Track Rack is a software development company that specializes in developing information systems to account for inventory. The company maintains an attractive website, which is one of its primary marketing vehicles. The marketing department has suggested adding a "frequently asked questions" section to the website. The section is intended to focus on general inventory accounting concepts. By so doing, visitors will come to the website to learn about inventory accounting. Based on a visitor's pattern of clicks, pop-up adds will be triggered featuring specific software solutions that may be suitable to help the visitor with accounting issues they face.

The marketing department prepared the following list of "questions" they felt would trigger interest in a particular software product. An inexperienced staffer drafted the proposed "answers". Your job is to review the FAQs below, and suggest necessary corrections or clarifications related to each proposed answer.

**QUESTION** Are "finished goods" synonymous with "cost of goods sold?"

**ANSWER** For a manufacturer, inventory may consist of crude goods, work in process, and finished goods categories. Finished goods are completed units awaiting sale. Cost of goods sold is the cost assigned to goods that have been sold and delivered to customers.

**QUESTION** How does the negotiation of freight terms impact total inventory?

**ANSWER** Goods that are purchased F.O.B. destination are not included in inventory until received. Goods that are sold F.O.B. destination are transferred out of inventory on the day shipped.

**QUESTION** Are consigned goods included in inventory?

**ANSWER** Consigned goods remain in the inventory of the consignee, and should not be reported on the books of the consignor.

**QUESTION** Is "inventory" also called "cost of goods available for sale"?

**ANSWER** Cost of goods available for sale is not the same as inventory. Cost of goods available for sale relates to a period of time and the amount is probably never actually on hand all at once. It is calculated as ending inventory plus purchases.

**QUESTION** How does LIFO result in cash savings during a period of rising prices?

**ANSWER** LIFO generally results in a higher income level during a period of rising prices. More income equates to more cash!

**QUESTION** Will a periodic and perpetual system give me the same results?

**ANSWER** Never. The perpetual recalculation of inventory balances gives a different result than is achieved under a periodic application of FIFO, LIFO, and average costing techniques.

**QUESTION** It seems like the "gross profit" method is much simpler than FIFO, LIFO, or average costing. Can I use it as my primary inventory valuation technique?

**ANSWER** Yes. The gross profit method is an acceptable alternative to one of the other mentioned inventory costing methods.

**QUESTION** How can I use the retail inventory technique to estimate inventory theft?

**ANSWER** You cannot. Retail inventory techniques are used to assign costs to retail inventory on hand. It is unreasonable to expect an accounting method to determine the cost of inventory that no longer exists.
QUESTION  What’s the big deal if I undercount ending inventory? The goods are still there so there is no real problem, right?

ANSWER  That’s right. Even if you miscount, there is no economic effect. After all, the goods are still on hand. The numbers don’t really matter in this case.