Alternate assignment

Frank Erlacher, an inventory control specialist, is interested in better understanding the accounting for inventories. Although Frank understands the more sophisticated computer inventory control systems, he has little knowledge of how inventory cost is determined. In studying the records of Strider Enterprises, which sells normal brand-name goods from its own store and on consignment through Chavez, Inc., he asks you to answer the following questions.

1. Should Strider Enterprises include in its inventory normal brand-name goods purchased from its suppliers but not yet received if the terms of purchase are f. o. b. shipping point? Why?

Yes. The title to the goods passed to Strider Enterprises when the supplier delivered the goods to the common carrier, who acts as an agent for Strider Enterprises. When Strider Enterprises obtained legal title to the goods, the company must record them as purchases in that fiscal period. If the goods were not recorded, the results would be an understating in the inventories and accounts payable in the balance sheet, and an understating of the purchases and ending inventories in the income statement.

2. Should Strider Enterprises include freight-in expenditures as an inventory cost? Why?

Yes. Freight-in is considered a product cost. Product costs are recorded in the inventory account. Such costs are directly connected with bringing the goods to Strider Enterprises and converting the goods to a salable condition.

3. If Strider Enterprises purchases its goods on terms 2/10, net 30, should the purchases be recorded gross or net? Why?

The purchases should be recorded net. Recording the purchases as net provides a correct reporting of the cost of the asset and related liability. Furthermore, recording such purchases as net can measure management inefficiency by holding management responsible for discounts not taken.