Certified in Planning and Inventory Management

Basic Accounting and Inventory

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Basic Accounting and Inventory

1. Inventory as an Asset on the Balance Sheet

Inventory appears as a **current asset** on the balance sheet and represents goods that a company plans to sell or use in production. CPIM requires understanding how inventory valuation influences financial statements, working capital, liquidity ratios, and return on assets. Overstated inventory inflates profits; understated inventory reduces profitability. Since financial decisions rely heavily on inventory accuracy, sound inventory control ensures the balance sheet reflects true operational capability. This concept forms the foundation of cost accounting, financial reporting, and supply chain finance integration.

2. Cost of Goods Sold (COGS)

COGS represents the direct cost of items sold during a period and includes raw materials, direct labor, and manufacturing overhead. It is calculated as:

Beginning Inventory + Purchases – Ending Inventory.

CPIM emphasizes the strong link between COGS, profitability, and inventory valuation methods such as FIFO, LIFO, and Weighted Average. A change in ending inventory directly affects reported profit. Understanding COGS helps planners appreciate the financial impact of inventory accuracy, scrap, rework, and material planning decisions.

3. Inventory Valuation Methods (FIFO, LIFO, Weighted Average)

These methods determine the cost assigned to inventory and COGS:

- **FIFO**: Assumes oldest items are sold first; higher profit during inflation.

- **LIFO**: Assumes newest items are sold first; reduces taxable income during inflation (U.S.-specific).
- **Weighted Average**: Smooths price fluctuations.
  CPIM stresses knowing how valuation affects financial statements, tax calculations, and inventory cost behavior. Choosing the right method influences profit reporting and balance sheet values.

4. Standard Costing

Standard costing assigns predetermined material, labor, and overhead costs to inventory instead of actual costs. Variances between standard and actual costs are tracked for control and analysis. CPIM requires understanding how standard costing supports production planning, budgeting, and efficiency measurement. Favorable variances indicate cost savings; unfavorable variances signal inefficiencies. Standard costing simplifies accounting but demands accurate bills of materials, routings, and labor standards.

5. Actual Costing

Actual costing assigns real material, labor, and overhead costs to inventory. While accurate, it is complex and time-consuming. CPIM highlights actual costing in environments with high cost variability or where precision is mandatory. Accurate actual costing improves profitability analysis and pricing strategies but requires real-time data and robust systems.

6. Perpetual vs. Periodic Inventory Systems

- **Perpetual System**: Continuously updates inventory with each transaction; requires barcoding or ERP systems.

- **Periodic System**: Updates inventory only at specific intervals based on physical counts.
  CPIM emphasizes that perpetual systems improve accuracy and replenishment planning, while periodic systems may hide variances and shrinkage. Understanding both systems helps planners interpret financial data and audit results.

7. Absorption Costing

Absorption costing assigns all manufacturing costs—direct materials, direct labor, and both variable and fixed overhead—to inventory. It is required for external financial reporting. CPIM stresses that absorption costing may temporarily inflate profit when production exceeds sales, due to fixed cost absorption. Planners must understand how production volume decisions affect reported profitability.

8. Variable Costing

Variable costing assigns only variable manufacturing costs to inventory; fixed overhead is treated as a period expense. CPIM emphasizes its use in internal decision-making because it shows true contribution margin. It avoids profit distortion found in absorption costing. Understanding both methods helps planners see how inventory and production levels affect financial performance.

9. Inventory Write-Downs and Write-Offs

Write-downs occur when inventory loses value but retains some utility; write-offs eliminate worthless inventory. CPIM stresses that poor forecasting, obsolescence, and quality issues often cause write-offs. These adjustments lower assets, increase expenses, and reduce profitability. Good inventory control prevents significant financial losses.

