

# ACCT 101, Session 5: Inventory and merchandizing

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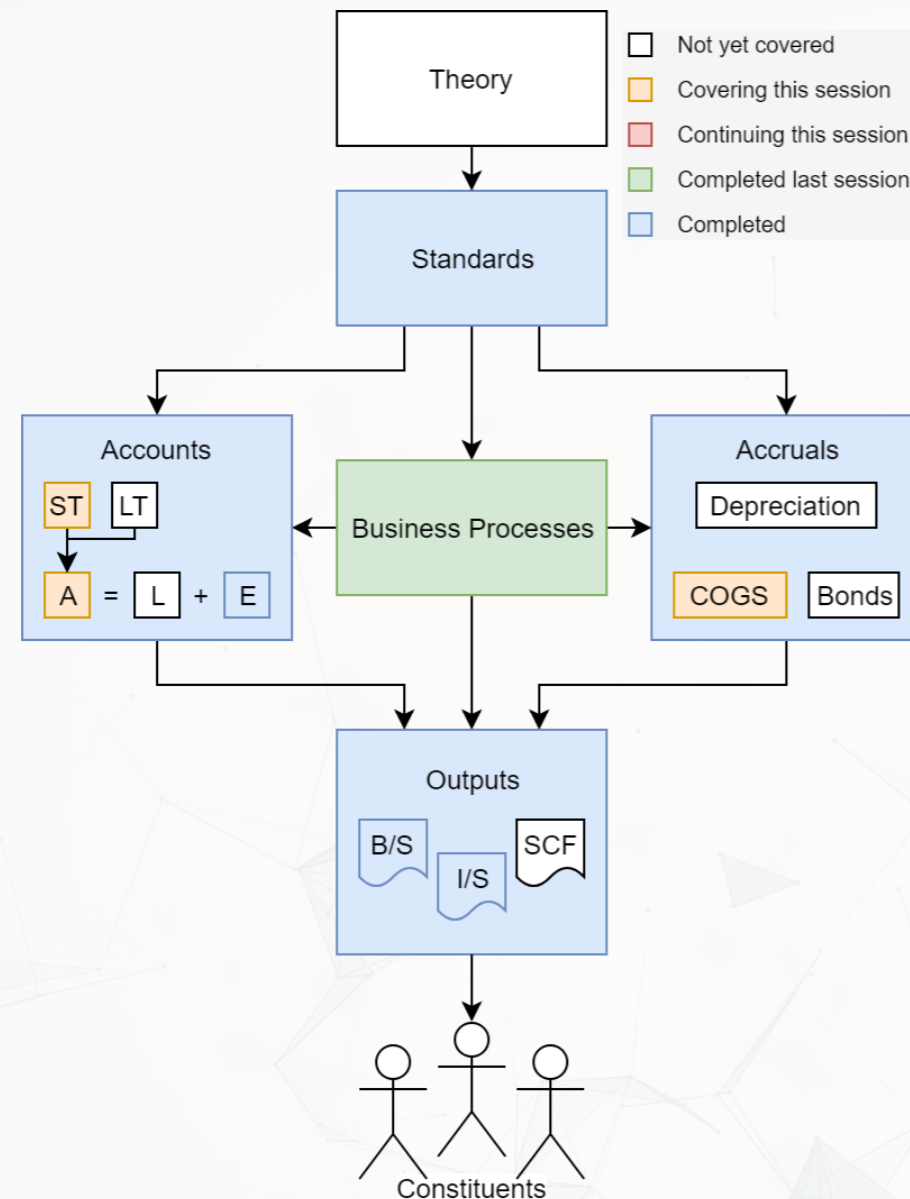
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# Front matter

# Learning objectives



*Starting part 2 of the course*

- Deep dive into transactions

Inventory (Chapter 6)

1. Understand the nature of inventory operations
2. Record inventory transactions
3. Determine inventory and COGS value

# Nature of firms

# What is inventory?

## Definition from FRS2-6

Inventories are assets, held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Unsold inventory is an asset

Sold inventory is converted to COGS (expense)

# Importance of inventory

- Why hold inventory?
  - Supply can be erratic
  - No inventory could mean missed sales
  - Can buy more in low cost periods
    - Low costs from shipping, production, purchasing, etc.
- Drawbacks of inventory
  - Cost of holding
    - Warehousing, electricity, ...
  - Liquidity – Cash tied up as inventory
  - Inventory obsolescence
  - Adverse price changes
    - Buy low, sell lower

# Firm types

- Service firms
  1. Have little to no inventory
- Merchandisers
  1. Get inventory items
  2. Sell them at a higher price
    - Than inventory cost + overhead
- Manufacturers
  1. Get *raw materials*
  2. Transform raw materials into *finished goods*
  3. Sell them at a higher price
    - Than raw materials + transformation + overhead

The logo for KPMG, featuring the letters 'KPMG' in a bold, white, sans-serif font with a blue outline, set against a background of four blue squares arranged in a 2x2 grid.The logo for TANGS, featuring the word 'TANGS' in a bold, orange, sans-serif font.The logo for CREATIVE, featuring the word 'CREATIVE' in a bold, black, sans-serif font with a registered trademark symbol (®) to the right.

# How to account for individual items?

1. Inventories recorded at cost of purchase
  - Will need a price and quantity
2. Add any conversion costs (manufacturing)
3. Add delivery fees to get the item
4. Subtract any discounts received
5. Make sure the above is lower than the intended selling price
  - If it's not, decrease the value to selling price
    - Like with treasury stock and retained earnings, the decrease in value can be reversed later

The above works for individual items, but we'll need a way to track items purchased and used.

# Inventory systems

# Inventory systems

	Perpetual	Periodic
<b>Inventory cost</b>	Any	Low cost only
<b>How?</b>	Maintain a running total of all goods bought, sold, and available	Primarily through counts
<b>Counting frequency</b>	At least once per year	At least once per year, usually more often
<b>Used by</b>	Large businesses	Small businesses
<b>Best for</b>	Keeping an accurate account of inventory and COGS	Keeping tracking costs low

Perpetual is better, but periodic is easier

# Perpetual inventories

- Usually barcode based.
  - Allows efficient tracking



- Record two entries per transaction
  - DR Cash or A/R (↑), CR Revenue (↑)
  - DR COGS (↑), CR Inventory (↓)

## Example: Perpetual inventory

Date	Account	DR	CR
20YY.MM.DD	Cash	100	
	Revenue		100
<i>Made a \$100 sale for cash</i>			
20YY.MM.DD	COGS	50	
	Inventory		50
<i>Used \$50 of inventory to make the sale</i>			

# Periodic inventory

- Relies on counts for data
- Simpler, but less efficient
- One entry to record revenue
  - DR Cash or A/R (↑), CR Revenue (↑)
- Adjusting entry at end of each period
  - DR COGS (↑), CR Inventory (↓)

Not practical for businesses that need close tracking of inventory

# Inventory purchasing

# Simple case

- Buying on cash or A/P
- Paying full amount

## Example: Buying inventory, simple, cash

Date	Account	DR	CR
20YY.MM.DD	Inventory	100	
	Cash		100
<i>Purchased \$100 of inventory on cash</i>			

## Example: Buying inventory, simple, A/P

Date	Account	DR	CR
20YY.MM.D1	Inventory	100	
	A/P		100
<i>Purchased \$100 of inventory on A/P</i>			
20YY.MM.D2	A/P	100	
	Cash		100
<i>Paid A/P for inventory in full</i>			

# Shipping

- If there are shipping costs to *receive* the inventory, we add those to the inventory value itself
  - Debit inventory
  - Credit cash

## Example: Purchased inventory on account, no transportation costs

Date	Account	DR	CR
20YY.MM.01	Inventory	100	
	A/P		100
<i>Purchased \$100 of inventory on A/P</i>			
20YY.MM.15	A/P	100	
	Cash		100
<i>Paid for inventory</i>			

## Example: Inventory on account, \$10 transportation costs in cash

Date	Account	DR	CR
20YY.MM.01	Inventory	110	
	A/P		100
	Cash		10
<i>Purchased \$100 of inventory on A/P; paid \$10 for delivery</i>			
20YY.MM.15	A/P	100	
	Cash		100
<i>Paid for inventory</i>			

