


## Accounting II - Simplified for You

**Inventory Valuation**  
**Control of Inventory**



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## Objectives of Control over Inventory


1. Protect inventory from theft.
2. Reporting of inventory used and on hand in the financial statements



## Forms used to safeguard inventory

- Purchase Order – purchase authorization form
- Receiving Report – records inventory receipt
- Vendor's Invoice – document from seller itemizing product, quantity & cost of items purchased and delivered.

Purchase order, Receiving report and Vendor's invoice must agree before recording to accounting records.



## Reporting Inventory

- Physical Inventory – manual count of inventory to ensure accuracy of quantity on hand.
- Costs are assigned to inventory
  - Cost of Goods Sold
  - Merchandise Ending Inventory

## Cost Flow Assumptions

Inventory Valuation methods used:

1. Specific Identification Method
2. First-In, First-Out (FIFO)
3. Last-In, First-Out (LIFO)
4. Average Cost



A+

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