

## Study of the Application of Inventory Valuation Methods in Private Companies in the City of Surabaya (Case Study at CV. Indo Listrik)

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**Abstract.** This study was prepared to provide an overview of the inventory valuation method that should be applied by CV. Indo Listrik. The object used in this research is CV. Indo Listrik, located at Pergudangan Mutiara Margomulyo Permai A-21. The results of the research show that CV. Indo Listrik has been calculating inventory value using the LIFO method, in which LIFO assumes that the remaining goods (ending inventory) come from the earliest purchases, while the prices of goods continue to increase. As a result, the LIFO method causes the inventory value presented in the financial statements (balance sheet) not to represent the recent cost level of inventory. Moreover, it is clear that the LIFO method is no longer permitted under either PSAK regulations or tax regulations. Several conclusions can be drawn: CV. Indo Listrik may use the Average inventory valuation method, because this method produces a middle value for the cost of goods sold and ending inventory, not too high and not too low. Under the Average method, whenever prices change, both the cost of goods sold and the cost of ending inventory remain up to date. Therefore, the inventory value in the financial statements produced by the Average method better represents the recent cost level of inventory. The Average method also complies with applicable PSAK and tax regulations.

**Keywords:** Inventory, LIFO, FIFO, Average

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### 1. Introduction

Every company aims to generate optimal profit in order to maintain its going concern and develop its business so that it becomes larger than before. One important element in a trading company is inventory. As stated by Agus Sartono (2010:443), inventory is generally one type of current asset whose amount is quite large in a company. This is understandable because inventory is an important factor in determining the smoothness of company operations. From the balance-sheet perspective, inventory consists of goods or materials remaining on the balance-sheet date, or goods that will soon be sold, used, or processed in the company's normal operating period.

The application of an inventory valuation method in a company will affect the income statement and the balance sheet in the company's financial statements. Therefore, errors in inventory valuation will also affect the financial statements. As a result, the financial statements may provide incorrect information to users, both internal and external users of the company. For this reason, it is very important to choose an appropriate inventory valuation method to be applied in the company according to its conditions and needs.

The regulation on the selection of valuation methods refers to PSAK 14 (1994), under which companies were allowed to use the LIFO, FIFO, and Average methods. However, according to Statement of Financial Accounting Standards (PSAK) No. 14 paragraph 25 (2016:14.4), 'The cost of inventories, except those referred to in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted-average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.' Based on the explanation of inventory valuation methods in PSAK No. 14, at present only the FIFO and weighted-average methods may be used to value inventories.

The LIFO (Last In, First Out) method means that the last goods purchased are the first goods sold or used. This method states that inventory with the most recent acquisition cost will be sold or used first, so ending inventory is valued and reported based on the cost of the earliest inventory purchased. This method tends to produce a lower ending-inventory value and has an impact on the company's lower asset value.

The Average method is a neutral method between FIFO and LIFO because it produces cost of goods sold, ending inventory value, and gross profit that fall between the values generated by FIFO and LIFO.

Similarly, tax regulations under Income Tax Law Number 36 of 2008 Article 10 paragraph 6, as cited in Zain (2010:150), state that 'inventories and the use of inventories for calculating cost of goods sold are valued based on acquisition cost, either by the average method or by prioritizing the inventory acquired first.' This means that PSAK and tax regulations are the same: only two methods are allowed, namely FIFO and Average.

CV. Indo Listrik has so far calculated inventory value using the LIFO method because it considers this method to be the most appropriate and easiest. However, if the company continues using the LIFO method to determine the amount of cost of goods sold and to value ending inventory, it will produce an ending-inventory value that is unreasonable or too low compared with the actual ending-inventory value, especially when purchase prices always increase. This causes the ending-inventory value in the income statement not to reflect the actual value, or the inventory presented in the financial statements (balance sheet) not to represent the recent cost level of inventory. Moreover, it is clear that the LIFO method is no longer permitted under either tax regulations or PSAK. Based on the background described above, the author is interested and encouraged to conduct research entitled Analysis of the Application of Inventory Valuation Methods at CV. INDO LISTRIK in SURABAYA.

## 2. Theoretical Framework

### Definition of Inventory

The Indonesian Institute of Accountants, through the Statement of Financial Accounting Standards (SAK 2016:14.2), defines inventory as follows:

- a. Inventory is an asset that is:
- b. Available for sale in the ordinary course of business;
- c. In the process of production and/or in transit; or
- d. In the form of materials or supplies to be used in the production process or in the provision of services.

