

- Conceptual Framework's Qualitative characteristics:
 - Usefulness and understandability,
 - relevance (predictive value, feedback value, timeliness),
 - reliability (verifiability, representational faithfulness),
 - neutrality,
 - comparability,
 - **CONSISTENCY**
- Underlying assumptions
 - Separate entity assumption
 - Going concern assumption
 - Monetary unit assumption
 - Periodicity
- General principles
 - Historical cost
 - Revenue recognition
 - Matching principle
 - **FULL DISCLOSURE (TRANSPARENCY)**
- Modifying constraints
 - **MATERIALITY**
 - Cost benefit test
 - **CONSERVATISM**
 - Industry practice

Inventory Valuation

Beginning Inventory		Gross Purchases	
<u>+ Net Purchases</u>	←	- Discounts	
Goods Available For Sale		- Returns & Allowances	
<u>- Ending Inventory</u>		+ Freight In	
Cost of Goods Sold	→	<u>Net Purchases</u>	

Methods:

1. FIFO
2. LIFO
3. Specific ID
4. Average Cost
5. Lower Cost or Market
6. Retail Method
7. Gross Profit Method

		Units	Unit Cost	Extension
1/1	Beg. Inv.	50	\$ 1.00	\$ 50.00
3/17	Purchase 1	200	\$ 1.10	\$ 220.00
4/16	Purchase 2	150	\$ 1.20	\$ 180.00
7/4	Purchase 3	200	\$ 1.30	\$ 260.00
10/31	Purchase 4	100	\$ 1.40	\$ 140.00
11/20	Purchase 5	300	\$ 1.45	\$ 435.00
	Goods Aval. for Sale	1000		\$1,285.00
We sell 650 units at \$3.00 per unit				

FiFO

		Units	Unit Cost	Extension
1/1	Beg. Inv.	50	\$ 1.00	\$ 50.00
3/17	Purchase 1	200	\$ 1.10	\$ 220.00
4/16	Purchase 2	150	\$ 1.20	\$ 180.00
7/4	Purchase 3	200	\$ 1.30	\$ 260.00
10/31	Purchase 4	⁵⁰ / 100	\$ 1.40	\$ 140.00
11/20	Purchase 5	300	\$ 1.45	\$ 435.00
	Goods Aval. for Sale	1000		\$1,285.00
We sell 650 units at \$3.00 per unit				

LIFO

		Units	Unit Cost	Extension
1/1	Beg. Inv.	50	\$ 1.00	\$ 50.00
3/17	Purchase 1	200	\$ 1.10	\$ 220.00
4/16	Purchase 2	¹⁰⁰ / 150	\$ 1.20	\$ 180.00
7/4	Purchase 3	200	\$ 1.30	\$ 260.00
10/31	Purchase 4	100	\$ 1.40	\$ 140.00
11/20	Purchase 5	300	\$ 1.45	\$ 435.00
	Goods Aval. for Sale	1000		\$1,285.00
We sell 650 units at \$3.00 per unit				

Specific ID

		Units	Unit Cost	Extension
1/1	Beg. Inv.	50	\$ 1.00	\$ 50.00
3/17	Purchase 1	200	\$ 1.10	\$ 220.00
4/16	Purchase 2	50 150	\$ 1.20	\$ 180.00
7/4	Purchase 3	50 200	\$ 1.30	\$ 260.00
10/31	Purchase 4	100	\$ 1.40	\$ 140.00
11/20	Purchase 5	50 300	\$ 1.45	\$ 435.00
	Goods Aval. for Sale	1000		\$1,285.00
We sell 650 units at \$3.00 per unit				

Average Cost

		Units	Unit Cost	Extension
1/1	Beg. Inv.	50	\$ 1.00	\$ 50.00
3/17	Purchase 1	200	\$ 1.10	\$ 220.00
4/16	Purchase 2	150	\$ 1.20	\$ 180.00
7/4	Purchase 3	200	\$ 1.30	\$ 260.00
10/31	Purchase 4	100	\$ 1.40	\$ 140.00
11/20	Purchase 5	300	\$ 1.45	\$ 435.00
	Goods Aval. for Sale	1000		\$1,285.00
We sell 650 units at \$3.00 per unit				

$$\$1,285 \div 1000 = \$1.28 \text{ per unit}$$

Lower Cost or Market

Description	Qty	Cost	Market	Total Cost	Tot.Market
Accessories					
Item 620	240	\$19	\$22	\$4,560	\$5,280
Item 621	150	\$45	\$42	\$6,750	\$6,300
Total Accessories				\$11,310	\$11,580
Men's Jackets					
Item 726	100	\$85	\$92	\$8,500	\$9,200
Item 727	130	\$36	\$35	\$4,680	\$4,550
Total Men's Jackets				\$13,180	\$13,750
Totals				\$24,490	\$25,330

Not shown in Textbook but good to see..... =)

Retail Method		
	cost	retail
inventory	\$ 40,000	\$ 55,000
purchases	\$ 107,000	\$ 145,000
freight In	\$ 3,000	
goods avail for sale	\$ 150,000	\$ 200,000
ratio of retail / cost	75%	
net sales		\$ 160,000
ending inventory @ cost	\$ 30,000	\$ 40,000

Gross Profit Method		
inventory, beginning		\$ 50,000
purchases		\$ 290,000
goods avail for sale		\$ 340,000
sales	\$ 400,000	?
gross margin	\$ 120,000	
cost of goods sold		\$ 280,000
ending inventory		\$ 60,000

Inventory Turnover and Day's Sales in Inventory

The inventory turnover ratio measures how quickly inventory is converted into sales. Assume that Molin Corporation's inventory balance was \$700 thousand at the beginning of last year.

$$\begin{aligned}\text{Inventory turnover} &= \frac{\text{Cost of goods sold}}{\text{Average inventory balance}} \\ &= \frac{\$5,930}{(\$1,400 + \$900)/2} = 5.2\end{aligned}$$

$$\begin{aligned}\text{Average sale period} &= \frac{365 \text{ days}}{\text{Inventory turnover}} \\ &= \frac{365 \text{ days}}{5.2} = 70.2 \text{ days}\end{aligned}$$