CH. 6 CHEAT CARD — INVENTORY COST FLOW · PERIODIC

1 THE SPLIT — one 63,000 bucket · the same shelf, three ways

SPECIFIC IDENTIFICATION

Tag every unit
at its own real cost.

- EI = the exact units left
- COGS = the exact units sold

FIFO

Oldest units sell FIRST —
newest stay on the shelf.

- Find EI: work from the BOTTOM of the table UP (the newest units)
- COGS = COGAFS − Ending Inventory

LIFO

Newest units sell FIRST —
oldest stay on the shelf.

- Find EI: work from the TOP of the table DOWN (the oldest units)
- COGS = COGAFS − Ending Inventory

AVERAGE COST

One blended price
for every unit.

- WAC = COGAFS ÷ total units
- EI = units left × WAC
- COGS = COGAFS − Ending Inventory

layers: Jan 60×200 · Jun 90×220 · Nov 130×240 → 280 units · COGAFS 63,000 · count 160 · sold 120

our shelf, split three ways (EI · COGS): FIFO 37,800 · 25,200 | AVERAGE 36,000 · 27,000 | LIFO 34,200 · 28,800

2 RISING PRICES — the ladder, the error rule, the override

THE LADDER (prices rising)

	FIFO	LIFO	AVG
Ending Inventory	High	Low	Mid
COGS	Low	High	Mid
Profit — gross to net	High	Low	Mid
Equity	High	Low	Mid

learn ONE column — LIFO mirrors it

A WRONG COUNT

ending inventory DOWN →

COGS UP → net income DOWN

→ equity DOWN (overstate = mirror)

next year it REVERSES —

two-year combined = correct

LOWER OF COST OR MARKET

report the LOWER of cost / market

our card: 37,800 vs 31,000

→ report 31,000 · 6,800 expense

write DOWN — never back up

conservatism: bad news early

3 THE PLACEMENT — and the periodic two-step

WHERE IT LANDS

Inventory → balance sheet (asset)
COGS + Sales → income statement
Net income → statement of equity

THE TWO-STEP

① **COUNT ending inventory**
② COGS = COGAFS − Ending Inventory
then PROVE it — cost the units sold

CONSISTENCY

same method,
every period

THE EXAM TRAPS: **COGS is DERIVED — you count the shelf, never the sales** · **cost flow ≠ physical flow**

CH. 6 CHEAT CARD — INVENTORY COST FLOW · PERPETUAL

EXAM RADAR: cost each sale LIVE as it happens · know which methods tie between perpetual and periodic

1 THE THREE METHODS — each sale costed LIVE, from the layers ON HAND

FIFO

first-in, first-out

STEP 1 · COST OF GOODS SOLD

Cost the OLDEST layers ON HAND at the sale — they leave first.

STEP 2 · ENDING INVENTORY

Goods available − cost of goods sold — the newest layers stay.

LIFO

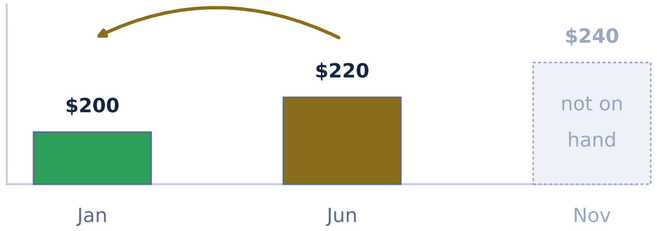
last-in, first-out

STEP 1 · COST OF GOODS SOLD

Cost the NEWEST layer ON HAND at the sale, working downward.

STEP 2 · ENDING INVENTORY

Goods available − cost of goods sold — the oldest layers stay.



MOVING AVERAGE

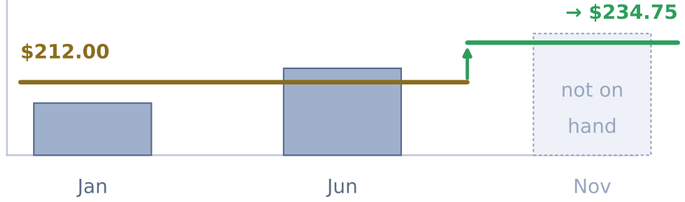
the blender

STEP 1 · COST OF GOODS SOLD

average = cost on hand ÷ units on hand, just before the sale; sale cost = units sold × average

STEP 2 · ENDING INVENTORY

Re-strike the average after EVERY purchase — it moves.



