Inventory

Inventory is a physical product which is purchased and sold by the company.

Example: raw materials, industrial product or any kind of product.

Types of inventory

There are three types of inventories.

- Beginning inventory
- Purchasing inventory
- Sold inventory
- Ending inventory

Beginning inventory: beginning inventory is an inventory by which the owner starts the business.

Purchasing inventory: inventory which the owner is purchasing.

Sold inventory: inventory which has already been sold.

Ending inventory: after selling inventory, the owner has remained inventory.

Calculation of ending inventory = beginning inventory + purchased inventory – sold inventory.

Methods of inventory valuation:

There are four methods of inventory valuation.

- Specific indentification method
- First-in First-out (FIFO) method
- Last-in First-out (LIFO) method
- Weighted average method

E-5

RED COMPANY

1. Calculation cost of ending inventory under FIFO method in periodic :

The ending inventory = 1200 units

Date	Units	Units cost(taka)	Total cost(taka)
November 1	900	3.20	2880
July 5	300	3.04	912
	Total =1200		Total=3792

2. Calculation cost of ending inventory under LIFO method:

Date	Units	Units cost	Total cost
January 2	700	2.96	2072
March 31	500	2.80	1400
	Total=1200		Total=3472

3. Calculation cost of ending inventory under Weighted-average method:

Date	Units	Units cost (taka)	Total cost (taka)
January 2	700	2.96	2072
March 31	600	2.80	1680
July 5	1200	3.04	3648
November 1	900	3.20	2880
	Total=3400		Total=10280

Total cost of inventory = 10280

Total units = 3400

Weighted average cost of inventory = (10280÷3400) taka

=3.02 taka

Cost of ending inventory = (1200×3.02)

= 3624

Non-operating revenue and expenses:				
Add: Non-operating revenue:				
Interest revenue				0000
Less: non-operating expenses:				0000
Interest expense				0000
Net income				0000

Sumon enterprise

Statement of owner's equity

For the month ended December 31, 1987

Explanations	amount
Sumon's capital (December, 1987)	0000
Add: net income	0000
	0000
Less: sumon's drawing	0000
Sumon's capital (December 31, 1987)	0000

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MADDOX COMPAYNY

We know that ending inventory = beginning inventory + purchased inventory – sold inventory.

= (700 + 3700-3300)

= 1100 units

1. Calculation of cost of ending inventory under FIFO method in periodic procedure.

Date	Units	Units cost	Total cost
November 28	900	4.50	4050
September 30	200	3.40	680
	Total=1100		Total=4730

1. Calculation of cost of ending inventory under LIFO method in periodic procedure :

Date	Units	Units cost	Total cost
January 1	700	5.20	3640
February 2	400	5.00	2000
	Total=1100		Total=5640

2. Calculation of cost of ending inventory under WEIGHTED-AVERAGE method in periodic procedure:

Date	Units	Units cost	Total cost
January 1	700	5.20	3640
February 2	500	5.00	2500
April 5	1000	4.00	4000
June 15	600	3.50	2100
September 30	700	3.40	2340
November 28	900	4.50	4050
	Total=4400		Total=18630

Weighted average unit cost= (18630÷4400)

= 4.23 taka

Classified income statement

Classified income statement is a statement which shows operating and non-operating revenues and expenses in order to know net income of merchandise company.

A classified statement has the following four majors sections:

- Operating revenues
- Cost of goods sold
- Operating expenses
- Non-operating revenues and expenses

Needs of preparing classified income statement:

- The classified income statement shows important relationships that helps analyzing how well the company is performing.
- Operating expenses are subdivided into selling and administrative expenses so the statement user can see how much expense is being incurred in selling the product and how much in administering the business.
- Comparisons can be made with other years for the same business and with other businesses.
- Non -operating revenues and expenses appear at the bottom of the income statement because they are less significant in assessing the profitability of the business.

Classified balance sheet

Classified balance sheet is a record of all assets, liabilities and owner's equity in order to provide more specific information for the users of financial statement.

Needs of classified balance sheets:

- We can know about financial condition of company.
- Information of all assets and liabilities.
- Amount of owner's equity
- How much current assets and liabilities
- How much long-term assets and liabilities.

b.

	FIFO	LIFO	WIEGHTED-AVERAGE
Cost of goods available for sales	10280	10280	10280
Less: ending inventory	3792	3472	3624
Cost of goods sold	6488	6808	6656

We know that in which method cost of goods sold is low that method gross margin is high.

So, gross margin is high in FIFO method.

