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Research Center
June 19, 1958

L. C. Stenger, Denison

Outside-Make Fibres In Transit, 6/17

In the example given it is the intent of Systems to value the inventory at $28,533. This is the relative January cost of the $28,980 in the in-transit account balance.

A. J. Roth

MTC 013179

Denison
June 17, 1958

A. J. Roth - ADPS, Research

OUTSIDE-MAKE FIBRES IN-TRANSIT, 6/13

I am sorry but I still can't determine from your letter but that you are telling me to discount several thousand dollars from the in-transit account valuation.

You agree the ratio between January cost and the latest current cost should be 1, but if I apply this to the GHQ charge, which is the in-transit account balance at this time and does not include transportation, I am not getting near the value I know should be close to January cost.

EXAMPLE: Rhodesian Fibre in-transit - 200 tons
GHQ Charge - $28980.
January Cost - $90.02/M#
Current Cost - 91.43/M#

400000# @ $90.02 - $36008. January Cost
400000# @ 91.43 - 36572. Current Cost

Ratio January to Current - .98458
Account Balance - $28980. x .98458 - $28533.

Am I correct in stating that it is the intent of Systems to value the inventory at $28533. rather than $36008.?

Then, per Systems 1528.6, my entry would be:

Dr. 6812	$28980
Cr. 6841	28533
Cr. 0659	447

or should it be:

Dr. 6812	$28980
Dr. 0659	7028
Cr. 6841	36008

Please advise.

L. C. Stenger, Jr.

Research Center
June 13, 1958

L. C. Stenger, Denison

January Cost - Outside Make Fibres In-Transit, 6/10

The intent of the prescription in Systems 2691.4 is to revalue the in-transit account balance to a relative January cost basis, not to value the in-transit account at the January delivered cost for the number of tons of outside-make fibre in transit.

If there are no price changes and no differences in freight rates between January and current, then the ratio will be 1 and there will be no difference between the value of the in-transit account at current and the value at January cost basis. However, if there are fibre price or freight rate changes then the ratio will change and the value at January cost for the in-transit fibre account will be different than the value at current.

The January unit cost and the current unit cost for each of the grades of fibre is based on the laid-down cost and includes all transportation costs. However, the in-transit account balance does not include all of the transportation cost. Accordingly, it was decided to revalue the month-end balance of the outside make fibre in-transit to a January cost basis by use of a ratio as prescribed.

A. J. Roth

MTC 013181

Denison
June 10, 1958

J. H. Hanford - ADPS, Research
Att: A. J. Roth

SYSTEMS 2691.4
JANUARY COST - OUTSIDE MAKE FIBRES
IN-TRANSIT

I don't understand clearly the results of the method of valuing outside make fibres as stated in the above Systems. Each grade of fibre in-transit is valued at January Unit Cost, and at latest unit cost; January Cost is divided by current cost to obtain ratio. Then this ratio is applied to account balance and result is January value and is entered on Inventory Summary.

The account balance at this time only has a debit entry for the GHQ Charge which does not include freight, wharfage, etc., to plant from wherever fibre is unloaded. If I apply the above determined ratio to this figure, I get a figure to use as January value that is less than what I know to be a more correct January value. (I have already multiplied tons by established January Cost). If the term "Account Balance" means the estimated current value and I apply the ratio to this figure, I get the originally computed January Cost. (Quantity times January Unit Cost).

The ratio should be close to 100 each month and this would practically discount setting up several thousand dollars in in-transit account applicable to transportation costs.

Please advise.

L. C. Stenger, Jr.

MTC 013182