## Nature of Inventory

Inventory is an asset element that is liquid or highly valuable. Investment in inventory is usually the largest current asset in trading (retail) and manufacturing companies. In factory or manufacturing companies, inventory includes goods that will be used in the next production process.

## Classification of Inventory

The classification of inventory depends on the characteristics of the company itself, namely whether it is a trading company or an industrial company. According to the Indonesian Institute of Accountants (IAI), through the Statement of Financial Accounting Standards (SAK 2016:14.2) paragraph 08, 'Inventories include goods purchased and held for resale, for example, merchandise purchased by a retailer for resale, or land and other property held for resale. For trading companies whose business is buying and reselling goods, inventory includes all goods owned by the company and ready to be sold to customers. In other words, the company purchases goods for resale. Inventory in a trading company is called merchandise inventory. Meanwhile, in industrial (manufacturing) companies, the company produces goods for sale, either to trading companies (distributors), retailers, or directly to the public. Usually, inventory in industrial (manufacturing) companies consists of:

- a. Raw Materials Inventory
- b. Work in Process Inventory
- c. Finished Goods Inventory

## The Importance of Inventory

According to Jusup Al Haryono (2011:184), the importance of inventory is as follows: 'Merchandise inventory is a very active asset element in the operations of trading companies because purchases and sales of merchandise are the most frequent activities or transactions. Merchandise inventory is generally valued at the lower of cost and market value or the value expected to be realized.'

Soemarso (1992:413) states, 'There is a relationship between merchandise inventory on the balance sheet and the income statement. There is even a relationship between inventory in the current year and inventory in the previous year. This relationship shows how important this item is in determining profit or loss and the company's financial position, not only in the current year but also in previous and future years. Errors in inventory valuation for determining the value of merchandise inventory affect the income statement and balance sheet, as well as previous and future years.'

## Inventory Recording Methods

According to Kieso et al. (2016), there are two inventory recording systems, namely:

- a. Periodic System
- b. Perpetual Inventory System

The advantages of the perpetual recording method are:

- a. Management can be provided at any time with information about the units and value of each material, which helps eliminate obstacles and stoppages in production activities.
- b. It enables the finance department to prepare a physical inventory count list every month.
- c. An internal check system is carried out for each activity of the purchasing department, warehouse department, and production department, which check one another.
- d. Physical inventory counts often do not need to be conducted.
- e. Investment in inventory can be determined at a minimum amount.
- f. Theoretically, the perpetual recording method has no weakness in its recording system.

Characteristics of the book method (perpetual method):

- a. A separate account is created for each type of inventory, which serves as a subsidiary inventory ledger.
- b. There is no separate account for purchase transactions; when a purchase occurs, it is recorded directly in the inventory account.
- c. The cost of goods sold is calculated and recorded whenever a sales transaction occurs.
- d. A stock card is used for each item.

According to Kieso et al. (2016:550), the characteristics that distinguish the perpetual recording system from the periodic system can be summarized as follows:

- a. The inventory account is used to record mutations or changes in inventory.
- b. Purchases of merchandise are recorded by debiting the inventory account. Thus, this method does not use a purchases account.
- c. To facilitate supervision, a separate card is provided for each type of inventory. This inventory card functions as a subsidiary inventory ledger.

### **Inventory Valuation Methods**

According to Statement of Financial Accounting Standards (PSAK) No. 14 (2016:14.4), 'The cost of inventories, except those referred to in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted-average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature and use, different cost formulas may be justified.'

Because there are differences between the cost price at the time of purchase and the cost price at the time of sale or use of goods, a valuation method is needed, both periodically and perpetually. Inventory valuation can be carried out based on Cost and Other Cost

### **Inventory Valuation Based on Cost**

If similar goods are purchased during an accounting period at different costs, a problem arises regarding which cost should be used for ending inventory of goods to be sold. According to Donald E. Kieso, Jerry J. Weygandt, and Terry D. Warfield (2011:416) in *Intermediate Accounting*, there are several inventory methods under the cost method, namely:

- a. Specific identification.
- b. Average cost method.
- c. First-in, first-out (FIFO Method).
- d. Last-in, first-out (LIFO Method).

These four methods will temporarily produce different ending-inventory valuations and costs of goods sold, while the final valuation should be the same.

