Accounting I

6TH CLASS

OPERATING ACTIVITIES

INVENTORIES

Concept

For sale as the normal activity of the firm — Goods/stocks

In the production process for sale — Finished Goods

In the form of consumable materials to be used in the production process or to be used when services are provided — Raw materials

It also contains the biologic assets (animals and plants) that will be consumed in the normal activity of the firm.

Measuring Inventories

1st recognition

Acquired Inventories

- Acquisition Cost
- Acquisition price + all the expenses directly or indirectly related to make the good arrive to the warehouse

Produced Inventories

- Production Cost
- Raw materials + other materials consumed as wages, industrial costs (fixed and variables) and the ones related to make the product available in the warehouse.

Measuring Inventories – after initial recognition

The lowest of	
Cost (acquisition/ production	Net sales value (sales value – costs of finishing the good/costs of sale)

Estimated selling price- Estimated cost to finish production - Cost to sale products.

INVENTORIES

Inventory Valuation Methods

The acquisition price of inventories is not always the same;

It varies with time (prices are not stable and are depending on the law of demand and supply)

When there is inflation the prices rise.

Because of these reasons, there is the need to adopt some **criteria** to value the stocks in the firm that are sold and the ones that are on the warehouse at the end of the year.

Inventories

Specific Identification	• Inventories measured by its real price or effective price
FIFO	• Inventories measured by the oldest prices. In the warehouse the inventories that remain are valued by the most recent prices
Weigthed avergare	• Inventories measured at a unit cost that result from the weighted average price of all the inventories in the warehouse

Specific Identification

- The **specific identification method** concentrates on physically linking the particular items sold with the cost of goods sold that is reported
- This method is relatively easy to use for expensive low-volume merchandise
- The use of bar codes and scanning equipment makes specific identification economically feasible for many companies

FIFO

- **FIFO** assigns the cost of the **earliest** acquired units to cost of goods sold
- The costs of the newer units is assigned to the units in ending inventory
- FIFO provides inventory valuations that closely approximate the actual market value of the inventory at the balance sheet date
- In periods of rising prices, FIFO leads to higher net income

Weighted Average

- The **weighted-average method** computes a unit cost by dividing the total acquisition cost of all items available for sale by the number of units available for sale
- The weighted-average method produces gross profit somewhere between that obtained under FIFO and LIFO

Key formulas

Net acquisition = Gross acquisition - Returns to suppliers - Obtained (commercial) discounts

Key formulas

Net Sales = Gross Sales - Returns from clients - (commercial) discounts offered

Key formulas

Cost of Sales = Initial Inventory + Net Acquisitions - Final Inventories - Inventories regularizations

Key formulas

Gross Result from sales = Net Sales - Cost of sales

Key formulas

Sales Price = Aquisition cost + Margin

% On top of sales price
or
% on top pf acquisiton price