# Returns

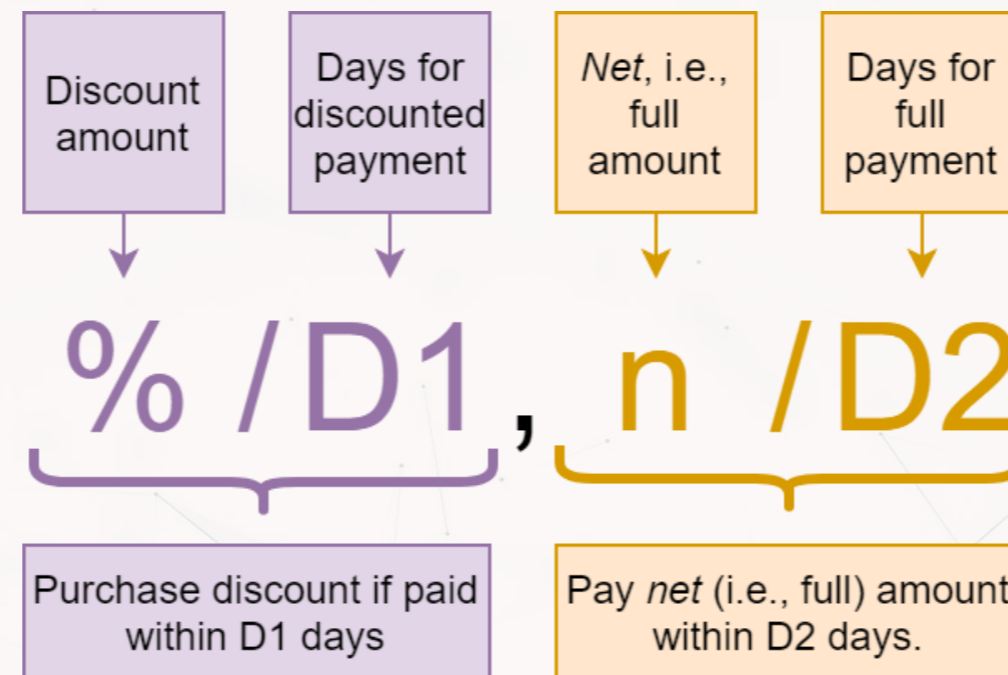
- Sometimes inventory needs to be returned: Wrong or faulty/broken items
- To record:
  - Directly credit the inventory account for the amount returned
    - OR: Credit “Purchase returns,” a contra-asset to inventory
  - Debit...
    - A/P if not yet paid
    - Cash if paid and receiving cash now
    - A/R if paid and receiving credit now or cash later

## Example: Returning inventory

Date	Account	DR	CR
20YY.MM.D1	Inventory	100	
	A/P		100
<i>Purchased \$100 of inventory on A/P</i>			
20YY.MM.D2	A/P	50	
	Inventory		50
<i>Returned \$50 of inventory, as it was broken upon receipt of the inventory</i>			

# Payment and discounts

- Sometimes companies offer discounts for paying early
- There is a standard format for B2B discounts:



- Ex.: 2/10, n/30 =
  - Get a 2% discount if paid in 10 days
  - Pay the full amount by 30 days.

# Discounts in journal entries

- Record discount as a decrease in inventory
  - Remember: we record assets at cost paid for them
  - Can also record to a “purchase discounts” contra-asset

Situation: Purchase inventory on account for \$100 with 2/10 n/30 terms

## Example: Purchase discounts, paying in discount period

Date	Account	DR	CR
20YY.MM.01	Inventory	100	
	A/P		100
<i>Purchased \$100 of inventory on A/P with 2/10, n/30 terms</i>			
20YY.MM.05	A/P	100	
	Cash		98
	Inventory		2
<i>Paid for inventory within 2/10 discount period (got 2% discount)</i>			

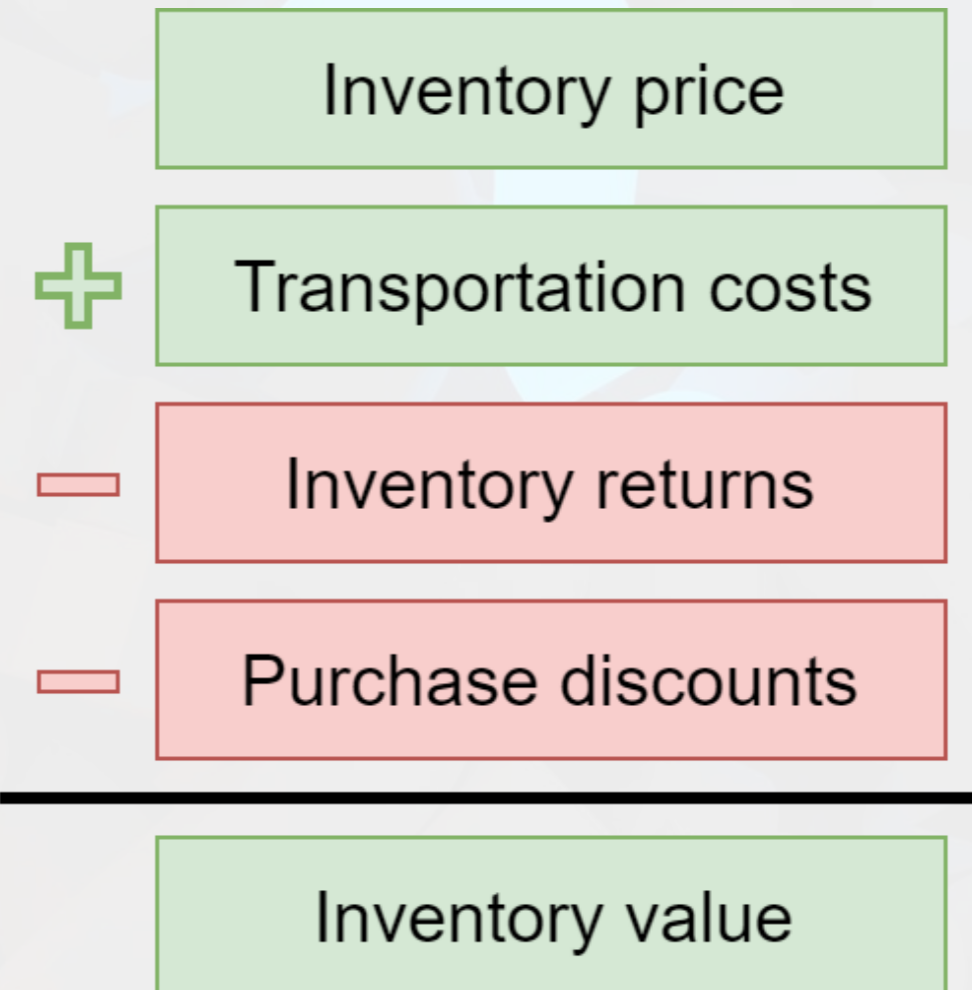
## Example: Purchase discounts, paying outside discount period

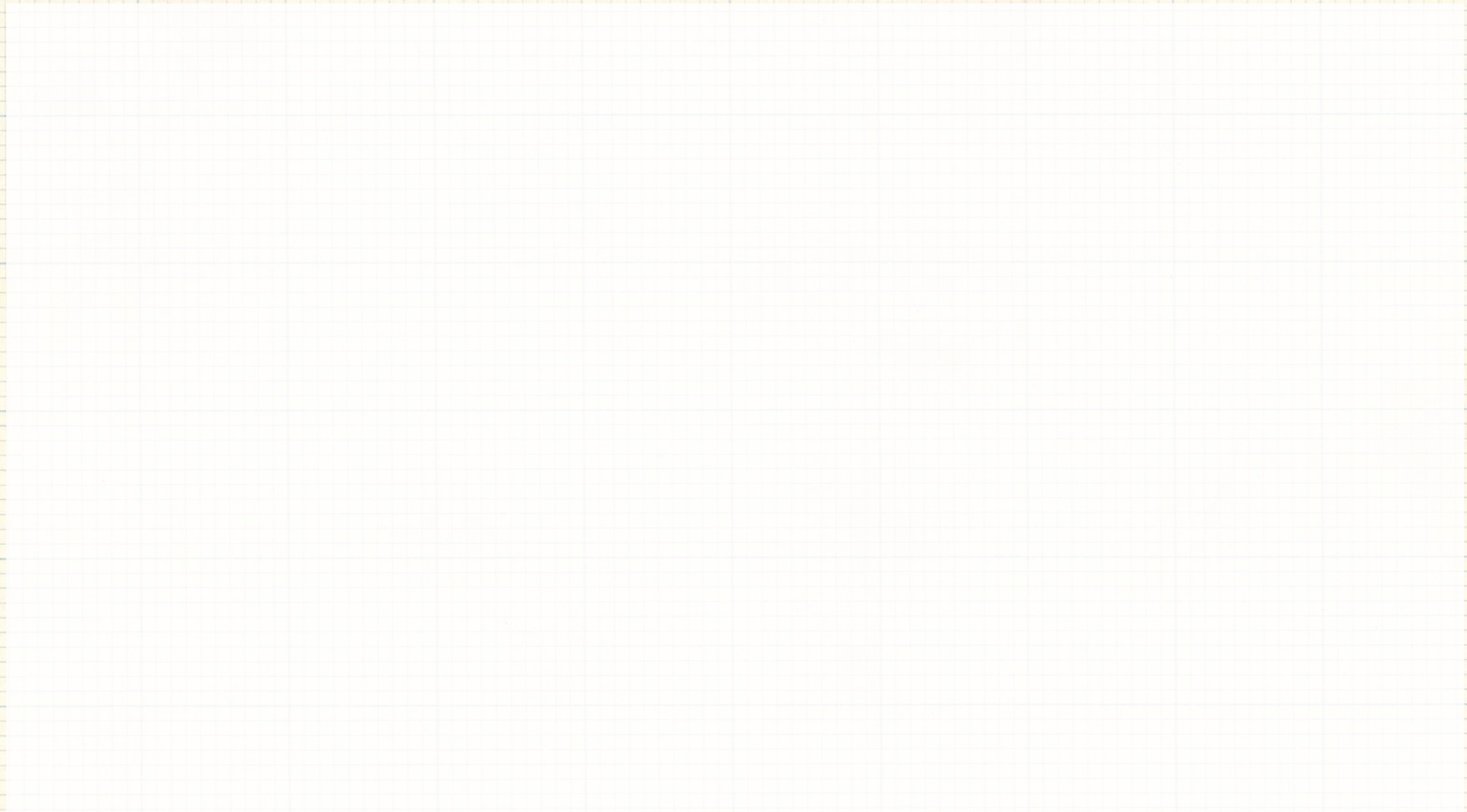
Date	Account	DR	CR
20YY.MM.01	Inventory	100	
	A/P		100
<i>Purchased \$100 of inventory on A/P with 2/10, n/30 terms</i>			
20YY.MM.15	A/P	100	
	Cash		100
<i>Paid for inventory within n/30 discount period (paid full amount)</i>			

