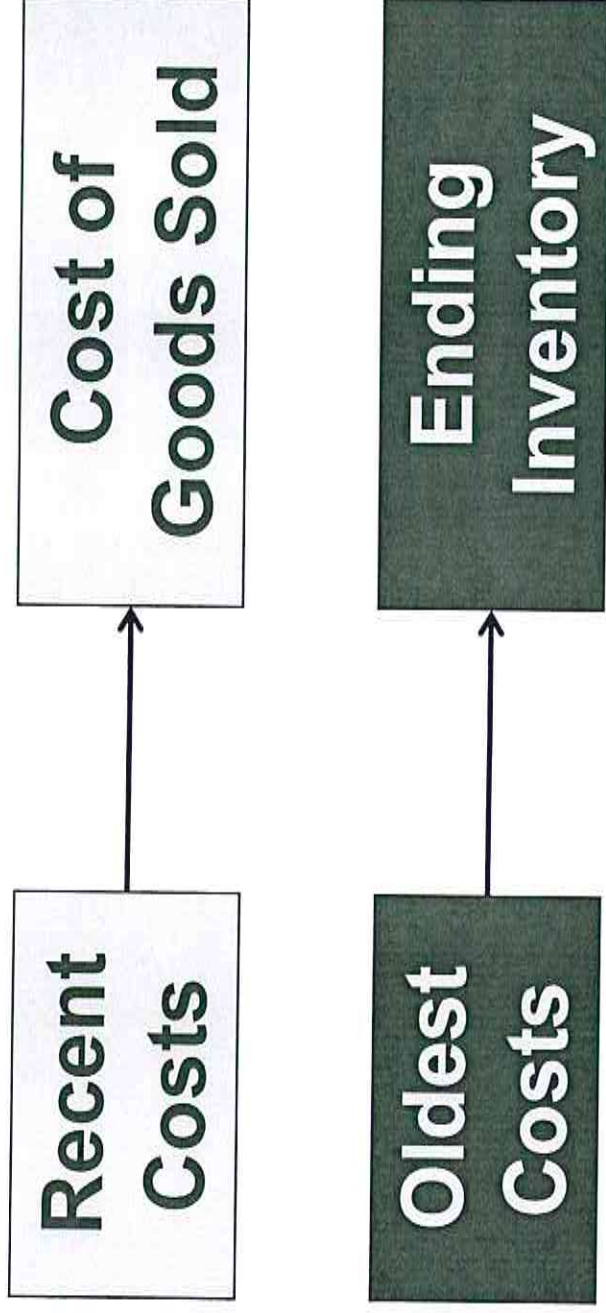
Exhibit 5.2



# First-In, First-Out (FIFO)



# Last-In, First-Out (LIFO)





# Weighted Average

When a unit is sold, the **average cost** of each unit in inventory is assigned to cost of goods sold.

Cost of Goods Available for Sale  $\div$  Units on hand on the date of sale

# Financial Statement Effects of Costing Methods

## Advantages of Methods

First-In,  
First-Out



Ending inventory  
approximates  
current  
replacement cost.

Last-In,  
First-Out



Better matches  
current costs in cost  
of goods sold with  
revenues.

Weighted  
Average



Smooths out  
price changes.