

Reading the Inventory Valuation Detail Report

Chapter 7

QBO uses FIFO to value inventory. A new FIFO layer is **created** each time a purchase or customer return is recorded. Layers are **reduced** each time a sale or a return to a vendor is recorded. The oldest layers are reduced first. In product sales transactions, the unit costs **in the layers** are used to calculate the debit to Cost of Goods Sold.

Here's an example using the test drive company and a new product (Wheelbarrows):

1. On 9/19, Craig purchases 3 new Wheelbarrow products (\$50 per unit, Vendor bill #456-7).
2. On 9/22, Craig sells 2 of the Wheelbarrows on Invoice #1038.
3. On 9/23, the customer returns one of the Wheelbarrows sold on 9/22. (CM#1038)
4. On 9/26, Craig purchases 3 more Wheelbarrows (\$55 per unit, Vendor bill #567-8).
5. On 9/28, Craig sells 3 Wheelbarrows on Invoice #1039.

Here's how the inventory cost layers work:

Transactions	Layer 1	Layer 2	Layer 3
9/19 purchase	3 @ \$50 each		
9/22 sale	(2 @ \$50 each)		
9/23 customer return		1 @ \$50	
9/26 purchase			3 @ \$55 each
9/28 sale	(1 @ \$50 each)	(1 @ \$50)	(1 @ \$55)
Balance	0	0	2 @ \$55

At 9/28, Inventory equals \$110 (2 @ \$55 each), and COGS equals \$205 (3 @ \$50 plus 1 @ \$55).

In QBO, the FIFO layer activity can be seen in the **Inventory Valuation Detail** report:

Craig's Design and Landscaping Services								
Inventory Valuation Detail								
September 19-28, 20								
DATE	TRANSACTION TYPE	NUM	NAME	QTY	RATE	FIFO COST	QTY ON HAND	ASSET VALUE
▼ Garden tools								
▼ Wheelbarrow								
Beginning Balance							0.00	0.00
09/19/20	Layer 1 Bill	456-7	Hicks Hardware	3.00	50.00	150.00	3.00	150.00
09/22/20	Invoice From Layer 1	1038	Amy's Bird Sanctuary	(2.00)	50.00	(100.00)	1.00	50.00
09/23/20	Layer 2 Credit Memo	CM1038	Amy's Bird Sanctuary	1.00	50.00	50.00	2.00	100.00
09/26/20	Layer 3 Bill	567-8	Hicks Hardware	3.00	55.00	165.00	5.00	265.00
09/28/20	Invoice From Layer 1	1039	Diego Rodriguez	(1.00)	50.00	(50.00)	4.00	215.00
09/28/20	Invoice From Layer 2	1039	Diego Rodriguez	(1.00)	50.00	(50.00)	3.00	165.00
09/28/20	Invoice From Layer 3	1039	Diego Rodriguez	(1.00)	55.00	(55.00)	2.00	110.00
Total for Wheelbarrow				2.00		\$110.00	2.00	\$110.00
Total for Garden tools				2.00		\$110.00	2.00	\$110.00
								All from Layer 3

When your inventory value (account balance) is incorrect, open the **Inventory Valuation Detail** report and verify that the transaction dates are correct. A date error can change how the layers are managed.