# Bringing it all together

Practice question (3 entries):

1. Purchased \$200 of inventory on account with 10/5, n/45 terms
  - Also paid \$20 in shipping to DHL on delivery
2. \$50 of inventory was damaged, which we returned
3. Paid payable 3 days after receiving inventory





# Practice solution

## Full inventory purchasing example

Date	Account	DR	CR
20YY.MM.01	Inventory	220	
	Cash		20
	A/P		200
<i>Purchased \$200 of inventory on A/P with 10/5, n/45 terms. Paid \$20 for delivery.</i>			
20YY.MM.02	A/P	50	
	Inventory		50
<i>Returned \$50 of inventory</i>			
20YY.MM.04	A/P	150	
	Cash		135
	Inventory		15
<i>Paid payable in during discount period (10% discount)</i>			

Cash	Inventory	A/P
20	220	200
135	50	50
155	15	150
155	155	--

Inventory = Cash paid

# Inventory sales

# General case

- Selling for cash or A/R
- Receiving full amount

## Example: Selling inventory, simple, A/R

Date	Account	DR	CR
20YY.MM.D1	A/R	100	
	Revenue		100
<i>Made \$100 sale using \$50 of inventory</i>			
20YY.MM.D1	COGS	50	
	Inventory		50
<i>Recorded usage of \$50 of inventory</i>			
20YY.MM.D2	Cash	100	
	A/R		100
<i>Received A/R payment in full</i>			

# Revenue for goods

- Recognize revenue when earned
  - Recall from lesson 2: Revenue recognition principle
- FOB shipping point: Record when given to shipping company
- FOB destination: Record when customer receives goods
  - Since we will need to pay shipping, we will have a *Delivery expense* account, an operating expense

## Example: Selling inventory, simple, A/R

Date	Account	DR	CR
20YY.MM.D1	A/R	100	
	Revenue		100
<i>Made \$100 sale using \$50 of inventory</i>			
20YY.MM.D1	COGS	50	
	Inventory		50
<i>Recorded usage of \$50 of inventory</i>			
20YY.MM.D1	Delivery expense	10	
	Cash		10
<i>Paid for shipping for sale</i>			

# Returns, revisited

- Sometimes our sales are returned: Wrong or faulty/broken items
- To record, debit...
  - If faulty: *sales returns and allowances*
    - Contra-equity to revenue
- And credit...
  - A/R if not yet paid
  - Cash if paid and returning cash now
  - A/P if paid and giving credit now or returning cash later
- If reusable: also DR inventory and CR COGS

## Example: Returned sales

Date	Account	DR	CR
20YY.MM.D1	A/R	100	
	Revenue		100
20YY.MM.D1	COGS	50	
	Inventory		50
<i>Made a \$100 sale, recorded \$50 inventory usage</i>			
20YY.MM.D2	Sales returns and allowances	40	
	A/R		40
<i>Customer returned 40% of sale due to faulty items before paying</i>			

Note: we only reverse the COGS part of the first entry if the goods are still usable.

Faulty = not usable  
Wrong item = usable

# Discounts, revisited

- We use the same discount terminology here
- Record any discount as a debit to *Sales discount*
  - Another contra-equity to revenue

Situation: Sold inventory of \$50 for \$100 on account with 2/10 n/30 terms

## Example: Discounts on sales

Date	Account	DR	CR
20YY.MM.01	A/R	100	
	Revenue		100
20YY.MM.01	COGS	50	
	Inventory		50
<i>Made a \$100 sale, recorded \$50 inventory usage, terms are 2/10, n/30</i>			
20YY.MM.05	Cash	98	
	Sales discount	2	
	A/R		100
<i>Customer paid within discount period</i>			

## Example: No discount on sales

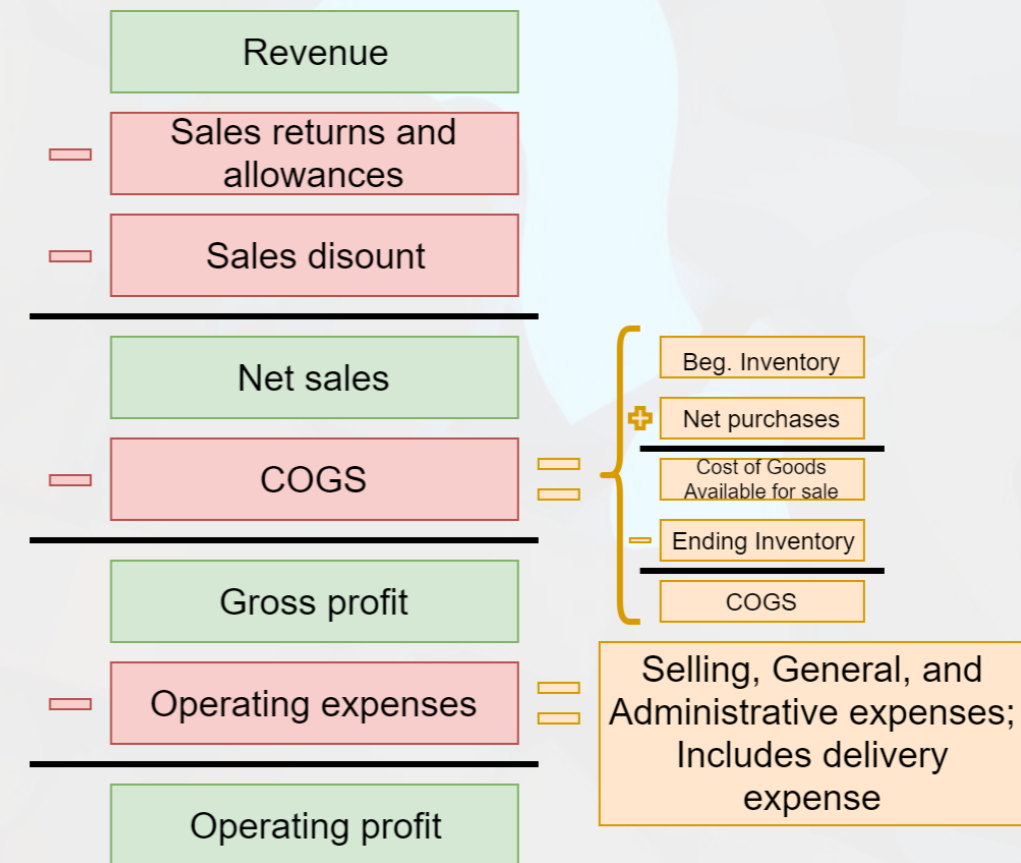
Date	Account	DR	CR
20YY.MM.01	A/R	100	
	Revenue		100
20YY.MM.01	COGS	50	
	Inventory		50
<i>Made a \$100 sale, recorded \$50 inventory usage, terms are 2/10, n/30</i>			
20YY.MM.05	Cash	100	
	A/R		100
<i>Customer paid after discount period ended</i>			

