

Inventory accounting for product lines



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Running Head: Millennium Motors Inventory Accounting for Product lines

Millennium Motors

The three inventories at Millennium Motors have particular characteristics and features that make it highly suitable for them to use different inventory costing methods to make use of accounting flexibilities and appropriateness.

The automotive body plans and kits are expensive items and since they can be easily tracked by their serial numbers, a First In-First Out (FIFO) the inventory costing method would be the most suitable one for this scenario.

This is due to the fact that actual costing is more relevant in this case to recognize cost of goods sold and appropriate profits from sales since the units can be differentiated from each other and bear distinctive costs. Since these items are expensive, the differences in prices in between units would be significant and thus using any other inventory system would result in erratic profit and loss recognition in sales leading to inconsistent accounting.

The custom auto and motorcycle paints are not distinguishable items as distinctively as the automobile kits. They have a shelf life of 60 days which means that paints entering the inventory must be leaving it within 60 days or else they will be identified by the expired coloration. This suggests a running inventory line where the inventory moves linearly. The paints bought first are sold first and the paints bought last are sold last. But since the inventory is not linearly distributed i. e. it cannot be ascertained as to how many days a particular paint has been sitting in the warehouse, the most appropriate inventory costing system would be average costing. This would mean that the cost of goods sold will incorporate the linear movement of inventory and allow for averaged costs over time. Average based costing would ensure that the proportions of the paints sold would be used to

estimate the final COGS - weighted averages have significant accuracy in such inventory models.

The other items in inventory (bulbs, stickers, fuses, etc) are low-priced items and the shuffling means that most inventory items bought earlier may still be lying at the bottom. Since the prices of items generally tend to increase and selling the latest bought items first is more likely in this inventory system, the Last In-First Out (LIFO) inventory costing model would be highly suitable in this scenario. The inventory model is not linear and the costs are very low. It would be ideal if the costs would be accumulated and listed in groups in the accounting books. The bulk buying model is most appropriate and hence the LIFO model sits perfectly allowing Millennium Motors to follow a stupefied accounting cost recognition model.

In conclusion, using FIFO for the automobile kits inventory costing method would lead to the most accurate measurement of the COGS and lead to consistency in accounting for Millennium Motors. Further, the average costing method in the case of paints will ensure a weighted distribution of the costs into the COGS allowing a reasonable estimate of the total cost and sometimes will be spot-on accurate. The low-priced inventories of bulbs, stickers, fuses and other items would generally be more consistently be accounted for using the LIFO method. This would mean that the more recent purchase prices would be accounted for first and then the cheaper buys would be adjusted into COGS - as seems to be the general case due to the shuffling of inventory.