Order Time and FIFO

Overview:

Inventory Value in Order Time is determined using the First In, First Out (FIFO) method except for the conditions listed in the Exceptions List found below.

First-in-first-out (FIFO): Meaning your costs of sales is determined by cost of the items you purchased the earliest and inventory is comprised of cost of the items you purchased the latest.

This also applies to Production and Work Orders. When components are consumed each component will have a value based on the FIFO method.

Example:

Company XYZ *purchased* 3000 widgets during the year and *sold* 1600, so it has 1400 widgets *in stock* at the end of the year. (There was no beginning inventory)

The following is a schedule of purchases it made:

Date	Qty	Cost per	Total cost
Jan 25, 2016	1,000	$1.00	$1,000
July 3, 2016	1,000	$1.25	$1,250
Nov 9, 2016	1,000	$1.10	$1,100

Total purchases = $3,350

The following is a schedule of sales of widgets:

Date	Qty	Price	Total Price

Feb 4, 2016	800	$2.00	$1,600
July 14, 2016	800	$1.80	$1,440

Total sales = $3,040

Under *FIFO* inventory would be valued at $1,600 (400 @ $1.25 + 1,000 @ $1.10). Cost of sales would be $1,750 ($0 + $3,350 - $1,600) and gross profit would be $1,290 ($3,040-$1,750)

Exceptions List:

1. The first exception is if the order requiring inventory has a linked document as a dependency.
   - For example, if you have a Sales Order with an item that you created a linked Work Order or Purchase Order for to bring in new inventory, the sales order will first try to select the inventory from the linked document. This is true even if the item already has older existing inventory.
2. The second exception is if the item has Lot or Serial Tracking enabled and you enter expiration dates.
   - Order Time will select the inventory with the oldest expiration date. For example, if you receive inventory that expires on 9/2022 after already receiving inventory that expires on 10/2022. Order Time will select the 9/2022 units first.
3. A third exception is a Company Preference that enables Order Time to select inventory from the default bin assigned to the item.
   - In this example if you have some older inventory in a non-default bin, but you have some brand-new inventory in the default bin, the inventory in the default bin will get selected first. The idea is to not have staff go hunting for hard to access overflow bins unless necessary. This will only happen if you enable the preference.