### **Inventory Valuation Based on Other Costs**

Valuation methods based on cost face problems related to decreases in inventory value after purchase, determining burned inventory, and determining many types of inventory that must be counted every period. To overcome these matters, other valuation methods besides cost are needed, namely:

- a. Lower Cost or Market Method
- b. Valuation Basis Method
- c. Gross Profit Method
- d. Retail Inventory Method

There are five terms used in Lower Cost or Market:

- a. Market Value
- b. Ceiling
- c. Net realizable value minus normal profit margin, or ceiling minus normal price.
- d. Replacement Cost
- e. Net Realizable Value (NRV)

According to Donald E. Kieso, Jerry J. Weygandt, and Terry D. Warfield (2016:474) in *Intermediate Accounting*, the gross profit method is based on three assumptions, namely:

- a. Beginning inventory plus purchases equals total goods available for sale;
- b. Goods that have not been sold must still be on hand;
- c. If sales, less cost, are deducted from beginning inventory plus purchases, the result is ending inventory.

There are several terms used in inventory valuation using the retail method, namely:

- a. Initial retail price is the first selling price determined by the company.
- b. Markup is an increase in price above the initial selling price.
- c. Markup cancellation is a price decrease after a markup, but the decrease is not greater than the markup.
- d. Net markup is markup less markup cancellation.
- e. Markdown is a price decrease below the initial selling price.
- f. Markdown cancellation is the cancellation of a price decrease after a markdown, but the increase is not greater than the markdown.
- g. Net markdown is markdown less markdown cancellation.

### **Comparison of FIFO, LIFO, and Average Methods**

There are several differences among FIFO, LIFO, and Average inventory valuation methods. According to Baridwan (2012), these differences include the following: The FIFO method will cause the inventory value in the balance sheet to be stated at current prices, while the LIFO method will state it at initial prices that usually never change, whereas the Average method produces results close to the FIFO method. The use of the FIFO method when prices rise will result in an increase in gross profit, and when prices fall it will result in a decrease in gross profit. Conversely, when prices rise, the LIFO method will result in a decrease in profit, and when prices fall it will result in an increase in gross profit. Gross profit obtained using the Average method will produce results close to the FIFO method.

From the explanation above, the comparison among FIFO, LIFO, and Average can be concluded as follows: FIFO produces a low cost of goods sold, high gross profit, and high ending-inventory value. LIFO produces a high cost of goods sold, low gross profit, and low ending inventory. Meanwhile, Average produces a cost of goods sold and ending-inventory value between FIFO and LIFO.

### **Financial Statements**

According to Hanafi (2013:69), financial statements are information that can be used for decision-making, ranging from investors or potential investors to the company's own management. Financial statements provide information about profitability, risk, and timing of cash flows, all of which influence the expectations of interested parties. Based on several definitions above, it can be concluded that financial statements are:

- a. The result of an important accounting process and can be used to make economic decisions by internal and external parties of the company.

- b. A portrait of the company, because they can describe the company's financial performance and management performance, whether in good condition or not.
- c. A summary of financial transactions that occurred during the relevant period.

### **Income Statement**

According to Munawir (2010:26), the income statement is a systematic report on income, expenses, and profit or loss obtained by a company during a certain period. Although there is no uniform format for the income statement of every company, the generally applied principles are as follows:

- a. It shows income obtained from the company's main business activities (sales of merchandise or provision of services), followed by the cost of goods sold, so that gross profit is obtained.
- b. It shows operating expenses consisting of selling expenses and general/administrative expenses.
- c. It shows results obtained outside the company's main operations, followed by expenses incurred outside the main business activities (non-operating/financial income and expenses).
- d. The fourth part shows incidental profit or loss (extraordinary gain or loss), so that net profit before income tax is finally obtained.

The research model or framework is intended to further clarify the essence of the discussion of previous research results and the theoretical basis used in the research, including the relationship between influential variables (Dewi, Rina, Zuhro, Diana, et al. 2024:142-160). The research design is a plan to determine the resources and data that will be used and processed in order to answer the research question (Asep Iwa Soemantri, 2020:5). Company standards regarding the expected results or outputs are intended to develop the company (Istanti, Enny, 2021:560). Time-management skills can facilitate the implementation of work and planned activities (Rina Dewi, et al. 2020:14). When collecting data sources, the researcher collects raw data. The survey method is a primary data collection method using written questions (Kumala Dewi, Indri et al., 2022:29). The research model or framework is intended to further clarify the essence of the discussion of previous research results and the theoretical basis in the research, including the relationship between influential variables (Enny Istanti, et al. 2024:150). This research will be conducted in three phases: measurement model (external model), structural model (internal model), and hypothesis testing (Pramono Budi, et al., 2023:970).

