LINKS Tutorial #9:

Reconfiguration Inventory Accounting

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Firm 9 reconfigures product 9-1 in round #18. What are the associated reconfiguration inventory accounting consequences?

To trace through the inventory accounting consequences of this reconfiguration, we'll need to reference firm 9's round #17 and round #18 financial reports.

Firm 9's round #17 Balance Sheet shows the following finished goods inventory at the end of round #17:

```
Finished Goods Inventory:
   Plant & DC1:  Product 9-1 (  54,885 units @    118.50/unit)       6,503,872
                 Product 9-2 (       0 units @      0.00/unit)               0
```

The corresponding figures for firm 9's finished goods inventory reported on the round #18 Balance Sheet are:

```
Finished Goods Inventory:
   Plant & DC1:  Product 9-1 (  15,873 units @    304.00/unit)       4,825,392
                 Product 9-2 (       0 units @      0.00/unit)               0
```

What happened between the round #17 and round #18 Balance Sheets?

```
Round #17 9-1 Ending Inventory:     54,885 units

Round #18:
Beginning of Round #18 Disposal    -54,885 units
Post-Disposal Beginning Inventory        0 units
Regular Production                  25,000 units
Emergency Production                     0 units
Available Inventory                 25,000 units
Sales                               -9,127 units
Ending Inventory                    15,873 units
```

```
From the round #18 Finished Goods
Inventory Report for Firm 9:

                                Product
                                    9-1
                                -------

   Beginning Inventory                0
 + Regular Production            25,000
 + Emergency Production               0
 = Available Inventory           25,000
 - Sales, Region 1               -2,382
 - Sales, Region 2               -6,745
 - Sales, Region 3                    0
 = Ending Inventory              15,873
```

Product 9-1's round #18 Ending Inventory of 15,873 units are the finished goods inventory of the newly reconfigured 9-1 after accounting for round #18:

- post-disposal beginning inventory (0 units)
- regular production and emergency production (25,000 units)
- sales in all three regions (9,127 units).

Firm 9's corresponding round #18 Cash Flow Analysis Report shows:

```
+ "Finished Goods Inventory" Changes:
     Product 9-1 (From  6,503,872 To  4,825,392)                     1,678,480
     Product 9-2 (From          0 To          0)                             0
```

This reflects the Balance Sheet transactions of exchanging inventory of product 9-1 for cash with the reconfiguration (changing the product 9-1 inventory $-value from 6,503,872 to 0) and then adding in the round #18 ending inventory $-value of 4,825,392, with the net inventory investment being reduced by 1,678,480 which is added into the firm's cash balance.

All of these Balance Sheet transactions involve the exchange of cash for inventory (decrease cash and increase inventory) or of inventory for cash (decrease inventory and increase cash).

The associated cost implication of this reconfiguration is Disposal Sales. Disposal Sales cost reported on the round #18 Corporate P&L statement is 1,300,744, which corresponds to 20% of the round #17 product 9-1 finished goods ending inventory $-value of 6,503,872.