

15.514 Summer 2003

SESSION 6

ACCOUNTING FOR INVENTORY AND COGS

Objectives

1. Understand three decisions related to accounting for inventory:
 - a. Product Costing (managerial accounting)
 - b. Cost-flows from inventory to Cost of Goods Sold
 - c. Valuation adjustments (after midterms)
2. Begin to understand these related issues:
 - a. Alternative accounting rules (focus on LIFO and FIFO)
 - b. Reporting consequences
 - c. Terms and concepts
 - d. Computations
 - e. Tax effects

Reading Assignment

Pratt: Chapter 7

Intel: Inventory

CP: *Accounting for Manufacturing Companies, Understanding LIFO / FIFO*

Class Preparation Questions

1. What are the four major alternatives for calculating cost-flow (flow of value from inventory to COGS)? How do these relate (if at all) to the physical flow of products sold?
2. When costs are increasing over time, which assumption (LIFO or FIFO) results in higher reported Net Income? In a higher reported value for Inventory on the Balance Sheet?
3. What does "LIFO Reserve" represent? What causes it to increase or decrease?
4. Does Intel use LIFO or FIFO? Where would you find this information?
5. Calculate Intel's 2001 Inventory Turnover ratio.

Graded Assignment

None

Optional Problems

P7-4, P7-6, P7-9