## **3. Research Method**

### **Data Collection Procedures**

#### **Observation**

The researcher conducted direct review and observation of the object being studied, namely the application of inventory valuation methods for goods at CV. Indo Listrik. This observation was intended to determine with certainty the actual condition of the object studied.

#### **Documentation**

The documentation carried out by the researcher involved collecting data and information obtained from the company's internal documents related to the problems discussed in this study. The researcher documented documents related to inventory and financial statements.

#### **Literature Study**

The researcher conducted a literature study on sources related to inventory valuation methods as a basis for preparing the research so that it could serve as a theoretical foundation to help solve the problem.

## Online Data Search Method

As internet media have developed very rapidly and accurately, researchers can use certain facilities to begin searching for the data they wish to obtain. In general, a complete website provides categories of data or problem themes that can be searched, including those related to inventory valuation methods.

## Case Study

The case concerning the application of inventory valuation methods at CV. Indo Listrik contains a problem, and the researcher has sufficient information regarding the inventory valuation method case. Therefore, the researcher can understand the problem and develop possible solutions to the case.

## Data Analysis Technique

Data analysis is the process of organizing and arranging data into patterns, categories, and basic units of description so that themes can be found and formulated. The process or steps in data analysis can be described as follows:

- a. Collecting goods purchase and goods sales data from 2014 to 2016.
- b. Collecting financial data, including the company's income statements from 2014 to 2016, according to the data available in the company.
- c. Analyzing the inventory valuation method used by the company and its income statement.
- d. Calculating and comparing inventory valuation methods using different methods, namely FIFO and Average, and if differences exist, analyzing further their effect on the financial statements (profit/loss).
- e. Drawing conclusions from the research results and providing recommendations regarding the inventory valuation method that is appropriate and suitable for the conditions of CV. Indo Listrik.

## 4. Discussion

### Cost Determination Method Applied in the Company

So far, the company has used the perpetual LIFO inventory valuation method to determine the inventory cost of each merchandise item marketed by the company. CV. Indo Listrik has a fairly large amount of inventory; therefore, to facilitate the recording of transactions for each type of goods and to see the company's ending inventory, the company prepares an inventory card for each type of merchandise.

### Inventory Valuation Method Applied in the Company

Before conducting the research, it is necessary to first know which method is applied in the company. CV. Indo Listrik uses the perpetual LIFO inventory valuation method. One reason the company uses the LIFO inventory valuation method is:

**The program used by the company applies the LIFO method.**

### Problems Faced by the Company

In this case, the problem faced by CV. Indo Listrik is related to the inventory valuation method applied, in which the company still uses the LIFO method to determine its ending-inventory value. The LIFO method assumes that the remaining goods (ending inventory) come from the earliest purchases because goods from the most recent purchases are assumed to have been issued. Meanwhile, because goods prices always increase, the LIFO method causes the inventory value presented in the statement of financial position (balance sheet) not to represent the recent cost level of inventory. This certainly reduces the quality of the company's statement of financial position because inventory presented at cost does not

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reflect current inventory cost, or the most up-to-date cost, but rather a cost that no longer reflects current inventory cost. As a result, the financial statements may provide incorrect information to users, both internal and external users of the company. In fact, one purpose of financial statements is to provide reliable financial information regarding the assets, liabilities, and capital of a company, and to provide financial information that helps users of financial statements estimate the company's potential to generate profit.

### Causes of the Problem

Every problem that arises is an obstacle to achieving the established objectives. A problem does not occur by chance; rather, there are factors that cause the problem to arise. The causes of the problems faced by the company are as follows:

- a. The condition in which goods prices continuously increase.  
When purchasing goods, the company always buys in large quantities, and when goods are still available, the company buys more goods; consequently, at the end of each period, a large amount of ending inventory remains in the warehouse.
- b. The company does not pay optimal attention to the inventory valuation method that is appropriate to its activities and conditions, nor to its effect on the financial statements (profit/loss).
- c. The LIFO method is no longer permitted under either tax regulations or PSAK.