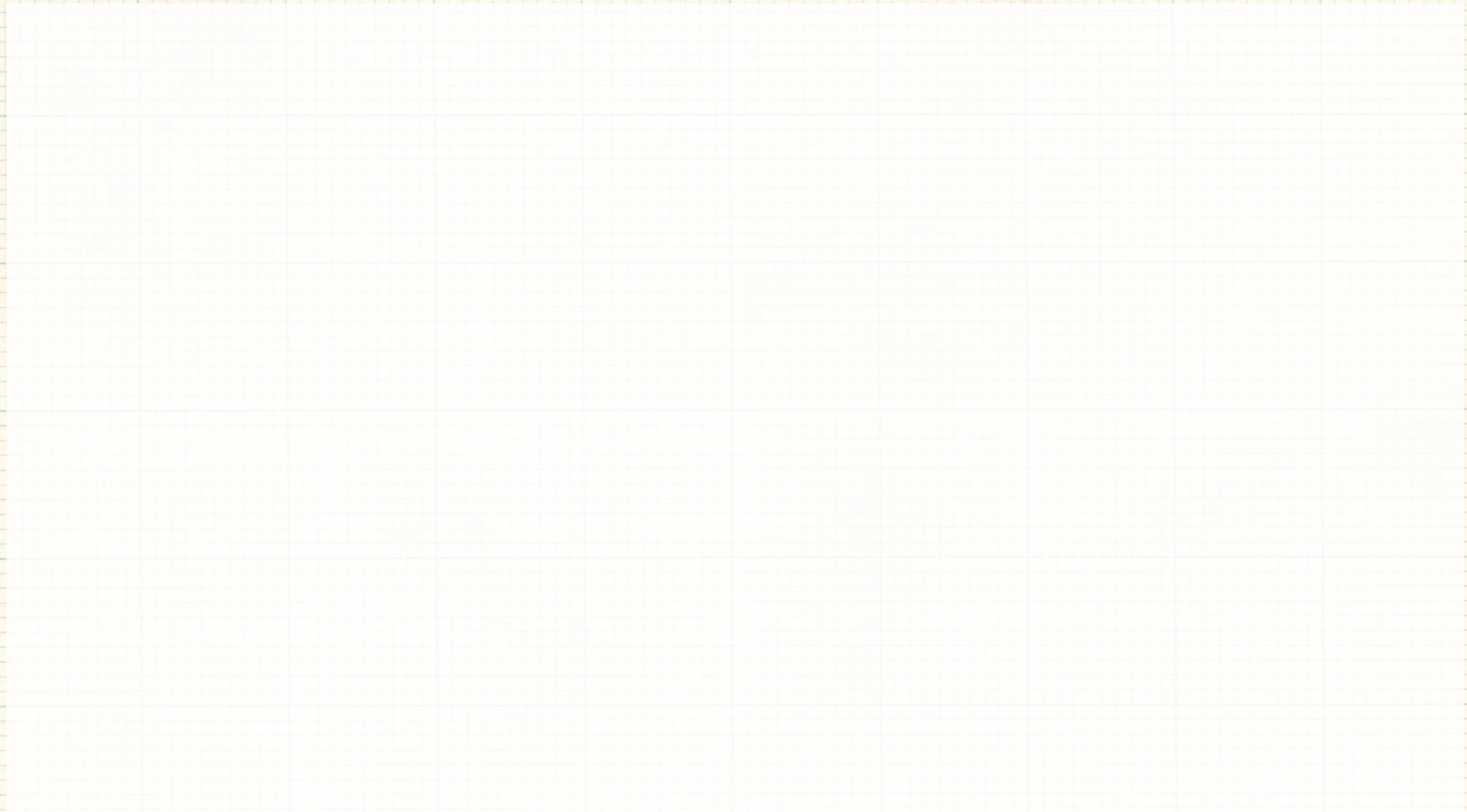
# Bringing it all together

Practice question:

Determine the journal entries, and then calculate Net sales, Gross profit, and operating profit

1. Sold \$155 of inventory for \$300 on account with 10/5, n/45 terms
  - Also paid \$20 in shipping to DHL for delivery
2. \$50 of goods were damaged, which were returned to us
3. Customer Paid receivable 3 days after receiving goods





# Practice solution

## Full sales example

Date	Account	DR	CR
20YY.MM.01	A/R	300	
	Revenue		300
	COGS	155	
	Inventory		155
	Delivery expense	20	
	Cash		20
<i>Sold \$155 of inventory for \$300 on 10/5, n/45 terms; paid \$20 for shipping</i>			
20YY.MM.02	Sales returns and allowances	50	
	A/R		50
<i>Customer returned \$50 of inventory due to damaged goods</i>			
20YY.MM.04	Cash	225	
	Sales discounts	25	
	A/R		250
<i>Received payment on A/R within the discount window (10% discount given)</i>			

	\$300 Revenue
=	\$50 Sales returns and allowances
=	\$25 Sales discounts
<hr/>	
	\$225 Net sales
=	\$155 COGS
<hr/>	
	\$70 Gross profit
=	\$20 Delivery expense
<hr/>	
	\$50 Operating profit

# Inventory valuation

# Net realizable value

- At the end of the day, we need inventory to be priced below *what we can earn from it*
  - We call this “what we can make from it” *net realizable value* (NRV)

NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. [IAS 2.6]

- If Inventory < NRV
  - Do nothing, unless we previously wrote it down
- If Inventory > NRV
  - Need to *write down* to NRV

# Buy low, selling lower...

- Need to write down your inventory value
  - If book value of inventory > *lower of cost or NRV*

Situation: Inventory is valued at \$1,500, but NRV is \$1,000

## Example: Inventory write-down

Date	Account	DR	CR
20YY.MM.DD	Inventory write-down	500	
	Inventory		500
<i>Wrote down inventory to NRV</i>			

- Can be reversed if the value goes back up
  - Only up to the amount originally written down
  - Credit *gain* when reversing

# Note on conventions

- Using *Inventory writedown* is **always** correct
- Using *COGS* for inventory writedowns is fine for small adjustments
  - Usually when writing down by  $< 5\%$  of inventory
  - Can use COGS for small theft
  - Do not use COGS for major price drops

Wrong in some parts of the book. Use the slides here!

When in doubt, use *Inventory writedown*. This is always a correct answer.

# Inventory errors

Problem, Year 1	Effect, Year 1	Effect, Year 2	Effect, Year 3
<b>Overstated inventory (understated COGS)</b>	I/S: Gross profit and net income overstated. B/S: Assets and equity overstated.	I/S: Gross profit and net income understated. B/S: Assets and equity back to normal.	I/S: Back to normal. B/S: No change.
<b>Understated inventory (overstated COGS)</b>	I/S: Gross profit and net income understated. B/S: Assets and equity understated.	I/S: Gross profit and net income overstated. B/S: Assets and equity back to normal.	I/S: Back to normal. B/S: No change.

An error in 1 year leads to an error in the following year in the opposite direction

# Gross profit method

- When you have a fixed margin, you can use this to determine COGS
  - Fixed margin means that COGS = constant % of sales
- Allows you to avoid counting inventory
- Example:
  - Coffee corp always sells bags of beans at a 25% markup. Revenue from selling bags of beans for the year was \$10,000. What was the COGS for selling bags of beans?
  - $Gross\ Margin = 1 - \frac{1}{1+Markup\ \%} = 1 - \frac{1}{1+25\%} = 20\%$
  - $COGS = Sales \times (1 - Gross\ Margin) = \$10,000 \times (1 - 20\%) = \$8,000$

# Practice: Gross profit method

Situation: Coffee Corp sells all of their products using fixed margins.  
Determine the COGS for each product below, using the given revenues.

1. \$50,000 worth of lattes were sold with a fixed gross margin of 70%
2. \$9,000 worth of travel mugs were sold at a 50% mark-up
3. \$1,000 worth of espresso cups were sold, comprising 50 cups each sold with \$8 profit (all cups cost the same)



# Solution: Gross profit method

Situation: Coffee Corp sells all of their products using fixed margins.  
Determine the COGS for each product below, using the given revenues.

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3. \$1,000 worth of espresso cups were sold, comprising 50 cups each sold with \$8 profit (all cups cost the same)

## Solution

$$1. \text{COGS} = \$50,000 \times (1 - 70\%) = \$15,000$$

$$2. \text{COGS} = \$9,000 \times \frac{1}{1+50\%} = \$6,000$$

$$3. \text{COGS} = \$1,000 - 50 \times \$8 = \$600$$

# Inventory costing

# Inventory tracking methods

## 1. FIFO

- **F**irst **I**n, **F**irst **O**ut

## 2. LIFO

- **L**ast **I**n, **F**irst **O**ut

## 3. Average cost

- Value / number of items

## 4. Specific identification

- One-to-one tracking

LIFO *is not allowed under IFRS* – but you need to know it

First three only require minimal tracking, and are used when you have multiple orders of the same thing at different prices

# Specific identification

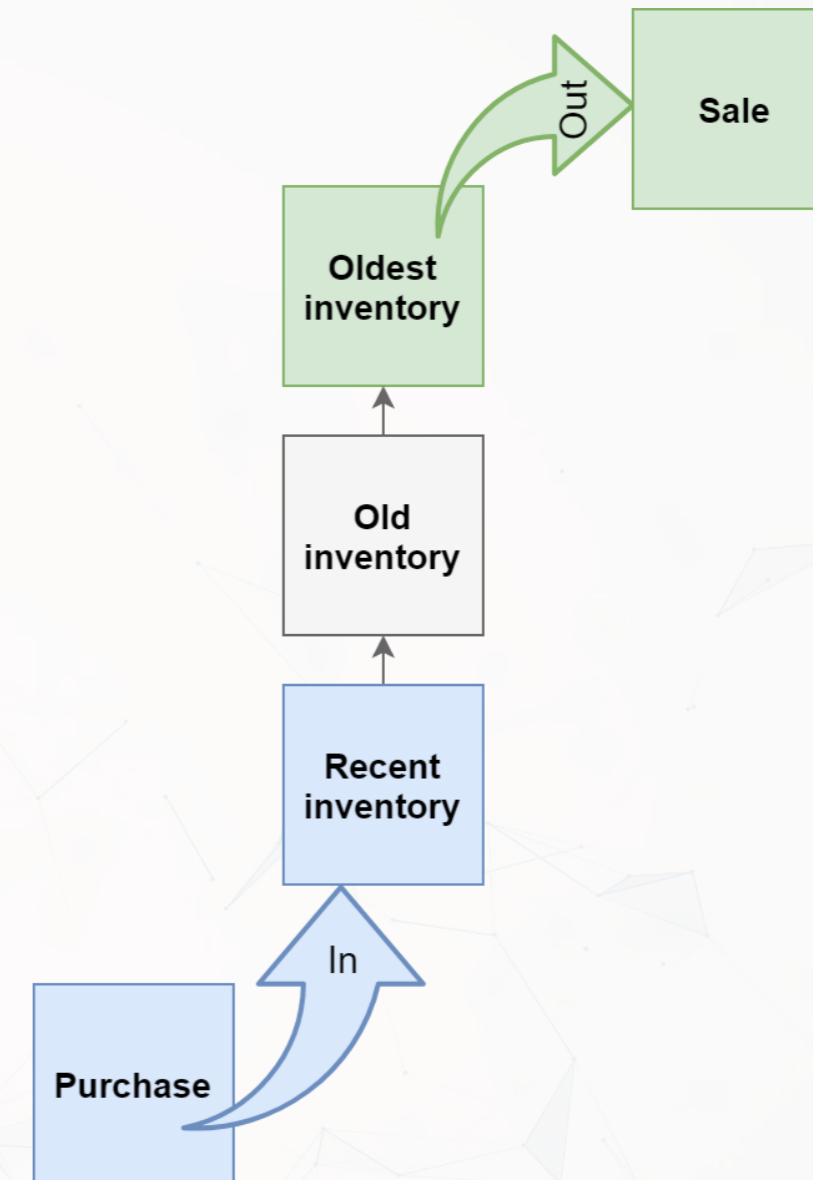
- Only used with expensive items
  - Too costly to track individual items otherwise
- Examples
  - Cars
  - Luxury goods
  - Real estate



