Inventory Held for Sale

The entries illustrated in this case study are to address FASAB Statement of Federal Financial Accounting Standard Number three, Accounting for Inventory and Related Property. This is not an authoritative guidance but an illustration of inventory transactions using U.S. Standard General Ledger accounts. This case study does not include all situations.

ASSUMPTIONS:
1) The following entries are illustrated to represent a REVOLVING FUND in second year of its operation.
2) The entity engages in retail and manufacturing activities.

Post Closing Trial Balance from Year 1

<table>
<thead>
<tr>
<th>Account</th>
<th>Year 1 Balance</th>
<th>Year 2 Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>1523</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>1527</td>
<td>10,000</td>
<td>40,000</td>
</tr>
<tr>
<td>1750</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>3310</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td></td>
<td>60,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Account 1527 has the following items:
- Item A $4,000
- Item B $2,000
- Item C $2,000
- Item D $2,000
  $10,000

1) To anticipate revenue from sale of its inventory.

proprietary
None

budgetary

4210 Anticipated reimbursements & other income 35,000
4450 Unapportioned authority - available 35,000
2) To record apportionments of the anticipated reimbursements, and prior year unobligated balance brought forward.

*proprietary*

None

*budgetary*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4450</td>
<td>Unapportioned authority - available</td>
<td>75,000</td>
</tr>
<tr>
<td>4590</td>
<td>Apportionments unavailable</td>
<td>35,000</td>
</tr>
<tr>
<td>4510</td>
<td>Apportionments</td>
<td>40,000</td>
</tr>
</tbody>
</table>

3) To record an allotment of apportioned authority

*proprietary*

None

*budgetary*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4510</td>
<td>Apportionments</td>
<td>40,000</td>
</tr>
<tr>
<td>4610</td>
<td>Allotments - realized resources</td>
<td>40,000</td>
</tr>
</tbody>
</table>

THE ENTRIES ILLUSTRATED BELOW SHOW A MANUFACTURING ACTIVITY

4) To record raw material purchased for its manufacturing activity

*proprietary*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1525</td>
<td>Inventory - Raw Materials</td>
<td>5,000</td>
</tr>
<tr>
<td>2110</td>
<td>Accounts payable</td>
<td>5,000</td>
</tr>
</tbody>
</table>

*budgetary*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4610</td>
<td>Allotments - realized resources</td>
<td>5,000</td>
</tr>
<tr>
<td>4901</td>
<td>Expended authority - unpaid</td>
<td>5,000</td>
</tr>
</tbody>
</table>

5) To record receipt of a customer (a gov’t agency) order for $8,000 without an advance

*proprietary*

None

*budgetary*

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4221</td>
<td>Unfilled customer orders - w/o advance</td>
<td>8,000</td>
</tr>
<tr>
<td>4210</td>
<td>Anticipated reimbursements &amp; other income</td>
<td>8,000</td>
</tr>
</tbody>
</table>
6) To record raw materials used to produce goods

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1526</td>
<td>Inventory - Work in Process</td>
<td>4,000</td>
</tr>
<tr>
<td>1525</td>
<td>Inventory - Raw Materials</td>
<td>4,000</td>
</tr>
</tbody>
</table>

7) To record incurrence of direct labor (salary of production workers - $10,000) during the production of an item

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1526</td>
<td>Inventory - Work in Process</td>
<td>10,000</td>
</tr>
<tr>
<td>2210</td>
<td>Accrued funded payroll and benefits</td>
<td>10,000</td>
</tr>
</tbody>
</table>

8) To record incurrence of other factory overhead ($2,000) such as factory rent, factory utilities, depreciation on production equipments ($500), indirect labor ($3,000) utilized and etc.

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100</td>
<td>Operating expense/Program costs (overhead)</td>
<td>5,000</td>
</tr>
<tr>
<td>6710</td>
<td>Depreciation expense</td>
<td>500</td>
</tr>
<tr>
<td>1759</td>
<td>Accumulated depreciation</td>
<td>500</td>
</tr>
<tr>
<td>2110</td>
<td>Accounts payable</td>
<td>2,000</td>
</tr>
<tr>
<td>2210</td>
<td>Accrued funded payroll and benefits</td>
<td>3,000</td>
</tr>
</tbody>
</table>
9) To record overhead applied\(^1\), the budget rate is determined to be $5.00/per direct labor hour. The direct labor hour was determined to be 900 hours. 900 hours * $5.00 = $4,500.

