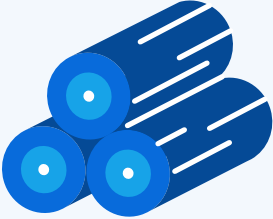




4 Types of Inventory

			
Raw Materials	Work-In-Progress (WIP)	Finished Goods	MRO Supplies
Basic inputs used to produce goods	Semi-finished goods, still in production	Completed products, ready for sale	Items used to maintain operations (tools, lubricants, etc.)

Inventory Evaluation



Assigns value to inventory

Inventory System



Periodic

less precise, but simpler than perpetual



Perpetual

more accurate and more complex than periodic

Summary of Typical Inventory Valuation Methods

FIFO: First In, First Out	LIFO: Last In, First Out	Weighted Average	Specific Identification
Oldest costs are expensed first; lower COGS, higher profit & tax	Newest costs expensed first; higher COGS, lower profit & tax	Uses average cost per unit; minimizes price fluctuations	Tracks actual cost per item; used for unique/high-value items

Key Inventory Formulas

Cost of Goods Sold	Inventory Turnover	Days Sales of Inventory
Beginning Inventory + Purchases - Ending Inventory	$\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$	$\frac{365}{\text{Inventory Turnover}}$

Common Inventory Accounting Journal Entries

	Debit	Credit
<i>To purchase \$1,000 of inventory on credit (or cash)</i>		
Inventory	\$1,000	
Accounts Payable / Cash		\$1,000
<i>To record increase in revenue from sale</i>		
Accounts Receivable / Cash	\$500	
Sales Revenue		\$500
<i>To record decrease in COGS from sale</i>		
Cost of Goods Sold (COGS)	\$300	
Inventory		\$300
<i>To record a reduction in inventory value from damage, loss, or market decline</i>		
Inventory Write-Down Expense	\$100	
Inventory		\$100
<i>To record inventory returned to suppliers due to damage or errors</i>		
Accounts Payable / Cash	\$1,000	
Inventory		\$1,000