Record COGS with revenue

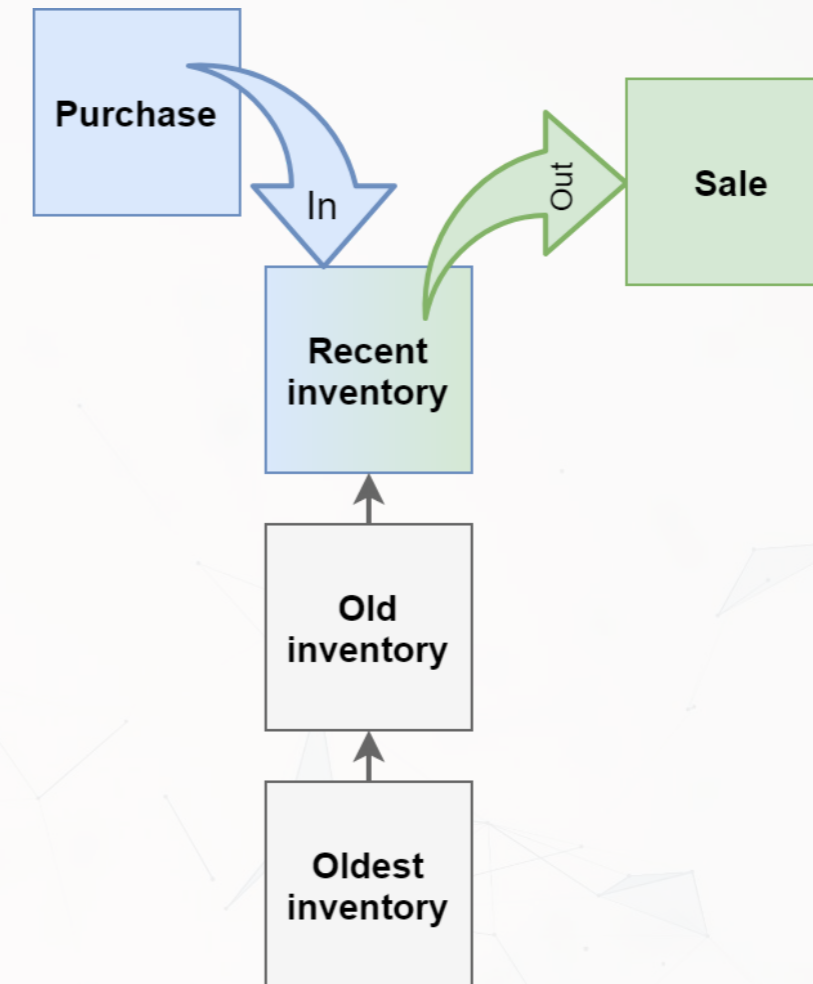
# FIFO

- **F**irst **I**n, **F**irst **O**ut
- Assumes you sell items in the order you received them
- Ex.: You buy 5 bags of coffee beans for \$10 each, and then another 5 at \$12 each. You sell 3 bags and then 4 bags.
  - The first 3:
    - $3 \times 10 = \$30$
  - The next 4:
    - $2 \times 10 + 2 \times 12 = \$44$
  - COGS: \$74 for 7 bags



# LIFO

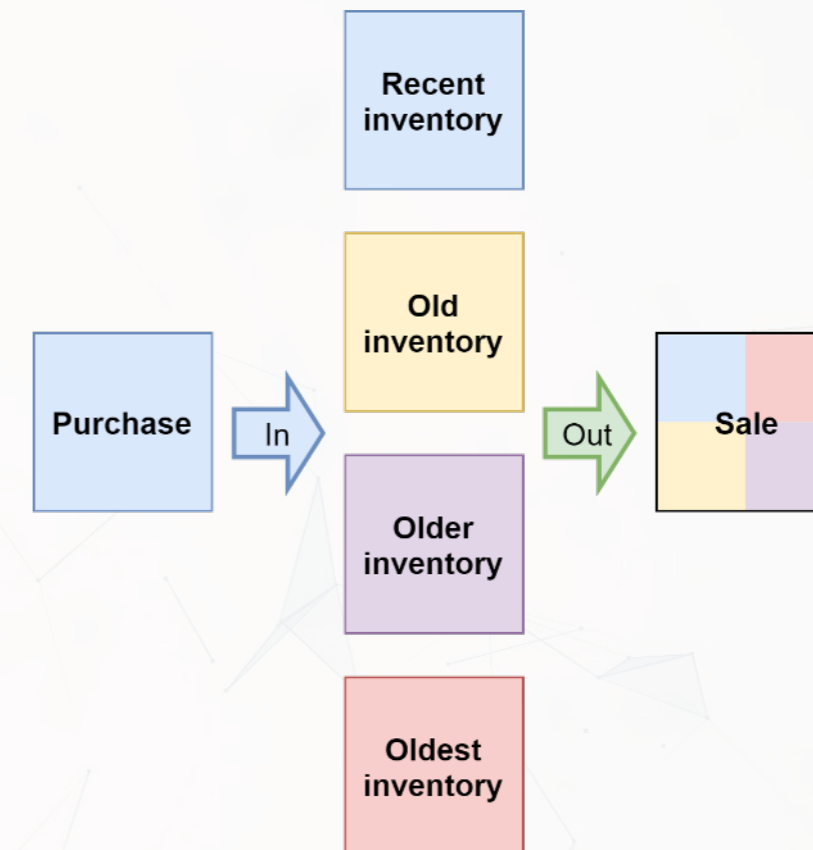
- **L**ast **I**n, **F**irst **O**ut
- Assumes you sell the most recent items first
- Ex.: You buy 5 bags of coffee beans for \$10 each, and then another 5 at \$12 each. You sell 3 bags and then 4 bags.
  - The first 3:
    - $3 \times 12 = \$36$
  - The next 4:
    - $2 \times 12 + 2 \times 10 = \$44$
  - COGS: \$80 for 7 bags



# Average cost

$$Price = \frac{P_1 \times N_1 + P_2 \times N_2 + \dots}{N_1 + N_2 + \dots}$$

- Assumes you sell a mix
  - Weighted average
- $P_i$ : price per item for order  $i$
- $N_i$ : number of items in order  $i$
- Ex.: You buy 5 bags of coffee beans for \$10 each, and then another 5 at \$12 each. You sell 3 bags and then 4 bags.
  - Avg cost:  $\frac{5 \times 10 + 5 \times 12}{5 + 5} = \$11$
  - COGS:  $7 \times \$11 = \$77$



# Mixing in perpetual/periodic

## Perpetual

1. Calculate COGS for sales up to first purchase
2. Add in first purchase
3. Calculate COGS for sales up to next purchase
4. Add in next purchase
5. Repeat 3 and 4 until done

## Periodic

1. Write out all your inventory for the period
2. Determine what was sold

Equivalent to assuming we bought all inventory before making any sales.

Note: Perpetual and Periodic give the same answer under FIFO!

# Comparison

- Profit depends on method choice!
  - FIFO typically leads to higher net income
  - Real effect: taxes depend on net income!
    - Use LIFO to minimize taxes?
- Choice can affect important ratios used in debt contracting
- Changing methods is allowed, but you need to report using **both** then
  - From our enhancing characteristic of *comparability*
- Reliability
  - FIFO leaves the most recent purchases in inventory, so the balance sheet numbers are more reliable
  - LIFO puts the most recent purchases in COGS, so the income statement numbers are more reliable
  - Average cost is between the two

# Example: FIFO, perpetual

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.

Start 10 @ \$10 each	1) Purchased 5 @ \$12 each	2) Sold 7 bags	3) Purchased 10 @ \$8 each	4) Sold 4 bags	5) Sold 4 bags
10 @ \$10	10 @ \$10 5 @ \$12	3 @ \$10 5 @ \$12	3 @ \$10 5 @ \$12 10 @ \$8	4 @ \$12 10 @ \$8	10 @ \$8
Inv: \$100	Inv: \$160 Bought: \$60	Inv: \$90	Inv: \$170 Bought: \$80	Inv: \$128	Inv: \$80
		COGS: \$70		COGS: \$42	COGS: \$48
COGS = Starting Inv + Purchased - Ending Inv			COGS = Sum of COGS per sale		
COGS = \$100 + \$60 + \$80 - \$80 = \$160			COGS = \$70 + \$42 + \$48 = \$160		

# Example: LIFO, perpetual

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.