10. Shrinkage and Inventory Accuracy
Shrinkage results from theft, miscounts, damage, or administrative errors. CPIM emphasizes inventory accuracy as a cornerstone of financial reporting, replenishment planning, and customer service. Cycle counting, proper warehouse procedures, and system discipline reduce shrinkage. Low accuracy leads to incorrect financial statements and planning errors.

11. Overhead Allocation
Overhead includes indirect costs such as utilities, supervision, depreciation, and maintenance. Overhead must be allocated to inventory using absorption costing methods. CPIM requires understanding allocation bases (machine hours, labor hours, activity drivers) and how overhead variances impact cost accuracy, pricing, and profitability analysis.

12. Work-in-Process (WIP) Accounting
WIP represents goods in production but not yet completed. CPIM emphasizes proper tracking of material, labor, and overhead in WIP accounts. Too much WIP inflates asset value and hides inefficiency; too little may indicate bottlenecks or poor scheduling. Accurate WIP accounting supports lean manufacturing, throughput analysis, and financial reporting.

13. Finished Goods Inventory Accounting
Finished goods represent completed products awaiting sale. CPIM highlights how valuation affects COGS, taxes, and profitability. Misstated finished goods inventory distorts financial results and misguides planning. Planners must

understand how production, scrap, spoilage, and rework affect finished goods valuation.

14. Material Variances (Price, Usage, Mix)

- Material price variance compares actual purchase price with standard price.
- Usage variance compares actual quantities used with standard quantities.
- Mix variance applies when multiple materials form a product.
- CPIM emphasizes that variances reveal operational inefficiencies, supplier issues, or planning errors.
- Understanding them helps improve accuracy and cost control.

15. Labor Variances (Rate, Efficiency)

Labor rate variance compares actual vs. standard wage rates; efficiency variance measures actual vs. standard productivity. CPIM highlights labor variances as key indicators of workforce performance, training levels, scheduling effectiveness, and equipment reliability. Strong variance analysis supports continuous improvement.

16. Manufacturing Overhead Variance

Overhead variance includes spending variance (actual vs. budgeted overhead) and volume variance (difference due to production volume changes). CPIM emphasizes understanding these variances to control costs, improve capacity planning, and correct inefficiencies.

17. Inventory Turnover Ratio

Inventory turnover measures how many times inventory is sold or used within a period. A high turnover indicates

efficient inventory management; low turnover suggests overstocking or obsolescence. CPIM requires strong command of this metric because it links operational performance to financial health. It influences working capital, cash flow, and profitability.

18. Days of Inventory on Hand (DOH)

DOH measures how long inventory will last at the current consumption rate. CPIM highlights DOH as a key operational and financial KPI. Lower DOH improves cash flow but risks stockouts; higher DOH increases carrying cost. Proper understanding supports safety stock setting, purchasing decisions, and working capital optimization.

19. Cash-to-Cash Cycle Time

C2C cycle measures how long cash is tied up in inventory before being converted back into revenue. CPIM emphasizes that shorter cycles reflect more efficient inventory management and better liquidity. Long cycles suggest excess inventory or long lead times. C2C integrates procurement, production, and order fulfillment performance.

20. Impact of Inventory on Financial Ratios

Inventory influences multiple financial ratios—current ratio, quick ratio, return on assets, gross margin, and working capital metrics. Misstated inventory can mislead managers, investors, and auditors. CPIM stresses understanding how operational decisions—lot sizes, safety stock, cycle stock—affect the financial ratios that stakeholders use to evaluate business health.