### Results of Data Analysis and Calculation

As previously known, CV. INDO LISTRIK calculates ending inventory using the LIFO method. At this point, the author compares and explains the results when inventory is calculated using the FIFO and Average methods for inventory in 2014, 2015, and 2016.

**Table 1.** List of CV Indo Listrik Inventory in 2014, LIFO Method (in rupiah)

TYPE	Beg. Inv.	Purchases	Available for Sale	COGS	End. Inv.
502	135,000,000	332,000,000	467,000,000	275,900,000	191,100,000
503	130,500,000	318,600,000	449,100,000	266,450,000	182,650,000
504	124,000,000	329,440,000	453,440,000	292,402,000	161,038,000
883	122,774,400	1,141,632,000	1,264,406,400	1,012,964,400	251,442,000
<b>Total</b>	<b>512,274,400</b>	<b>2,121,672,000</b>	<b>2,633,946,400</b>	<b>1,847,716,400</b>	<b>786,230,000</b>

Source: CV. Indo Listrik (processed data)

**Table:** List of CV Indo Listrik Inventory in 2014, FIFO Method (in rupiah)

TYPE	Beg. Inv.	Purchases	Available for Sale	COGS	End. Inv.
502	135,000,000	332,000,000	467,000,000	243,900,000	223,100,000
503	130,500,000	318,600,000	449,100,000	235,850,000	213,250,000
504	124,000,000	329,440,000	453,440,000	264,970,000	188,470,000
883	122,774,400	1,141,632,000	1,264,406,400	984,470,400	279,936,000
<b>Total</b>	<b>512,274,400</b>	<b>2,121,672,000</b>	<b>2,633,946,400</b>	<b>1,729,190,400</b>	<b>904,756,000</b>

Source: CV. Indo Listrik (processed data)

**Table:** List of CV Indo Listrik Inventory in 2014, Average Method (in rupiah)

TYPE	Beg. Inv.	Purchases	Available for Sale	COGS	End. Inv.
502	135,000,000	332,000,000	467,000,000	256,468,619	210,531,381
503	130,500,000	318,600,000	449,100,000	247,815,781	201,284,219
504	124,000,000	329,440,000	453,440,000	273,972,069	179,467,931

TYPE	Beg. Inv.	Purchases	Available for Sale	COGS	End. Inv.
883	122,774,400	1,141,632,000	1,264,406,400	987,748,460	276,657,940
<b>Total</b>	<b>512,274,400</b>	<b>2,121,672,000</b>	<b>2,633,946,400</b>	<b>1,766,004,928</b>	<b>867,941,472</b>

Source: CV. Indo Listrik (processed data)

From the table above, it can be seen that for all types of goods in 2014 calculated using the LIFO method, where the last goods purchased are issued first, beginning inventory amounted to Rp 512,274,400. In 2014, purchases amounted to Rp 2,121,672,000, and goods available for sale amounted to Rp 2,633,946,400. From these mutations, the cost of goods sold amounted to Rp 1,847,716,400, and ending inventory amounted to Rp 786,230,000.

Meanwhile, if calculated using the FIFO method, it can be seen that for all types of goods in 2014, where the first goods purchased are issued first, beginning inventory amounted to Rp 512,274,400. In 2014, purchases amounted to Rp 2,121,672,000, and goods available for sale amounted to Rp 2,633,946,400. From these mutations, the cost of goods sold amounted to Rp 1,729,190,400, and ending inventory amounted to Rp 904,756,000.

If calculated using the Average method, it can be seen that for all types of goods in 2014, beginning inventory amounted to Rp 512,274,400. In 2014, purchases amounted to Rp 2,121,672,000, and sales in that year amounted to Rp 2,479,688,000. From these mutations, the cost of goods sold amounted to Rp 1,766,004,928, and ending inventory amounted to Rp 867,941,472.

**Table 2.** List of CV Indo Listrik Inventory in 2015, LIFO Method (in rupiah)

TYPE	Beg. Inv.	Purchases	Available for Sale	COGS	End. Inv.
502	191,100,000	1,324,300,000	1,515,400,000	1,071,890,000	443,510,000
503	182,650,000	1,321,740,000	1,504,390,000	1,072,442,700	431,947,300
504	161,038,000	1,198,080,000	1,359,118,000	974,830,400	384,287,600
883	251,442,000	1,049,976,000	1,301,418,000	974,160,000	327,258,000
<b>Total</b>	<b>786,230,000</b>	<b>4,894,096,000</b>	<b>5,680,326,000</b>	<b>4,093,323,100</b>	<b>1,587,002,900</b>

Source: CV. Indo Listrik (processed data)

Meanwhile, if calculated using the FIFO method, it can be seen that for all types of goods in 2015, where the first goods purchased are issued first, beginning inventory amounted to Rp 904,756,000. In 2015, purchases amounted to Rp 4,894,096,000, and goods available for sale amounted to Rp 5,798,852,000. From these mutations, the cost of goods sold amounted to Rp 4,039,464,800, and ending inventory amounted to Rp 1,759,387,200.

