Preface

The accountant can find answers to almost any inventory-related question in this book. Within the general area of inventory accounting systems, it addresses data entry for inventory transactions, tracking inventory through different types of manufacturing environments, key control points and related fraud problems, several dozen inventory-related measurements, several inventory report formats, and budgeting for inventory. A large part of the book also covers inventory valuation, including many cost layering systems, the lower of cost or market rule, overhead calculations, joint and by-product costing, and the management of obsolete inventory issues. There are also several chapters devoted to special topics, including IRS inventory rules, counting procedures, best practices related to inventory, transfer pricing, and inventory terminology. Thus, *Inventory Accounting* not only includes answers to the basic inventory valuation questions, but also provides the accountant with a great deal of additional information related to controls, budgeting, data collection, fraud, and inventory management.

The first six chapters cover the general subject area of inventory accounting systems. Chapter 1 describes the application of bar coding, wireless data transmission, radio frequency identification, document imaging, and electronic data interchange to the collection of inventory data. Chapter 2 addresses the flow of inventory through a basic manufacturing system, as well as through a manufacturing resources planning system and a just-in-time system. Chapter 3 describes 68 possible inventory controls in such areas as in-transit inventory, inventory storage, obsolete inventory, and inventory transactions. As a logical follow-up to Chapter 3, Chapter 4 discusses 18 types of fraud that involve inventory in some manner. Chapter 5 includes 32 measurements, 3 forms, and 7 reports that can be used to determine the status of inventory levels and related systems. Chapter 6 discusses the budgeting process to be used for the raw materials, work-in-process, and finished goods inventories.

The next six chapters cover the general subject area of inventory valuation. Chapter 7 describes how to use several inventory cost layering systems: the first-in, first-out (FIFO), last-in, first-out (LIFO), dollar value LIFO, link-chain, and weighted average methods. Chapter 8 describes the lower of cost or market rule and how to apply it. Chapter 9 addresses the contents of overhead cost pools and how to apply those costs to inventory (including the use of activity-based costing). Chapter 10 covers various cost allocation and pricing methodologies for inventory designated as joint products or by-products, while Chapter 11 reveals how to locate, dispose of, and account for obsolete inventory. Chapter 12 contains a summary of those journal entries that are most commonly used by the inventory accountant.

The final four chapters and an appendix address special inventory topics. Chapter 13 is a direct extract of that portion of the Internal Revenue Code related to inventory, with integrated commentary by the author. Chapter 14 discusses how to create an inventory tracking system and conduct both periodic physical counts and cycle counts. Chapter 15 lists best practices clustered into the general areas of inventory purchasing, receiving and shipping, storage, picking, production, transactions, and quantity management. Chapter 16 describes the need for transfer pricing and compares the applicability of six transfer pricing methods. Finally, Appendix A contains definitions for more than 150 inventory-related terms.

Inventory Accounting is intended to be an expansive compendium of inventory-related information for the accountant. It is extremely useful not only for handling basic inventory transactions, but also as a source of information for improving inventory control systems, measuring inventory performance, and reducing a company's investment in inventory. Enjoy!

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