\[
\begin{array}{lcl}
\text{proprietary} & & \\
1526 & \text{Inventory - Work in Process} & 4,500 \\
6600 & \text{Applied overhead} & 4,500 \\
\end{array}
\]

\[
\begin{array}{lcl}
\text{budgetary} & & \\
\text{None} & & \\
\end{array}
\]

10) To pay salary to the employees

\[
\begin{array}{lcl}
\text{proprietary} & & \\
2210 & \text{Accrued payroll and benefits} & 13,000 \\
1010 & \text{Fund balance} & 13,000 \\
\end{array}
\]

\[
\begin{array}{lcl}
\text{budgetary} & & \\
4901 & \text{Expended authority - unpaid} & 13,000 \\
4902 & \text{Expended authority - pd} & 13,000 \\
\end{array}
\]

11) To reclassify fully completed goods which are ready to be sold

\[
\begin{array}{lcl}
\text{proprietary} & & \\
1527 & \text{Inventory - Finished Goods} & 14,500 \\
1526 & \text{Inventory - Work in Process} & 14,500 \\
\end{array}
\]

\[
\begin{array}{lcl}
\text{budgetary} & & \\
\text{None} & & \\
\end{array}
\]

\(^1\) “Overhead is applied to products because of management’s desire for a close approximation of costs of different products. If such product costs are to help management for product pricing, income determination, and inventory valuation, they must be timely as well as accurate. If the purpose were to apply all actual overhead to actual production for the year, the most accurate application of overhead could be made only at the end of the year, after actual results were determined. However, this timing would be too late. Managers want product cost information throughout the year. Therefore overhead application rates are usually computed in advance of production.” (Charles T Horngren, George Foster, Cost Accounting A Managerial Emphasis, 6th edition pg 98).
August 11, 1998 (Revised)

12) To record a sale (see entry #6)

**proprietary**
- 1010 Fund balance 8,000
- 5100 Revenue from goods sold 8,000
- 6500 Cost of goods sold 8,000
- 1527 Inventory - Finished Goods 8,000

**budgetary**
- 4252 Reimbursements & other income earned - collected 8,000
- 4221 Unfilled customer orders - w/o advance 8,000

13) To liquidate liabilities for the purchase of raw materials and other overhead costs

**proprietary**
- 2110 Accounts payable 7,000
- 1010 Fund balance 7,000

**budgetary**
- 4901 Expended authority - unpd 7,000
- 4902 Expended authority - pd 7,000

To close overhead underapplied\(^2\) (applied overhead is budgeted less than the actual overhead), which is deemed immaterial- Refer to the closing entry section to see the actual dollar amount

**proprietary**
- 6600 Applied overhead xxx
- 6500 Cost of goods sold xxx
- 6100 Operating expense/Program costs (overhead) xxx
- 6710 Depreciation expense xxx

\(^2\) If the under applied or over applied amount is immaterial, the difference in the applied and the actual amount is adjusted to CGS. But if the under applied or over applied amount is material then the difference is prorated to the WIP, finished goods, and CGS. (Charles T Horngren, George Foster, *Cost Accounting A Managerial Emphasis*, 6th edition pgs103-104).
If the difference between the actual and applied overhead amount is material, then the difference is prorated to WIP, finished goods and CGS accounts.

**Assumption:** most of the factory overhead is reported in account 6100 but if there are any other appropriate production cost accounts, they should be reported when applicable.

To close overhead accounts and prorate **underapplied** overhead among the three accounts:

1526  Inventory - Work in Process  
1527  Inventory - Finished Goods  
6500  Cost of goods sold  
6600  Applied overhead  
6100  Operating expense/Program costs (overhead)  
And any other actual overhead accounts that were used  

(The difference between the applied overhead and overhead is prorated to WIP, finished goods and CGS)

To close overhead accounts and prorate **overapplied** overhead among the three accounts:

6600  Applied overhead  
1526  Inventory - Work in Process  
1527  Inventory - Finished Goods  
6500  Cost of goods sold  
6100  Operating expense/Program costs (overhead)  
And any other actual overhead accounts that were used  

(The difference between the applied overhead and overhead is prorated to WIP, finished goods and CGS)
THE ENTRIES ILLUSTRATED BELOW SHOW A RETAIL ACTIVITY

14) To record inventory purchased for sale under historical cost (title was passed) [¶19].
100 units of item A @ $60 = $6,000
20 units of item C @ $50 = $1,000

