**What Is Inventory?**

When we speak of inventory, we are referring to a company's goods in three stages of production:

1) goods that are raw materials

2) goods that are in production

3) goods that are finished and ready for sale

In other words, you take the goods that the company has in the beginning, add the materials that it purchased to make more goods, subtract the goods that the company sold, and the result is what remains—inventory.

So we have to calculate the process that inventory changes in various accounting method, one of serveral methods is first-in, first-out (FIFO).

The FIFO method follows the logic that to avoid obsolescence, a company would sell the oldest inventory items first and maintain the newest items in inventory. Although the actual inventory valuation method used does not need to follow the actual flow of inventory through a company, an entity must be able to support why it selected the use of a particular inventory valuation method.