Free report on statement of inventory account

Business, Management

How the Statement of Inventory works

The accountants should classify the inventories into two categories namely: class A and B inventory. Class A would be composed of inventory of high value in terms of cost. Normally, these inventories are not always bulky. They are small in size but extremely expensive. Class B would be composed of the other inventory not falling under class A. This category usually involves inventories bulky in nature but not as costly as the former class. The accountants record the date and opening and closing balances immediately before commencing records. The balances are recorded in the currency of trade, say thousands of US dollars, and show the total monetary value of inventory lost, damaged, destroyed, rejected or untraceable. The first two columns of the statement of inventory account capture the dates and opening and closing balances. The dates help the management track the days that massive losses occur and would be used in decision making after analysis. A trend observed for instance, that when the shift involves a particular group of workers, the losses are maximum or minimal. The treatment the management would give to these two groups of workers is different in terms of supervision and monitoring progress.

The opening and closing balances help the management get a glimpse of the amount in monetary terms of the total losses made in an inventory period. The inventory period refers to the interval between one inventory counts to the next one. Here, analysis would help identify any inconsistency. Since most companies work in shifts especially for the manufacturing concerns, it would be expected that different shifts post different trends. It becomes

easier for the management to monitor and supervise the shift if workers.

The inventory account statement has four columnar headings titled Losses, Damages, Theft and Others. These are arbitrary headings hence the accountants are free to come up with additional or totally new headings. The accountants need to evaluate the main reasons that affect the inventories. If the inventory rejects are substantial enough to pass an arbitrarily set threshold, then the accountant develops a title head of Rejects. All the factors affecting inventory that do not independently pass the threshold constitute the group titled others. A convenient example could be inventory confiscated by the police and, therefore, are still subject of litigation. Prudence demands that the accountants consider those inventories as not available for sale. However, since confiscation is not an everyday affair, these inventories would be simply accounted for under the title others.

The columnar headings have sub-columnar headings titled A and B referring to the inventory classes. The accountant having classified the inventory earlier, records the damaged inventory under its relevant subtitle. If the damaged inventory is under class A, then the records would go under the title headed Damages and specifically under the subtitle A. Under that subtitle, to enhance efficiency by giving detail, the accountant records the quantity say in thousands of kilograms and the cost of damaged inventory say in thousands of US Dollars.

Under class A inventory, the stock accountant exercises strict control and monitoring. The inventory count is more regular than the class B inventory, though depending on the sensitivity of the inventories. Where the stakes are high, stock count need to be updated as soon as possible, thus stock count

could be on a daily basis. Under class B the stock accountant is less strict and the interval between stock counts longer compared to that of class A. Depending on the quantities and nature of inventories, the accountants may as well expand the categories of inventories even up to ten classes.

References

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