Objective of Accounting for Inventory
- Matching Principle
- Expenditures End Up as Deductions
- Exceptions

General Rule for Inventory
- Code Section 471(a)
- "Best Accounting Practice"
- "Most Clearly Reflecting Income"
Capitalization of Certain Expenses

- Code Section 263A
- Special Rules for Allocating Interest
  – Code Section 263A(f)

Merchandise

- Merchandise Must be Taken Into Account in Determining Taxable Income

What Is Merchandise?
- Items Produced for Sale
- Items Acquired for Sale
Supplies

- Deductible When -
  - Purchased?
  - Consumed?

Real Estate

- Never Inventory from Tax Standpoint

Inventory Costs

- Wholesalers and Retailers
  - Pre-1987 Rules
  - Post-1986 Rules
Inventoriable Costs

- Manufacturers
  - Direct Material Costs
  - Direct Labor Costs
  - Indirect Production Costs