INTRODUCTION

Whenever the operation of a business includes the ownership of a stock of goods, it is necessary for adequate financial accounting purposes that inventories be properly compiled periodically and recorded in the accounts.¹ Such inventories are required for the statement of financial position and for the periodic measurement of income.

This bulletin deals with the general principles applicable to the pricing of inventories of mercantile and manufacturing enterprises. Its conclusions are not directed to or necessarily applicable to non-commercial businesses or to regulated utilities.

STATEMENT 1

The term "inventory" is used herein to designate the aggregate of those items of tangible personal property which (1) are held for sale in the ordinary course of business, (2) are in the process of production for such sale, or (3) are to be currently consumed in the production of goods or services to be available for sale.

Discussion

The term "inventory" embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process) and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes the long-term assets subject to depreciation accounting, or any goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item be classified as part of the inventory. Raw materials and

¹ Prudent reliance upon perpetual inventory records is not precluded. Cf. Statements on Auditing Procedure No. 1, p. 6, American Institute of Accountants.

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