<table>
<thead>
<tr>
<th>proprietary</th>
<th>budgetary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1521 Inventory Purchased for Resale 7,000</td>
<td>4610 Allotments - realized resources 7,000</td>
</tr>
<tr>
<td>2110 Accounts payable 7,000</td>
<td>4901 Expended authority - unpaid 7,000</td>
</tr>
</tbody>
</table>

15) To record receipt of customer order for 180 units of item A, without an advance

<table>
<thead>
<tr>
<th>proprietary</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>budgetary</th>
</tr>
</thead>
<tbody>
<tr>
<td>4221 Unfilled customer orders - without advance 8,800</td>
</tr>
<tr>
<td>4210 Anticipated reimbursements &amp; other income 8,800</td>
</tr>
<tr>
<td>4590 Apportionments - Unavailable 8,800</td>
</tr>
<tr>
<td>4610 Allotments - realized resources 8,800</td>
</tr>
</tbody>
</table>

16) To record sale of 180 units of item A [¶19]. Note: Inventory is valued under FIFO method (First in first out)

<table>
<thead>
<tr>
<th>proprietary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010 Fund balance with Treasury 8,800</td>
</tr>
<tr>
<td>5100 Revenues from Goods Sold 8,800</td>
</tr>
<tr>
<td>6500 Cost of Goods Sold 8,800</td>
</tr>
<tr>
<td>1521 Inventory Purchased for Resale 8,800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>budgetary</th>
</tr>
</thead>
<tbody>
<tr>
<td>4252 Reimbursements &amp; other income earned-collected 8,800</td>
</tr>
<tr>
<td>4221 Unfilled customer orders - without advance 8,800</td>
</tr>
</tbody>
</table>
17) To liquidate payables for goods purchased

**proprietary**
- 2110 Accounts payable 7,000
- 1010 Fund balance 7,000

**budgetary**
- 4901 Expended authority - unpd 7,000
- 4902 Expended authority - pd 7,000

18) To expense abnormal cost of handling goods that were deemed excessive. [¶ 21] For example, the cost of moving items several times due to base closure

**proprietary**
- 6100 Operating expense 3,000
- 2110 Accounts payable 3,000

**budgetary**
Abnormal cost was not recorded previously as undelivered orders
- 4610 Allotments - realized resources 3,000
- 4901 Expended authority - unpaid 3,000

19) To record inventory acquired through exchange of nonmonetary assets [¶21]

**proprietary**
- 1527 Inventory - Finished Goods (FMV) 1,000
- 7210 Loss on disposition of assets 200
- 1527 Inventory - Finished Goods (BV) 1,200

[Note: The credit entry can be any surrendered nonmonetary asset]

**budgetary**
None

20) To record receipt of a donated inventory item from the public [¶21]

**proprietary**
- 1527 Inventory - Finished Goods (FMV) 2,000
- 5600 Donated Revenue 2,000

**budgetary**
None
21) To reclassify inventory held for sale which meet management’s criteria for future sale. [¶27]  
Note: Under Latest Acquisition Cost method, the allowance accounts that are associated with inventory shall be reclassified as well.

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1522</td>
<td>Inventory held in reserve for future sale</td>
<td>2,500</td>
</tr>
<tr>
<td>1527</td>
<td>Inventory - Finished Goods</td>
<td>2,500</td>
</tr>
<tr>
<td>1521</td>
<td>Inventory Purchased for resale</td>
<td>xxxx</td>
</tr>
</tbody>
</table>

**budgetary**

None

22) To reclassify inventory held for sale that was damaged and unrepairable. The net realizable value of the damaged item (its salvage value) was estimated to be $250. [¶30] This entry would also apply to inventory in excess and obsolete for which the net realizable value is less than the book value.

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1524</td>
<td>Inventory - excess, obsolete and unserviceable</td>
<td>250</td>
</tr>
<tr>
<td>7290</td>
<td>Other losses</td>
<td>200</td>
</tr>
<tr>
<td>1527</td>
<td>Inventory - Finished Goods</td>
<td>450</td>
</tr>
<tr>
<td>1521</td>
<td>Inventory Purchased for resale</td>
<td>xxxx</td>
</tr>
</tbody>
</table>

**budgetary**

None

22a) The item was later disposed and the entity received $50 [¶30]

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>Fund balance</td>
<td>50</td>
</tr>
<tr>
<td>7210</td>
<td>Losses on disposition of asset</td>
<td>200</td>
</tr>
<tr>
<td>1524</td>
<td>Inventory - excess, obsolete and unserviceable</td>
<td>250</td>
</tr>
</tbody>
</table>

