Accounting memo-rewritten flashcard

Accounting Department Memorandum To: Executive Vice President From: Yvonne Dixon and Teammates Subject: Last In/First Out (LIFO) versus First In/First Out (FIFO) Date: February 13, 2012 Executive Vice President, Late last week our team had a team meeting to discuss LIFO versus FIFO methods of inventory for the Cost of Goods Sold (COGS) as to our company needs. This was a very lengthy and well communicated process for our team. I feel that we as a team have worked to give you the best information needed for you to provide to the board.

Once this information is gone over by you and the board, you will be able to make the appropriate decision and give us the feedback when you are able to. As we are coming into an economic time period of inflation, it is possible that we may recommend that the company continues to use LIFO so that we continue to reduce our federal and state corporate income tax. This could provide the company with a better cash flow along with having a better profit margin.

The question we have researched and discussed was, “ Do we think this economic situation will continue so that our COGS will be increasing over the short and long term and why our inventory costs keep rising. ” As we all know using either LIFO or FIFO for our inventory method will have an effect on our Profit and Loss Statements. If costs go up, as we are expecting next year, we may want to move to using FIFO. However, if the costs stay as there are now, we will want to stay with the use of LIFO.

The LIFO method is described as follows: the income statement reflects a lower income because the COGS are higher and on the balance sheet the inventory value is lowered. The FIFO method is described as follows: the income statement reflects a higher income because the COGS are lower and on the balance sheet the inventory value is higher. No matter which inventory method we choose to use, we must continue to use it throughout the remainder of the year as well as next year.

Our company prices are flexible due to the industrial demands this means the method we choose needs to reflect this in order to maintain a profit. With that being said we will also have difficulties increasing the price to off-set the increase of the COGS next year. Another thing to keep in mind is that by using one of these methods for our inventory, we will have to use it for our financial reporting also. Thank you, Yvonne Dixon and Teammates