If calculated using the Average method, it can be seen that for all types of goods in 2015, beginning inventory amounted to Rp 867,941,472. In 2015, purchases amounted to Rp 4,894,096,000, and goods available for sale amounted to Rp 5,762,037,472. From these mutations, the cost of goods sold amounted to Rp 4,025,493,820, and ending inventory amounted to Rp 1,736,543,651.

From the comparison of income statement calculations above, it can be seen that the inventory valuation method in 2014, when calculated using LIFO, produced a low ending-inventory value of Rp 786,230,000, a high cost of goods sold of Rp 1,847,716,400, and a low profit before tax of Rp 596,002,337 compared with FIFO and Average. Conversely, FIFO produced a high ending-inventory value of Rp 904,756,000, a low cost of goods sold of Rp 1,729,190,400, and high profit before tax of Rp 714,528,337, while Average produced values in between, namely ending inventory of Rp 867,941,472, cost of goods sold of Rp 1,766,004,928, and profit before tax of Rp 677,713,809.

In 2015, LIFO still showed the same calculation result, namely low ending inventory of Rp 1,587,002,900, high cost of goods sold of Rp 4,093,323,100, and low profit before tax of Rp 705,024,312. However, the results differed from FIFO and Average in that year. FIFO showed high ending inventory of Rp 1,759,387,200 and cost of goods sold of Rp 4,039,464,800, producing profit between LIFO and Average of Rp 758,882,612. Meanwhile, Average showed ending inventory between LIFO and FIFO of Rp 1,736,543,651, cost of goods sold between LIFO and FIFO of Rp 4,025,493,820, and profit higher than LIFO and FIFO of Rp 772,853,592.

In 2016, as in 2014 and 2015, LIFO still showed the same calculation result, namely low ending inventory of Rp 2,383,333,400, high cost of goods sold of Rp 1,864,485,500, and low profit before tax of Rp 286,384,853. Meanwhile, for FIFO and Average in 2016, the results were similar to 2015. FIFO showed high ending inventory of Rp 2,570,405,000 and cost of goods sold of Rp 1,849,798,200, producing profit between LIFO and Average of Rp 301,072,153. Meanwhile, Average showed ending inventory between LIFO and FIFO of Rp 2,555,011,899 and cost of goods sold between LIFO and FIFO of Rp 1,841,347,753, with profit higher than LIFO and FIFO of Rp 309,522,600.

### Interpretation

As the author stated from the beginning, CV Indo Listrik uses the LIFO method in determining its inventory value. The LIFO method assumes that the remaining goods (ending inventory) come from the earliest purchases because the goods from the latest purchases are considered to have been issued. Meanwhile, because goods prices always increase, the LIFO method causes the inventory value presented in the financial statements (balance sheet) not to represent the recent cost level of inventory. This is evident in the ending-inventory value in 2014, for example for item type 502. In Appendix 1, the beginning balance at that time was 10,000 pcs with a cost of Rp 13,500. During the year, the company took goods three times, and prices also increased three times: from Rp 13,500, then to Rp 16,500 for 10,000 pcs, and finally to Rp 16,700 for 10,000 pcs. At the end of the period, the remaining ending inventory was 13,400 pcs. Based on the LIFO calculation, the ending-inventory value for that period was Rp 191,100,000, obtained from 10,000 pcs at a cost of Rp 13,500 and 3,400 pcs at Rp 16,500. The value of Rp 13,500 still appeared in the cost of ending inventory even though the purchase price at that time had reached Rp 16,700. This proves that LIFO does not present an up-to-date value or cost per unit. Meanwhile, in Appendix 2, the FIFO method produced an ending-inventory value of Rp 223,100,000, obtained from 1,000 pcs at a cost of Rp 16,500 and 3,400 pcs at Rp 16,700. This shows that FIFO produces an ending-inventory value that is more up to date than LIFO. However, for the charging of cost of goods sold, FIFO shows a value that is less balanced with the cost of ending inventory because FIFO charges cost of goods sold using older costs until the old inventory stock is exhausted, even though at that time the purchase cost has increased or changed. Thus, the size of the cost of goods sold under FIFO will be influenced by the amount of remaining inventory stock at older costs. Meanwhile, in Appendix 3, the Average method produced an ending-inventory value of Rp 210,531,381, obtained from 13,400 pcs at a cost of Rp 15,711 and the same cost charged to cost of goods sold. Therefore, between the cost of goods sold and ending inventory, a middle value is obtained, not too high and not too low. Because under the Average method, whenever prices change, both the cost of goods sold and the cost of ending inventory remain up to date. Therefore, the inventory value in the financial statements produced by the Average method better represents the recent cost level of inventory compared with LIFO or FIFO.