**budgetary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4252</td>
<td>Reimbursements &amp; other income earned - collected</td>
<td>50</td>
</tr>
<tr>
<td>4210</td>
<td>Anticipated reimbursements &amp; other income</td>
<td>50</td>
</tr>
<tr>
<td>4590</td>
<td>Apportionments - Unavailable</td>
<td>50</td>
</tr>
<tr>
<td>4610</td>
<td>Allotments - realized resources</td>
<td>50</td>
</tr>
</tbody>
</table>
August 11, 1998 (Revised)

Some of the inventory held for sale had a minor damage that need repair

**ALLOWANCE METHOD** [¶32]

23a) To record damaged inventory items that need repairs

**proprietary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1523 Inventory held for repair</td>
<td>2,000</td>
</tr>
<tr>
<td>1527 Inventory - Finished Goods</td>
<td>2,000</td>
</tr>
<tr>
<td>1521 Inventory Purchased for Resale</td>
<td>xxxx</td>
</tr>
</tbody>
</table>

**budgetary**

None

23b) To record repair costs for item A & B are estimated to be $500 each for the period

**proprietary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>6100 Operating expense (repair)</td>
<td>1,000</td>
</tr>
<tr>
<td>1529 Inventory - allowance</td>
<td>1,000</td>
</tr>
</tbody>
</table>

**budgetary**

None

23c) To record actual repair cost of item A which was $200 lower than previously estimated.

**proprietary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1529 Inventory - allowance</td>
<td>500</td>
</tr>
<tr>
<td>2110 Accounts payable</td>
<td>300</td>
</tr>
<tr>
<td>6100 Operating expense</td>
<td>200</td>
</tr>
</tbody>
</table>

The repair cost was not recorded as undelivered orders, previously

**budgetary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4610 Allotments - realized resources</td>
<td>300</td>
</tr>
<tr>
<td>4901 Expended authority-unpd</td>
<td>300</td>
</tr>
</tbody>
</table>

23d) To record actual repair cost of item B which was $100 more than previously estimated.

**proprietary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1529 Inventory - allowance</td>
<td>500</td>
</tr>
<tr>
<td>6100 Operating expense</td>
<td>100</td>
</tr>
<tr>
<td>2110 Accounts payable</td>
<td>600</td>
</tr>
</tbody>
</table>
August 11, 1998 (Revised)

budgetary
The repair cost was not recorded as undelivered orders, previously

4610 Allotments - realized resources  600
4901 Expended authority - unpaid  600

24) To reclassify items that are repaired and are ready to be sold

proprietary

1527 Inventory - Finished Goods  2,000
1521 Inventory Purchased for Resale  xxxx
1523 Inventory held for repair  2,000

budgetary
None

25) To record an entity making a transition to allowance method which resulted in recognizing an accumulated amount of repairs that were not previously accounted.  [¶34]

proprietary

7400 Prior period adjustment  5,000
1529 Inventory - allowance  5,000

budgetary
None

DIRECT METHOD  [¶33]

proprietary

26a) To record damaged inventory items that need repairs. The repair expenses for items C & D are estimated to be $1,000 each

1523 Inventory held for repair  2,000
6100 Operating exp (repair)  2,000

1527 Inventory - Finished Goods  4,000
1521 Inventory Purchased for Resale  xxxx

26b) To record actual repair cost of item C, which was $1,200.

proprietary

1523 Inventory held for repair  1,000
The repair cost was not recorded previously as undelivered orders

26c) To record actual repair cost of item D, which was $700.

The repair cost was not recorded previously as undelivered orders

27) To reclassify items that are repaired and are ready to be sold

28) To record an entity making a transition to direct method which resulted in recognizing an accumulated amount of repairs that were not previously accounted. [¶34]
A REPAIR METHOD DEALING WITH TRADE-INS
Note: This is the way that Department of Defense accounts for its repairable items dealing with trade-ins.

ASSUMPTIONS:
a) Assume the entries illustrated below is a federal entity (a vehicle procurer) which buys motor vehicles and sells them to other federal entities.

b) Assume this entity receives motor vehicles that need repairs. It does not repair the vehicles directly but makes arrangements with a repair facility to fix the vehicles and then sells repaired vehicles back to a customer entity.

c) Note that repair method dealing with trade-in illustrated below does not show a complete process.

