

# Inventory and nestle

[Business](#), [Company](#)



About Nestle Nestle is a multinational packaged foods company founded and headquartered in Vevey Switzerland. it is the world`s foremost Nutrition. Health& Wellness Company committed serving consumers all over the world. Their focus on responsible nutrition and promoting health and wellness is a core value, emphasizing responsibility and sustainability. Nestle products are sold in almost every country in the world. MISSION STATEMENT Nestle is dedicated to providing the best foods to people throughout their day. Throughout their lives, throughout the world.

With our unique experience of anticipating consumers' needs and creating solutions. Nestle contributes to your well-being and enhances your quality of life. " COST ACCOUBTING INFORMATION SYSTEM OF NESTLE INPUT MEASUREMENT BASIS STANDARD COSTING Nestle is using STANDARD COSTING as a base for input measurement Standard costs are usually associated with a company's costs of direct material, direct labor, and manufacturing overhead. Rather than assigning the actual costs of direct material, direct labor, and manufacturing overhead to a product, nestle' like many manufacturers assigns the expected or standard cost.

This means that its inventories and cost of goods sold will began with amounts reflecting the standard costs, nor the actual costs, of a product Nestle', of course still has to pay the actual costs. As a result there almost always differences between the actual costs and the standard costs, and those differences are known as variances, REASON FOR USING STANDARD COSTING Nestle is currently using Standard costing method because the related variances are valuable management tool. If a variance arises, management becomes aware that manufacturing costs have differed from

the standard (planned. xpected) costs. • If actual costs are greater than standard costs the variance is unfavorable. An unfavorable variance tells nestle' management that if everything else stays constant the company`s actual profit will be less than planned. • If actual costs are less than standard costs the variance is favorable. A favorable variance tells management that if everything else stays constant the actual profit will likely exceed the planned profit. The sooner that the accounting system reports a variance, the sooner that Nestle management can direct its attention to the difference from the planned accounts.

**DIRECT MATERIALS USAGE VARIANCE** Under a standard costing system. Production and inventories are reported at the standard cost—including the standard quantity of direct materials that should have been used to make the products. If the manufacturer actually uses more direct materials than the standard quantity of materials for the products actually manufactured, the company will have an unfavorable direct materials usage variance, If the quantity of direct materials actually used is less than the standard quantity for the products produced, the company will have a favorable usage variance.

The amount of a favorable and unfavorable variance is recorded in a General ledger account Direct Materials Usage Variance. (Alternative account titles include Direct Materials Quantity Variance or Direct Materials Efficiency Variance. ) Lets demonstrate this variance with the following information. Direct Labor: Standard Cost. Rate Variance, Efficiency Variance Direct labor refers to the work done by those employees who acually make the product

on the production line. (“ Indirect labor” is work done by employees who work in the production area. but do not work on the production line.

Examples include employees who set up & maintain the equipment. ) Unlike direct materials (which are obtained prior o being used) direct Labor is obtained and used at the same time, This means that for any given good output, we can compute the direct labor rate variance. The direct labor efficiency variance, and the standard direct labor cost at the same time.

Variable Mfg Overhead: Standard Cost, Spending Variance, Efficiency Variance Manufacturing overhead costs” refer to any costs within a manufacturing facility other than direct material and direct labor.

Manufacturing overhead includes such things as indirect labor, indirect materials (such as manufacturing supplies), utilities, quality control, material handling, and depreciation on the manufacturing equipment and facilities. “ Variable” manufacturing overhead costs will increase in total as output increases. Fixed Mfg Overhead: Standard Cost, Budget Variance, Volume Variance “ Fixed” manufacturing overhead costs remain the same in total even though the volume of production may increase by a modest amount.

#### RELATIONSHIP BETWEEN VARIANCES

If the direct labor is not efficient at producing the good output, there will be an unfavorable labor efficiency variance. That inefficiency will likely cause additional variable manufacturing overhead—resulting in an unfavorable variable manufacturing overhead efficiency variance. If these inefficiencies are significant, it is possible that the company may not be able to produce enough good output to absorb the planned fixed manufacturing overhead—

resulting in an unfavorable fixed manufacturing overhead volume variance.

#### TREATMENT OF VARIANCES

The treatment of variances follows these guidelines: If the variance amount is very small (insignificant relative to the company's net Income), simply put the entire amount on the income statement. If the variance amount is unfavorable, increase the cost of goods sold—thereby reducing net income. If the variance amount is favorable, decrease the cost of goods sold—thereby increasing net income. If the variance is unfavorable, significant in amount, and results from mistakes or inefficiencies, the variance amount can never be added to any inventory or asset account.