Through this process, employees are provided with training and development relevant to their job performance, so they are expected to carry out their work responsibilities as well as possible (Abdul Aziz Sholeh et al. 2024:82). Choosing is part of problem-solving efforts as well as part of the decision-making

process. Therefore, an appropriate purchasing decision is needed (Kristiawati Indriana et al. 2019:28). Cooperation among the government, industry, research institutions, and civil society in designing and implementing programs, as well as strong commitment and cooperation from all stakeholders, is the key to the success of these efforts (Gazali Salim et al. 2024:63). The SERVQUAL model includes calculating the difference between the values given by customers for each pair of statements related to expectations and perceptions (Diana Zuhro et al. 2024:98). In a competitive business environment, credit marketing strategies play an important role in customer acquisition and retention (Mahjudin et al. 2025:2659-2672). The research approach is the overall thought process from broadly determining the matters to be examined so that the research can be achieved as effectively as possible (Sutopo et al. 2021:83-92). Promotion carried out by providing consumers with knowledge about the company's product quality can attract consumers' attention to use its rental services (Firdaus, Fikri, et al. 2021:76-82).

## 5. Conclusion

CV Indo Listrik determines inventory value using the LIFO method, in which LIFO assumes that the remaining goods (ending inventory) come from the earliest purchases, while goods prices tend to increase. As a result, the ending-inventory value presented or charged becomes too low, unreasonable, or far from the actual inventory value. The comparison of ending-inventory values when calculated using FIFO and Average shows that FIFO and Average produce ending-inventory values that are more up to date than LIFO. However, for charging cost of goods sold, Average better reflects the actual or up-to-date value than FIFO.

There is an impact from the application of inventory valuation methods between FIFO and Average on the income statement because there is a relationship between the amount of ending inventory and the amount of cost of goods sold. The amount of cost of goods sold also affects the amount of the company's gross profit in the income statement. In this case, FIFO also produces an up-to-date ending-inventory value, but for charging cost of goods sold, FIFO shows a value that is less up to date with the cost of ending inventory, because FIFO charges cost of goods sold using old prices until the old inventory stock is exhausted, even though at that time the purchase cost has increased or changed. Meanwhile, under the Average method, whenever prices change, both the cost of goods sold and the cost of ending inventory remain up to date. Thus, Average will reduce the risk of charging cost of goods sold and ending inventory values that are too high or too low. Therefore, in the income statement, the gross profit produced by the Average method will better reflect the actual value or a fairer value compared with LIFO and FIFO.

Before applying an inventory valuation method, the company should choose an inventory valuation method that is appropriate and suitable for the company's activities.

For internal and taxation purposes, the company should use the Average method, even though the FIFO method also produces an ending-inventory value that is more up to date than LIFO. However, for charging cost of goods sold, FIFO shows a value that is less up to date with the cost of ending inventory, because FIFO charges cost of goods sold using old prices until the old inventory stock is exhausted, even though at that time the purchase cost has increased or changed. Meanwhile, under the Average method, whenever prices change, both the cost of goods sold and the cost of ending inventory remain up to date. Thus, Average will reduce the risk of charging cost of goods sold and ending inventory values that are too high or too low.

The Average method is more suitable for types of goods that do not have an expiration date, such as electrical equipment. However, for types of goods such as food, FIFO should be used. When the company has determined an inventory valuation method but conditions require a change to the method applied, the

company should change the valuation method according to the company's conditions and needs so that the inventory value presented better represents the actual value and does not reduce the quality of the financial statements themselves.

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