Start 10 @ \$10 each	1) Purchased 5 @ \$12 each	2) Sold 7 bags	3) Purchased 10 @ \$8 each	4) Sold 4 bags	5) Sold 4 bags
10 @ \$10	5 @ \$12 10 @ \$10	8 @ \$10	10 @ \$8 8 @ \$10	6 @ \$8 8 @ \$10	2 @ \$8 8 @ \$10
Inv: \$100	Inv: \$160 Bought: \$60	Inv: \$80	Inv: \$160 Bought: \$80	Inv: \$128	Inv: \$96
		COGS: \$80		COGS: \$32	COGS: \$32
COGS = Starting Inv + Purchased - Ending Inv			COGS = Sum of COGS per sale		
COGS = \$100 + \$60 + \$80 - \$96 = \$144			COGS = \$80 + \$32 + \$32 = \$144		

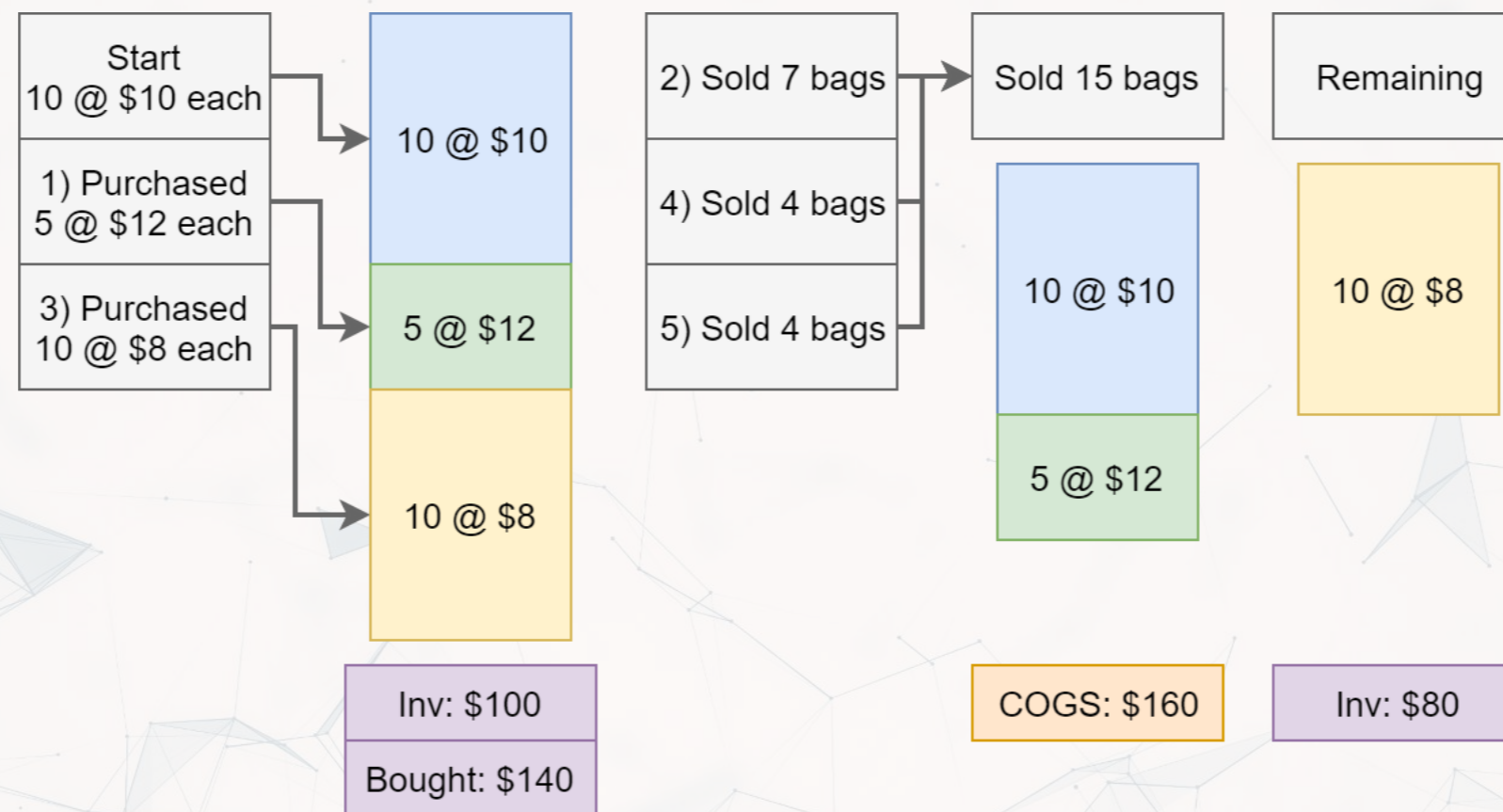
# Example: Average cost, perpetual

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.

Start 10 @ \$10 each	1) Purchased 5 @ \$12 each	2) Sold 7 bags	3) Purchased 10 @ \$8 each	4) Sold 4 bags	5) Sold 4 bags
10 @ \$10	15 @ \$10.67	8 @ \$10.67	18 @ 9.19	14 @ \$9.19	10 @ \$9.19
	$[10 \cdot 10 + 5 \cdot 12] / [10 + 5]$		$[8 \cdot 10.67 + 10 \cdot 8] / [8 + 10]$		
Inv: \$100	Inv: \$160	Inv: \$85.33	Inv: \$165.33	Inv: \$128.59	Inv: \$91.85
	Bought: \$60		Bought: \$80		
		COGS: \$74.67		COGS: \$36.74	COGS: \$36.74
COGS = Starting Inv + Purchased - Ending Inv			COGS = Sum of COGS per sale		
COGS = \$100 + \$60 + \$80 - \$91.85 = \$148.15			COGS = \$74.67 + \$36.74 + \$36.74 = \$148.15		

# Example: FIFO, periodic

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.



COGS = Starting Inv + Purchased - Ending Inv

$$\text{COGS} = \$100 + \$140 - \$80 = \$160$$

COGS = Sum of COGS per sale

$$\text{COGS} = \$160$$

# Example: LIFO, periodic

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.



COGS = Starting Inv + Purchased - Ending Inv

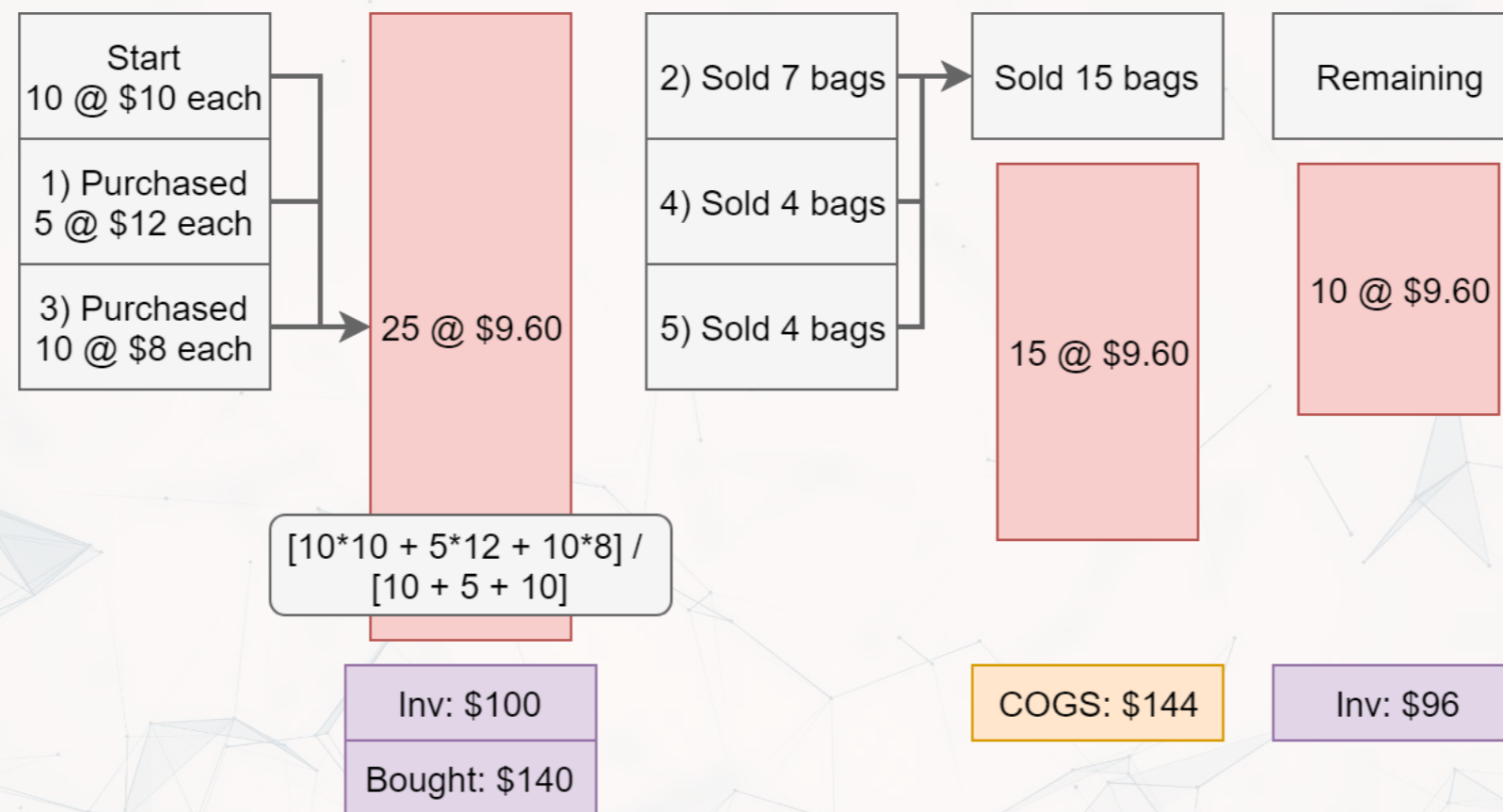
$$\text{COGS} = \$100 + \$140 - \$100 = \$140$$

COGS = Sum of COGS per sale

$$\text{COGS} = \$140$$

# Example: Average cost, periodic

Started with 10 bags of coffee beans at \$10 each. Then: 1) purchased 5 bags at \$12 each; 2) Sold 7 bags; 3) Bought 10 bags at \$8 each; 4) Sold 4 bags; 5) Sold 4 bags. Determine COGS.



