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 Cost	Unit Market
Apple Jacks	$1.50	$1.75
Rice Krispies	$1.00	$1.35
Frosted Flakes	$1.80	$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			Inventory		
	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost	Quantity	Unit	Total Cost

LIFO

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

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

EX 5-3

FIFO

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

LIFO

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

Weighted Average

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

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

EX 5-7

FIFO

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

LIFO

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

P5-1B

FIFO

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

LIFO

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

Weighted Average

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

Specific Identification