2 THE TIE TEST — swap the system: which answers move?

FIFO + specific identification — TIE

under BOTH systems, every time

LIFO + moving average — timing-sensitive:

perpetual sees only layers ON HAND

3 THE SACRED CHECK — it never fails

COST OF GOODS SOLD + ENDING INVENTORY = COST OF GOODS AVAILABLE FOR SALE

run it after every sale you cost — if it doesn't tie, a layer went missing

THE EXAM TRAPS: **newest of the YEAR ≠ newest ON HAND** · **you can't sell November in August**

CH. 6 CHEAT CARD — ESTIMATING INVENTORY YOU CANNOT COUNT

EXAM RADAR: no physical count · the statement finds the COST, the card finds the SHELF

1 WHEN YOU ESTIMATE — a physical count is off the table

DISASTER

fire, flood or theft —
nothing left to count

INTERIM STATEMENTS

monthly or quarterly, but
you count once a year

A QUICK CHECK

do the records look
reasonable? no full count

2 METHOD 1 · GROSS PROFIT — work backward from last year's margin

STEP 1 · THE STATEMENT → the COST

Net sales

− cost of goods sold

= gross profit = margin × net sales

so COST OF GOODS SOLD = sales − gross profit

the margin is last year's, from the preceding year's
statement — adjusted for any price changes since

STEP 2 · THE CARD → the SHELF

Beginning inventory

+ purchases

= COST OF GOODS AVAILABLE FOR SALE

− cost of goods sold (from step 1)

= ENDING INVENTORY — the estimate

the same ladder as Parts 1 and 2 — nothing new

3 METHOD 2 · RETAIL INVENTORY — turn price tags back into cost

1 · ENDING INVENTORY AT RETAIL

goods available at RETAIL − net sales

2 · COST-TO-RETAIL RATIO

goods available at COST ÷ at RETAIL

3 · ENDING INVENTORY AT COST

retail left × the ratio → balance sheet

use it when the store already prices at retail — department stores, clothing

THE EXAM TRAPS: NEITHER method uses lower of cost or market · an estimate is a COST figure, not a market test

CH. 6 CHEAT CARD — INVENTORIES · THE WHOLE CHAPTER

1 THE SPLIT — COGS = COGAFS − EI · periodic AND perpetual

SPECIFIC ID

Tag every unit at its own real cost.

- ① EI = add the tags on the exact units still on the shelf
- ② COGS = add the tags on the exact units sold
- TIES under both systems

FIFO

OLDEST costs out first — newest stay.

- ① find EI — work from the BOTTOM of the table UP: the newest layers stay
- ② COGS = COGAFS − EI
- perpetual: cost each sale from the oldest ON HAND — TIES periodic

LIFO

NEWEST costs out first — oldest stay.

- ① find EI — work from the TOP of the table DOWN: the oldest layers stay
- ② COGS = COGAFS − EI
- periodic: newest of the YEAR sells
  perpetual: newest ON HAND at the sale — MOVES

AVERAGE

One blended cost for every unit.

- ① WAC = COGAFS ÷ total units
- ② EI = units left × WAC
  COGS = units sold × WAC
- moving average: re-strike after EVERY purchase — MOVES

the two steps, ANY method: ① count the shelf & cost ending inventory ② COGS = COGAFS − EI

timing-proof: FIFO + SPECIFIC ID · timing-sensitive: LIFO + AVERAGE — WHEN the sale is costed moves the split

2 RISING PRICES — the ladder · the error rule · the override

THE LADDER (prices rising)

	FIFO	LIFO	AVG
Ending Inventory	High	Low	Mid
COGS	Low	High	Mid
Profit — gross to net	High	Low	Mid
Income taxes	High	Low	Mid

learn ONE column — LIFO mirrors it

A WRONG COUNT

ending inventory DOWN →

COGS UP → net income DOWN → equity DOWN

(overstate = the perfect mirror)

next year the SAME error REVERSES:

two-year combined = correct, each year lies

LOWER OF COST OR MARKET

report the LOWER of cost / market

compare EI at COST vs market

→ gap = an expense, taken NOW

write DOWN — never back up

conservatism: bad news early

3 ESTIMATION — when you cannot count · and the placement

GROSS PROFIT METHOD

① GP% — borrow last year's margin

② COGS = net sales × (1 − GP%)

③ EI = COGAFS − COGS

fire · flood · theft · interim months

RETAIL METHOD

① EI at retail = goods at retail − net sales

② ratio = COGAFS at cost ÷ at retail

③ EI at cost = EI at retail × ratio

for stores that live on price tags

WHERE IT LANDS

EI → balance sheet

COGS → income stmt

consistency: stick with your method

THE EXAM TRAPS: **COGS is DERIVED — count the shelf** · **cost flow ≠ physical flow** · **estimates NEVER use LCM**