COGS = Starting Inv + Purchased - Ending Inv

$$\text{COGS} = \$100 + \$140 - \$96 = \$144$$

COGS = Sum of COGS per sale

$$\text{COGS} = \$144$$

# Inventory: Effects on Financial statements

- Inventory goes to the balance sheet
  - Almost always a current asset
    - Slow moving inventories can be non-current assets
- Purchase discounts decrease inventory
- COGS is an expense  $\Rightarrow$  goes to income statement
- Sales returns and allowance, sales discount affect income statement
  - Decrease net revenue
- Inventory write-downs decrease net income
  - Reversals are gains  $\Rightarrow$  increase OCI

# Practice

Situation: Coffee Corp started the year with 100 coffee cups for sale, each originally purchased at \$8. Determine the cost of goods sold under each inventory system given the transactions on the right.

- FIFO, Perpetual
- LIFO, Perpetual
- Average cost, Perpetual
- FIFO, Periodic
- LIFO, Periodic
- Average cost, Periodic

1. Sold 40 cups
2. Purchased 60 cups, \$10 each
3. Sold 90 cups
4. Purchased 90 cups, \$12 each
5. Sold 80 cups

An Excel template for this is on eLearn

# Solutions

1. FIFO, Perpetual: \$2,000
  - Remaining: 40 @ \$12
2. LIFO, Perpetual: \$2,120
  - Remaining: 10 @ \$12, 30 @ \$8
3. Average cost, Perpetual: \$2,030
  - Remaining: 40 @ \$11.25
4. FIFO, Periodic: \$2,000
  - Remaining: 40 @ \$12
5. LIFO, Periodic: \$2,160
  - Remaining: 40 @ \$8
6. Average cost, Periodic: \$2,083.20
  - Remaining: 40 @ \$9.92

# Solution: FIFO, perpetual

Start 100 @ \$8 each	1) Sold 40 cups	2) Bought 60 cups @ \$10 each	3) Sold 90 cups	4) Bought 90 cups @ \$12 each	5) Sold 80 cups
-------------------------	--------------------	-------------------------------------	--------------------	-------------------------------------	--------------------

100 @ \$8

60 @ \$8

60 @ \$8  
60 @ \$10

30 @ \$10

30 @ \$10  
90 @ \$12

40 @ \$12

Inv: \$800	Inv: \$480	Inv: \$1,080	Inv: \$300	Inv: \$1,380	Inv: \$480
------------	------------	--------------	------------	--------------	------------

Bought: \$600

Bought: \$1,080

COGS: \$320

COGS: \$780

COGS: \$900

COGS = Starting Inv + Purchased - Ending Inv

COGS = Sum of COGS per sale

COGS = \$800 + \$600 + \$1,080 - \$480 = \$2,000

COGS = \$320 + \$780 + \$900 = \$2,000

# Solution: LIFO, perpetual

Start 100 @ \$8 each	1) Sold 40 cups	2) Bought 60 cups @ \$10 each	3) Sold 90 cups	4) Bought 90 cups @ \$12 each	5) Sold 80 cups
-------------------------	--------------------	-------------------------------------	--------------------	-------------------------------------	--------------------

100 @ \$8

60 @ \$8

60 @ \$10  
60 @ \$8

30 @ \$8

90 @ \$12  
30 @ \$8

10 @ \$12  
30 @ \$8

Inv: \$800	Inv: \$480	Inv: \$1,080	Inv: \$240	Inv: \$1,320	Inv: \$360
------------	------------	--------------	------------	--------------	------------

Bought: \$600      Bought: \$1,080

COGS: \$320      COGS: \$840      COGS: \$960

COGS = Starting Inv + Purchased - Ending Inv      COGS = Sum of COGS per sale

COGS = \$800 + \$600 + \$1,080 - \$360 = \$2,120      COGS = \$320 + \$840 + \$960 = \$2,120

# Solution: Average cost, perpetual

Start 100 @ \$8 each	1) Sold 40 cups	2) Bought 60 cups @ \$10 each	3) Sold 90 cups	4) Bought 90 cups @ \$12 each	5) Sold 80 cups
-------------------------	--------------------	-------------------------------------	--------------------	-------------------------------------	--------------------

100 @ \$8

60 @ \$8

120 @ \$9

30 @ \$9

120 @ \$11.25

40 @ \$11.25

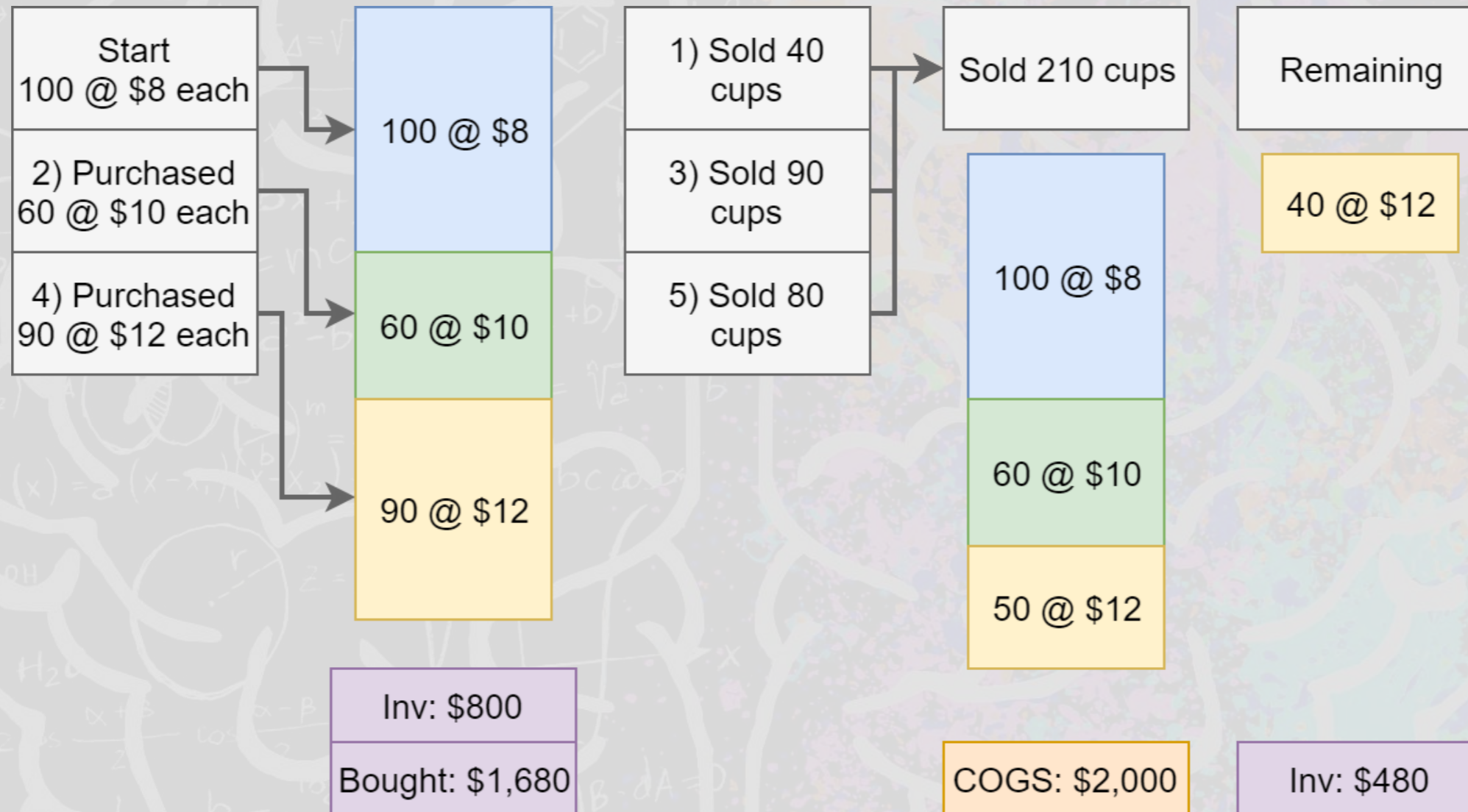
$$[60 \cdot 8 + 60 \cdot 10] / [60 + 60]$$

$$[30 \cdot 9 + 90 \cdot 12] / [30 + 90]$$

Inv: \$800	Inv: \$480	Inv: \$1,080	Inv: \$270	Inv: \$1,350	Inv: \$450
		Bought: \$600		Bought: \$1,080	
	COGS: \$320		COGS: \$810		COGS: \$900

