

Inventoriable and Period Costs

Accounting presentation created by
Rex A Schildhouse
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www.schildhouse.com



Inventoriable and Period Costs

- Inventoriable costs are costs that are available to you tomorrow.
- Inventoriable costs are placed on the balance sheet.
- Period costs are the costs of events happening today when their costs cannot be recovered tomorrow.
- Period costs, expenses, are placed on the income statement.

Inventoriable and Period Costs

- Inventoriable costs are on the balance sheet.
- They allow you to do something or render you a value some time in the future.

Inventoriable and Period Costs

- For a manufacturing company you have four types of inventoriable costs associated with production.
 - Raw Materials,
 - Work in Process,
 - Semi-finished Goods, and
 - Finished Goods.

Inventoriable and Period Costs

- Raw material is that material purchased for a production effort and not yet introduced to it.
- These allow you to make something tomorrow.

Inventoriable and Period Costs

- Work in process is an inventoriable cost.
- These items are what is on the workbench or in the assembly line between inventoriable conditions.
- If you stop right now, it will be available for you tomorrow.
- Therefore it is inventoriable.

Inventoriable and Period Costs

- Finished goods available for you tomorrow if you do not sell them today.
- Since they are available tomorrow finished goods are an inventoriable costs.
- Semi-finished goods, not addressed in textbooks, are those parts that are ready to be come part of a larger assembly – inventoriable costs.

Inventoriable and Period Costs

- Materials, in any of their states of raw materials, work in process, semi-finished goods, and finished goods are all inventoriable costs along with office supplies and repair parts.
- Inventoriable costs, other than office supplies and repair parts, are usually associated with production.

Inventoriable and Period Costs

- For a manufacturing operation, direct labor is an inventoriable cost.
- If Dana puts in eight hours of work today making crayon blanks, and does not come back tomorrow, Dana's work is preserved in the crayon blanks.
- If Chris records journal entries all day today and does not come in tomorrow, the new journal entries must still be entered.

Inventoriable and Period Costs

- For a manufacturing operation, indirect costs become inventoriable costs over time.
- Factory / manufacturing overhead, all indirect costs, are applied to production through drivers with the appropriate rate.

Inventoriable and Period Costs

- Period costs are costs incurred today that are gone the moment they are incurred, they do not benefit the company tomorrow and cannot be preserved.

Inventoriable and Period Costs

- Any cost associated with the front offices are period costs.
 - The president of the company's salaries – if he does not show up tomorrow production still produces.
 - Any cost associated with accounting, advertising, sales & marketing, legal, research & development and human resources are all period costs.

Inventoriable and Period Costs

- A common phrase is “capitalized costs” and this term interacts with inventoriable costs.
- A prepaid insurance policy is a capitalized, put on the balance sheet, cost. It will become a period cost or expense as it expires.
- For any company office supplies are an capitalized cost. They allow you to print reports tomorrow. They will become an expense.

Inventoriable and Period Costs

- Period costs and therefore period expenses often carry titles such as:
 - Operating expenses,
 - Selling expenses, and
 - General and administrative expenses.

Inventoriable and Period Costs

- There are interesting and intertwined costs.
- Prepaid insurance for production is an inventoriable cost which will be allocated or applied to production through factory / manufacturing overhead.
- Prepaid insurance for the front office will be a capitalized cost which will become a period expense as Insurance Expense.

Inventoriable and Period Costs

- Both a manufacturer and a merchandising company may include other costs into the inventoriable cost accounts. These costs include:
 - Freight-in – the cost of getting the merchandise to the company's production site or selling site,
 - Insurance during transit, and
 - Any customs, duties, or taxes paid on the purchase.

Inventoriable and Period Costs

The end.