These unfavorable variance amounts go directly to the income statement and reduce the company's net income. If the variance is unfavorable significant in amount and results from standard costs not being realistic, allocate the variance to the company's inventory accounts and cost of goods sold. The allocation should follow the standard costs of the inputs from which the variances arose. If the variance amount is favorable and significant in amount, allocate the variance to the company's inventories and its cost of goods sold. INVENTORY VALUATION METHOD ACTIVITY BASED COSTING

Activity based costing (ABC) assigns manufacturing overhead costs to products in a more logical manner than the traditional approach of simply allocating costs on the basis of machine hours. Activity based costing first assigns costs to the activities that are the real cause of the overhead. It then assigns the cost of those activities only to the products that are actually demanding the activities. IMPLEMENTATION OF ABC IN NESTLE Nestle

company is using activity based costing method for inventory valuation. Firstly they identify all activities that use resources.

Cost pools are set up for each of the activities identified. They assign overhead costs to the cost pools based on a cost driver. Cost pools are used to assign costs. Costs are assigned to its, batches, or products. REASON FOR USING ACTIVITY BASED COSTING Nestle is currently using ABC techniques because it helps it in determining accurate product cost. Complex companies Like Nestle may see the most benefit from this type of costing because it is most helpful when the costing information is difficult to understand or evaluate.

ABC provides information to Nestle regarding processes that should be improved and the products or services that are contributing the most to company's profitability, ABC system also helps Nestle in knowing what are the factors that contribute most to cost, which in turn assists management in choosing best alternative in reducing overall costs incurred by the Nestle Company. ABC system can be the best tool to be utilized in implementing environmental accounting at the firm level. COST ACCUMULATION METHOD

Nestle is using process costing method. It is a costing system in which the cost of a product or service is obtained by assigning costs to masses of like or similar units and then computing unit costs on an average basis. Process costing averages the costs over all units to come to the per unit cost. In Nestle. Direct material and direct labor costs are tracked by department, and are assigned evenly to the products that pass through each department. Overhead costs are applied to each department and are assigned evenly to each product.

Multiple WIP accounts are used one for every process. As products are moved from one process to another, the costs of the previous process are transferred to the next process. Five steps are involved in Nestles process costing method firstly it summarizes the flow of physical units of output. Secondly, computes output in terms of equivalent units, Thirdly, computes equivalent unit costs. Fourthly, summarizes total costs to account for. And at the end, they assign total costs to units completed and to units in ending work in process inventory.

**REASON FOR USING PROCESS COSTING** Process-costing used in Nestle because it broadens the economics of quality by classifying cost of non-conformance and cost of conformance i. e. “ costs incurred when a process is running without failure. It also allows Nestle tracking and reduction of costs normally associated with efficiency in addition to effectiveness (quality)”.  
**COST FLOW ASSUMPTION FIFO** In Cost flows assumption. Nestle is using FIFO method. FWO is an acronym for First In, First Out.

A method of valuating the cost of goods sold that uses the cost of the oldest items in inventory first What comes in first is handled first what comes in next waits until the first is finished. Etc. **REASON FOR USING FIFO** Nestle is using FIFO as cost flow assumption for its products. Because most of its products are perishable and they have short expiry date. Nestle also believe in tax minimization. For taxation purposes, FIFO assumes that the assets that ate renaming in inventory are matched to the assets that are most recently purchased or produced.

Because of this assumption, there are number of tax minimization strategies associated with using the Fflo asset-management and valuation method. Due

to this reason, Nestle is using FIFO method as a cost flow. FWO gives Nestle a better indication of the value of ending the inventory on the balance sheet. One of the reasons for using FIFO method by Nestle is the increasing rate of inflation. Because of this, Nestle uses FIFO inventory accounting in order to make their balance sheet look better. RECORDING INTERVAL CAPABILITY

Inventory records can be maintained on a perpetual or a periodic basis In the past manufacturers tended to keep perpetual inventories, while retailers used the periodic method. However, today a variety of point of sale devices and dedicated microcomputer software are readily available to provide any company with perpetual inventory capability. NESTLE'S METHOD Nestle is Currently using perpetual method for maintaining the inventory records because this method provides the company with real time and true inventory information.

To record purchases, the periodic system debits the Purchases account while the perpetual system debits the Merchandise Inventory account. To record sales, the perpetual system requires an extra entry to debit the Cost of goods sold and credit Merchandise Inventory. By recording the cost of goods sold (or each sale, the perpetual inventory system lessens the need for adjusting entries and calculation of the goods sold at the end of a financial period, both of which the periodic inventory system requires.

The reasons for which Nestle is using perpetual method rather than periodic inventory method is that

- By using perpetual method Nestle can determine their COGS and profit or loss after every sale unlike periodic, in which you get profit or loss at the end of the period.
- Nestle has preferred perpetual system because it is a realistic double entry system while periodic is



arbitrary. • The company can watch the inventory more closely using this method because whenever there is an increment and decrement inventory, some other account like profit loss must be debited or credited. And in the perpetual system stock loss gain is immediately noticed and not at the end of year when the physical count of the inventory is taken. The advantages that Nestle has got due to the use of the perpetual inventory system, is a high degree of control, it aids in the management of proper inventory levels, and physical inventories can be easily compared. Whenever a shortage (Le. a missing or stolen good) is discovered, the Inventory Shortages account should be debited.