Inventory Management Decisions

Primary goals of management decisions:

1. Maintain sufficient quantity to meet customer needs
2. Ensure quality meets customers expectations
3. Minimize costs of getting/carrying inventory

Reporting Inventory

Income Statement: once items are sold, you remove cost of goods sold from income statement	Balance Sheet: inventory is set up as an asset when purchased

Percentage of Credit Sales v Aging of A/R

% (income statement method) easier to compute; aging (balance sheet method) is more accurate

income statement method: begin by writing journal entries in problem

balance sheet method: begin by making a chart

STEPS TO FIFO/LIFO/WEIGHTED AVERAGE

FIFO	LIFO	WEIGHTED AVERAGE
STEP 1: begin by doing COGA. STEP 2: when determining COGS, remember to do FIRST--IN-FIRST-OUT	STEP 1: SAME AS FIFO STEP 2. REMEMBER TO DO LAST-IN-FIRST-OUT	STEP 1: SAME AS FIFO AND LIFO STEP 2: DIVIDE COGA BY NUMBER OF UNITS AVAILABLE STEP 3. USE THE NUMBER TO FIND COGS AND COST OF ENDING INVENTORY

Sales Transactions

FOB Shipping Point	FOB Destination

FOB Shipping: sale recorded when goods leave seller's shipping department
FOB Destination: sale recorded when goods reach destination

FORMULAS

COGS = COGA - EI	COGA = BI + PURCHASES
GROSS PROFIT = SALES - COGS	INTEREST = PRINCIPAL X INTEREST RATE X TIME

NET RELIZABLE VALUE: A/R TOTAL - ALLOWANCE TOTAL

Types of Inventory

Merchandisers	Manufacturers

Merchandisers: buy + sell finished goods
Manufacturers: buy raw materials + produce and sell finished goods (raw materials, work in process, and finished goods)

Perpetual VS Periodical Inventory Systems

Perpetual: recorded every time item is bought/sold/returned; uses bar codes like Walmart; constantly recording inventory	Periodical: always updated at the end of accounting period; require inventory to be counted at the end of every period

Financial Statement Effects (rising prices)

FIFO: COGS smaller than LIFO, Gross Profit larger than LIFO, Net Income larger than LIFO, Inventory larger than LIFO

LIFO: COGS larger than FIFO, gross profit smaller than FIFO, Net income smaller than FIFO, inventory smaller than FIFO

JOURNAL ENTRY EXAMPLES

BAD DEBT EXPENSE: debit bad debt expense, credit allowance

CASH COLLECTIONS: debit cash, credit A/R

CREDIT SALES: debit A/R and credit

WRITE OFFS: debit allowance, credit A/R

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Published 28th November, 2017.
Last updated 28th November, 2017.

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