COGS = Starting Inv + Purchased - Ending Inv	COGS = Sum of COGS per sale
COGS = \$800 + \$600 + \$1,080 - \$450 = \$2,030	COGS = \$320 + \$810 + \$900 = \$2,030

# Solution: FIFO, periodic



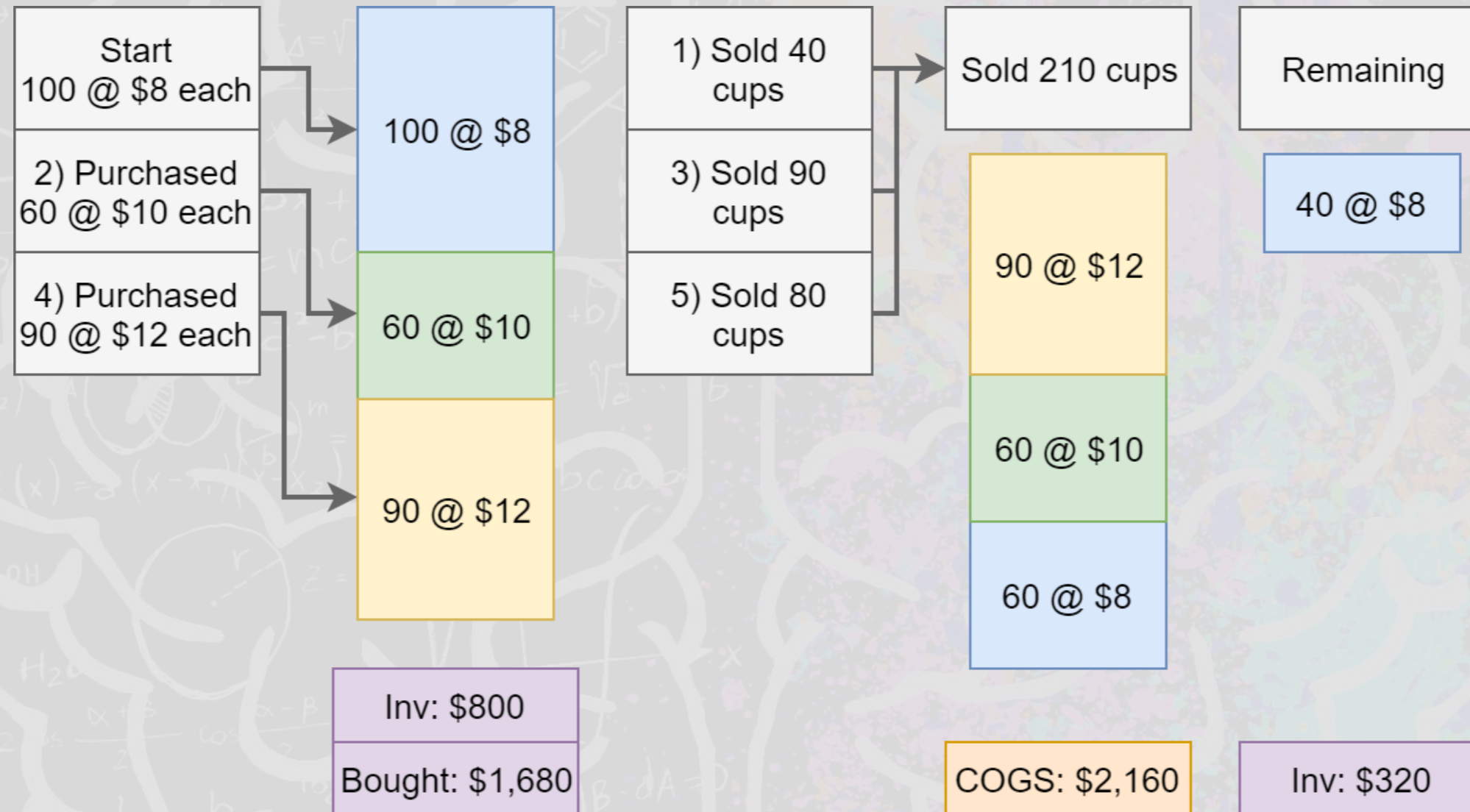
COGS = Starting Inv + Purchased - Ending Inv

$$\text{COGS} = \$800 + \$1,680 - \$480 = \$2,000$$

COGS = Sum of COGS per sale

$$\text{COGS} = \$2,000$$

# Solution: LIFO, periodic



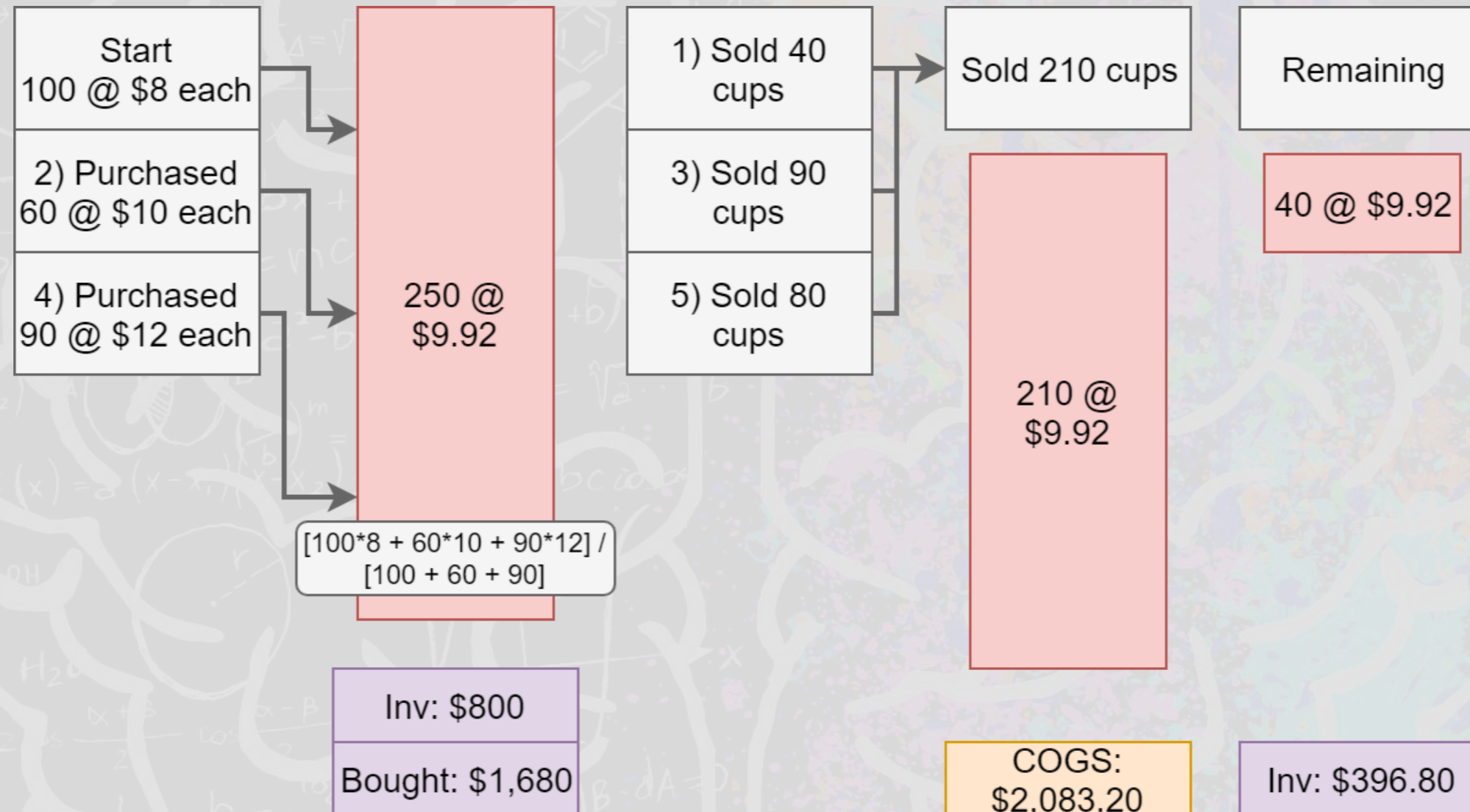
COGS = Starting Inv + Purchased - Ending Inv

COGS = \$800 + \$1,680 - \$320 = \$2,160

COGS = Sum of COGS per sale

COGS = \$2,160

# Solution: Average cost, periodic



COGS = Starting Inv + Purchased - Ending Inv

COGS = \$800 + \$1,680 - \$396.80 = \$2,083.20

COGS = Sum of COGS per sale

COGS = \$2,083.20

**End matter**

# Wrap up

- For next week
  1. Recap the reading for this week
  2. Read the pages for next week
    - PP&E, Intangibles (Chapter 7)
  3. No homework
  4. Practice on eLearn
    - Practice on Inventory
    - Automatic feedback provided
- Survey on the class session at [rmc.link/101survey5](https://rmc.link/101survey5)



# Packages used for these slides

- kableExtra

- knitr

- revealjs