A customer entity wants to get a new motor vehicle and trade in his old motor vehicle that needs a repair. The FMV of the old vehicle is $3,000 and the vehicle procurer wants another $2,000 in cash. The customer agrees and promises to pay $2,000 in 10 days and takes the new motor vehicle back to his organization. On vehicle procurer’s book, the following entries are made:

NOTE: ENTRIES 29A, 29B, AND 29C OCCUR SIMULTANEOUSLY
29a) The vehicle procurer and the customer entered into an agreement and $2,000 will be paid by the customer
proprietary
None

budgetary
4221 Unfilled customer order - without advance 2,000
4210 Anticipated reimbursements and other income 2,000

4590 Apportionments - Unavailable 2,000
4610 Allotments - realized resources 2,000

29b) To record issuance of a new motor vehicle to the customer
proprietary
6500 Cost of goods sold 3,300
1529 Inventory - allowance for holding gains/losses 700
1527 Inventory - Finished Goods 4,000

(Cost of goods sold represent the cost of the new vehicle; Upon a sale, inventory
allowance is adjusted to reduce the previously unrealized holding gains/losses.)

**budgetary**
None

29c) To record an old motor vehicle that was traded in for a new motor vehicle. This entry is to show trade-in only and additional entry for indirect cost is not included.

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1310</td>
<td>Accounts receivable</td>
<td>2,000</td>
</tr>
<tr>
<td>1523</td>
<td>Inventory held for repair</td>
<td>4,000</td>
</tr>
<tr>
<td>5100</td>
<td>Revenue from goods sold</td>
<td>2,000</td>
</tr>
<tr>
<td>5790</td>
<td>Other financing source</td>
<td>3,000</td>
</tr>
<tr>
<td>1529</td>
<td>Inventory - allowance for estimated repair cost</td>
<td>1,000</td>
</tr>
</tbody>
</table>

(Account receivable represents the cash amount the vehicle procurer will receive from the customer; Inventory held for repair represents the value of an asset after it is repaired (value of a similar new asset); Other financing source represents FMV of the old vehicle - other financing source was used instead of revenue from goods sold due to trade-in which is not a budgetary resource; Inventory allowance represents the estimated repair cost of the damaged vehicle)

**budgetary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4251</td>
<td>Reimbursements &amp; other income earned - receivable</td>
<td>2,000</td>
</tr>
<tr>
<td>4221</td>
<td>Unfilled customer orders - without advance</td>
<td>2,000</td>
</tr>
</tbody>
</table>

29d) To record the cash received from the customer entity in exchange for the broken vehicle

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>Fund balance with Treasury</td>
<td>2,000</td>
</tr>
<tr>
<td>1310</td>
<td>Accounts receivable</td>
<td>2,000</td>
</tr>
</tbody>
</table>

**budgetary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4252</td>
<td>Reimbursements &amp; other income earned - collected</td>
<td>2,000</td>
</tr>
<tr>
<td>4251</td>
<td>Reimbursements &amp; other income earned - receivable</td>
<td>2,000</td>
</tr>
</tbody>
</table>

29e) To record actual repair cost of $1,000 for the damaged vehicle recorded on entry #29c, and to set up payable to repair installation. *(Note: In DoD the vehicle procurer absorbs both losses and gains due to incorrect estimation).*

**proprietary**

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Description</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1529</td>
<td>Inventory - allowance for estimated repair cost</td>
<td>1,000</td>
</tr>
<tr>
<td>2110</td>
<td>Accounts payable</td>
<td>1,000</td>
</tr>
</tbody>
</table>
(Inventory - allowance amount represents the estimated repair cost from entry #29c; Accounts payable represent the amount payable to repair facility for fixing the old vehicle from entry #29c)

**budgetary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4610</td>
<td>Allotments - realized resources</td>
<td>1,000</td>
</tr>
<tr>
<td>4901</td>
<td>Expended authority - unpaid</td>
<td>1,000</td>
</tr>
</tbody>
</table>

29f) To reclassify an old vehicle from entry #21a which is now fixed and ready to be sold

**proprietary**

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1527</td>
<td>Inventory - Finished Goods</td>
<td>4,000</td>
</tr>
<tr>
<td>1523</td>
<td>Inventory held for repair</td>
<td>4,000</td>
</tr>
</tbody>
</table>

**budgetary**

None

**LATEST ACQUISITION COST METHOD**

This section of the Inventory held for sale shows illustration on Latest Acquisition Cost Method (LAC) [¶23]

**ASSUMPTION:** The entity decided to buy item Y and sell it to other entities during the year. The item Y would be valued under the Latest Acquisition Cost Method.
TABLE -Current Year Activity