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Micro-Learning Programs in Supply Chain Management

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2. Supply Chain Planning and Optimization
3. Demand Forecasting Techniques
4. Inventory Control and Management
5. Distribution and Logistics Strategy
6. Warehouse Layout and Operations Efficiency
7. Supply Chain Risk Management
8. Supply Chain Performance Metrics (KPIs)
9. Lean Supply Chain Practices
10. Agile and Responsive Supply Chains
11. Sales and Operations Planning (S&OP)
12. Supply Chain Network Design
13. Supply Chain Digital Transformation
14. AI and Data Analytics in Supply Chain
15. Supply Chain Sustainability and Green Logistics
16. Reverse Logistics and Returns Management
17. Supply Chain Collaboration and Integration
18. Supplier Relationship Management in SCM
19. Global Supply Chain Strategy
20. Transportation Management Systems (TMS)
21. Inventory Optimization Models
22. Demand-Driven MRP (DDMRP) Concepts
23. Blockchain Applications in Supply Chain
24. Supply Chain Cost Reduction Techniques
25. SCOR Model and Process Improvement

Micro-Learning Programs in Supply Chain Management …

26. Capacity Planning and Resource Allocation
27. Managing Supply Chain Disruptions
28. End-to-End Supply Chain Visibility
29. Cold Chain Logistics Management
30. Supply Chain Compliance and Ethics
31. Import–Export Procedures and Documentation
32. Managing Third-Party Logistics (3PL) Providers
33. Supply Chain Collaboration Technologies
34. Production Planning and Scheduling
35. Strategic Supply Chain Design Using Case Studies
36. Circular Economy in Supply Chain
37. Vendor-Managed Inventory (VMI)
38. Transportation Optimization Techniques
39. E-Commerce Supply Chain Models
40. Omni-Channel Fulfillment Strategies
41. Warehouse Automation and Robotics
42. SCOR DS Roadmap for Supply Chain Excellence
43. Customer-Centric Supply Chain Strategies
44. Supply Chain Finance and Working Capital Management
45. Supply Chain Data Visualization Using Power BI
46. Strategic Sourcing in Supply Chain Context
47. Supply Chain Benchmarking and Best Practices
48. Integrated Business Planning (IBP)
49. Supply Chain in Crisis Management and Recovery
50. Future Trends and Technologies in Supply Chain

Micro-Learning Programs in Procurement

1. Fundamentals of Procurement Management
2. Strategic Sourcing and Category Management
3. Supplier Selection and Evaluation
4. Contract Management Essentials
5. Cost and Price Analysis in Procurement
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8. Procurement Planning and Budgeting
9. Risk Management in Procurement
10. Supplier Relationship and Performance Management
11. Sustainable and Ethical Procurement
12. Total Cost of Ownership (TCO) Analysis
13. Make-or-Buy Decision Frameworks
14. Procurement Policies and Governance
15. Procurement in Public vs. Private Sectors
16. Procurement Audit and Compliance
17. Procurement Data Analytics and Reporting
18. Procurement Scorecards and KPIs
19. Strategic Supplier Partnerships
20. Category Strategy Development
21. Managing Global and Offshore Procurement
22. Negotiation Simulation Workshop
23. Contract Law for Procurement Managers
24. Cost Reduction Strategies in Procurement
25. Supplier Risk Assessment Models

Micro-Learning Programs in Procurement …

26. Procurement Process Mapping and Improvement
27. Procurement Automation and AI Applications
28. Managing Procurement Teams Effectively
29. Procurement Ethics and Transparency
30. Procurement in the Digital Supply Chain
31. Vendor Consolidation Strategies
32. Spend Analysis and Optimization
33. Demand Forecasting for Procurement
34. E-Auction and Reverse Bidding Techniques
35. Inventory and Procurement Alignment
36. Procurement in Project-Based Organizations
37. Supplier Onboarding and Development
38. Procurement Market Intelligence
39. Measuring Supplier Innovation
40. Procurement in Times of Supply Disruption
41. Cross-Functional Collaboration in Procurement
42. Writing Effective RFPs, RFQs, and RFIs
43. Contract Negotiation Best Practices
44. Green Procurement and Circular Economy
45. Legal Aspects of Procurement Contracts
46. Performance-Based Contracting
47. Procurement Leadership and Strategic Influence
48. Cost Avoidance and Value Creation in Procurement
49. Managing Procurement with Power BI Dashboards
50. Future Skills and Trends in Procurement

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