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WRIGHT COMPANY

1. Calculation cost of ending inventory under FIFO method in periodic :

Date	Units	Units cost(taka)	Total cost(taka)
December 31	12000	12.00	144000
July 7	2000	10.50	21000
	Total =14000		Total=165000

The ending inventory = 14000units

2. Calculation cost of ending inventory under LIFO method:

Date	Units	Units cost	Total cost
January 1	4000	7.50	30000
January 7	10000	9.00	90000
	Total=14000		Total=120000

Summon enterprise

Balance sheet

December 31, 1987

Explanations	Amount	Amount	amount
Assets			
Current assets:			
Cash		0000	
Account receivable		0000	
Note receivable		0000	
Marketable securities		0000	
Prepaid expenses		0000	
Total current assets			00000
Property, plant and equipment:			
Land			0000
Building	0000		
Less: accumulated depreciation	000		
			0000
Office equipment	0000		
Less: accumulated depreciation	000		
			0000
Others long-term assets			0000
Total assets			00000
Liabilities and owner's equity			
Current liabilities:			
Account payable		0000	
Notes payable		0000	
Accrued /unpaid expenses		0000	
Unearned fees		0000	
Total current liabilities			0000
Long-term liabilities:			
Loan			0000
Note payable(long)			0000
Owner's equity:			
Sumon , capital			0000
Total liabilities and owner's equity			00000

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OAKES LAMP COMPANY

Income statement

For the ended month December 31, 1987

Explanations	Amount	Amount	Amount	amount
Operating revenue:				
Gross sales				551500
Less: sales discounts			3700	
Sales returns and allowances			2000	5700
Net sales				545800
Less: cost of goods sold:				
Merchandise inventory , 1/1/87			41600	
purchases		312900		
less: purchase discounts	2600			
purchase return and allowances	1400	4000		
net purchases		308900		
add: transportation-in		7300		
net cost of purchases			316200	
cost of goods available for sale			357800	
less: merchandise inventory 31/12/87			55500	
cost of goods sold				302300
Gross margin				243500
Less: operating expenses:				
Sales salaries expense	64000			
Add: accrued	1400			
		65400		
Advertising expense		12000		
Delivery expense		4600		
Office salaries expenses		74000		
Insurance expenses		2500		
Depreciation expenses –store building		2200		
Depreciation expenses-store fixture		5560		
				166260
Add: non-operating revenue:				77240
Interest revenue				400
Less: **non-operating expenses:**				77640
interest expense				2000
Net income				75640

OAKES LAMP COMPANY

Statement of owner's equity

For the ended month December 31, 1987

explanations	amount
Oakes, capital (December 31, 1987)	220180
Add: net income	75640
	295820
Less: Oakes' drawing	0000
Oakes' capital (December 31,1987)(amount will be transferred to balance sheet)	295820

OAKES LAMP COMPANY

Balance sheet

For the ended month December 31, 1987

Explanations	Amount	Amount	amount
Assets			
Current assets:			
Cash		57200	
Account receivable		48300	
Merchandise inventory		55500	
Prepaid insurance	2900		
Less: insurance expense	2500		
		400	
Total current assets			161400
Property, plant and equipment:			
Land			60000
Store building		110000	
Less: accumulated depreciation	33000		
New	2200		
		35200	
			74800
Store fixtures		155600	
Less: accumulated depreciation	11120		
New	5560		
		16680	
Total assets			38920
			335120
Liabilities and owner's equity			
Current liabilities:			
Account payable		37900	
Accrued sales salaries		1400	
Total current liabilities			39300
Owner's equity:			
Oakes' capital (amount has come from statement of owner's equity)			295820
			335120

Total liabilities and owner's equity			

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Calculation of capital gain or loss:

Sold on non cash assets = tk. 540000

Less: non cash assets = tk. 780000

Loss on sales of non cash assets tk. 240000

Step-1: Sales **of non cash assets:**

Date	Explanations		R .f	Debit taka	Credit tak
	Cash loss on sales of non cash assets non cash assets To record loss on sales of non cash assets	dr. dr. cr.		540000 240000	 780000

Step-2: **Distribution of profit on sales of non cash assets:**

Date	Explanations		R .f	Debit taka	Credit taka
	Moore, capital $(\frac{240000}{3})$ Neal, capital $(\frac{240000}{3})$ Oscar, capital $(\frac{240000}{3})$ Loss on sales of non cash assets To record loss of profit on sales of non cash assets	dr. dr. dr. cr.		80000 80000 80000	 240000

Step-3: **Settlement of partnership liabilities:**

Date	Explanations		R .f	Debit taka	Credit tak
	Account payable cash To record settlement of partnership liabilities 400000	dr. cr.		400000	 400000

Cash

Explanation	Taka	Explanation	taka
Non-cash assets	540000	Account payable	400000
		Balance C/D	140000
	780000		780000
Balance B/D	140000		