<table>
<thead>
<tr>
<th>Item</th>
<th>Qty</th>
<th>Unit cost</th>
<th>Total cost</th>
<th>Unrealized gain/(loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2/14</td>
<td>Y</td>
<td>20</td>
<td>30</td>
<td>600</td>
</tr>
<tr>
<td>6/25</td>
<td>Y</td>
<td>30</td>
<td>40</td>
<td>1,200</td>
</tr>
<tr>
<td>11/3</td>
<td>Y</td>
<td>30</td>
<td>50</td>
<td>1,500</td>
</tr>
<tr>
<td>12/31</td>
<td></td>
<td>80</td>
<td>@</td>
<td>3,300</td>
</tr>
</tbody>
</table>

HC = Historical Cost

30a) To record goods purchased on 2/14

*proprietary*

1521 Inventory Purchased for Resale 600
2110 Accounts payable 600

*budgetary*

4610 Allotments - realized resources 600
4901 Expended authority - unpaid 600

30b) To record goods purchased on 6/25

*proprietary*

1521 Inventory Purchased for Resale 1,200
2110 Accounts payable 1,200

*budgetary*

4610 Allotments - realized resources 1,200
4901 Expended authority - unpaid 1,200

30c) To record goods purchased on 11/3

*proprietary*

1521 Inventory Purchased for Resale 1,500
2110 Accounts payable 1,500

*budgetary*

4610 Allotments - realized resources 1,500
4901 Expended authority - unpaid 1,500

30d) The order was received on 11/20 without an advance

*proprietary*

None
Period - refers to an accounting period which is a span of time covered by an income statement; period can be on monthly, quarterly or annual basis.

August 11, 1998 (Revised)

**budgetary**

4221  Unfilled customer orders - without advance  2,400  
4210  Anticipated reimbursements & other income  2,400  

4590  Apportionments - Unavailable  2,400  
4610  Allotments - realized resources  2,400  

30e) To record sale of inventory on 12/5 (40@ $60)  

**proprietary**

1010  Fund balance  2,400  
5100  Revenue from goods sold  2,400  

**budgetary**

4252  Reimbursements & other income earned-collected  2,400  
4221  Unfilled customer orders - without advance  2,400  

30f) To revalue inventory at the end of the period\(^3\) using latest acquisition method  

**proprietary**

1521  Inventory Purchased for Resale  350  
1529  Inventory - allowance  350  

(To revalue inventory at latest acquisition method $50*80 = $4,000-$3300 (actual cost) = 700*40/80 = 350)  

**budgetary**

None  

30g) To record cost of goods sold for the period  

**proprietary**

6500  Cost of goods sold  1,650  
1521  Inventory Purchased for Resale  1,650  

**budgetary**

None  

---

\(^3\) Period - refers to an accounting period which is a span of time covered by an income statement; period can be on monthly, quarterly or annual basis.
Cost of goods sold calculations:
Beginning Inventory at LAC 0
Less: beginning allowance for unrealized holding gains 0
Plus: actual purchases 3,300
Cost of goods available for sale 3,300
Less: ending inventory at end of the period LAC
$50*[80-40(#sold)] = 2,000 2,000
Plus: Ending allowance for unrealized holding gains 350

Cost of Goods Sold 1,650

ADJUSTING ENTRIES:

Budgetary
4590 Apportionments - Unavailable 13,750
4210 Anticipated reimbursements and Other income 13,750
CLOSING ENTRIES:

Proprietary
To close overhead underapplied from manufacturing activity, which is deemed immaterial.

6600  Applied overhead  4,500
6500  Cost of goods sold  1,000
6100  Operating expense/Program costs (overhead)  5,000
6710  Depreciation expense  500

[If overhead is overapplied (applied overhead is budgeted more than the actual), the adjustment will be credited to CGS]

To close all revenue and expense accounts

5100  Revenue from goods sold  21,200
5600  Donated revenue  2,000
5790  Other financing sources  3,000
3310  Cumulative results of operations  26,200

3310  Cumulative results of operations  40,150
6100  Operating expenses  5,800
6500  Cost of goods sold  22,750
7210  Losses on disposition of assets  400
7290  Other losses  200
7400  Prior period adjustments  11,000

Budgetary
To close budgetary accounts

4902  Expended authority - unpd  27,000
4201  Total actual resources - collected  5,750
4252  Reimbursements and other income earned - coll  21,250

4610  Allotments - realized resources  24,150
4450  Unapportioned authority - available  24,150