

# Boeing and its Inventory Management

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**Abstract**— This study would discuss about the Boeing Company, its products and services offering to the different kinds of clients. This study discusses the different product range of the Boeing, which fulfills the need of various types of clients and how Boeing is providing services to the NASA. This also details about Boeing are contributing in increasing the America's exports and operating all over the World. Boeing is the Heavy Industrial Corporation and it uses the certain accounting method mentioned in this study, which meets its unique accounting needs as compared to other kind of businesses. There has also been discussed about the certain advantages and disadvantages of the Accounting method used by the Boeing for the Inventory evaluation and costing.



## 1 INTRODUCTION

Boeing is an American based multinational company, therefore, they have also engaged in providing the which sells the big aircraft, and they are designing and space services and became the first company providing manufacturing satellites and rockets. Boeing also designing the services in the international space station. Boeing designs the commercial jetliners and military aircraft. Boeing is an innovative-oriented organization, which is engaged in providing long range of services to its clients to meet their all type of demands and meeting their modern time demand. Boeing has been engaged in designing and bringing the innovation in new defense system services, efficient designed Commercial Airplanes and innovative military aircrafts. Boeing is a large multinational organization which is operating in 65 countries and having more than 1, 69,000 employees. (Forbes, 2013)

Boeing also has the technical support department and they offer their technical services to the client related to rockets, satellites and aircrafts purchased by the client. Boeing is not only engaged in designing the normal travelling aircrafts but also design the defense system, missile rockets, launchers, satellite tracking service and other advanced communication weapons. Boeing is the largest American based Exporting corporations, which contributes in earning the highest foreign reserve for the America. Besides, Boeing is also the second largest Corporation in the world, which is engaged in having a defense contracts from other countries, and provide them satellite services. (Businessweek, 2002)

Boeing is also providing its services to the NASA;

## 2 Describing the Methods that were used::

Boeing is using the Program Accounting method to determine the sales and cost of goods sold, this method is used for all types of programs offered by the Boeing Company such as Commercial aircrafts, Military aircrafts and Satellites. Program accounting

methods is used under the certain production type program, for example, Commercial aircrafts inventory and cost would be separately accounted from the Military aircrafts. Program Accounting Method derives the profitability over the multiple contracts and years. Under the Program Accounting method, there are certain costs accounted under the program rather than consider it in the Contract, these costs are such as Inventory production cost, and tooling cost of the program and guarantee cost. These all costs are added and accumulated, the total cost is accounted as cost of sales of the program rather than consider as cost of sales of certain contract. (JOHNSON, 2013)

A program accounts all produced units, which were produced with the long-term planning of anticipating the existing and coming contracts. Program accounting uses the well-defined method for defining the relationship between cost of sales and sales, means that cost of sales would be accounted to the certain sales. The criteria of define the certain cost of sales to the sales as, total units produced and sold in a program then estimate the period under which these units can be produced and in the end determine the total production cost, expected selling price, tooling cost for the program with the warranty cost. Program accounting

method is used by the Boeing Company for the evaluation of the inventory and determining the cost of sales and sales to the business. This is the most effective method used in the Airplane industry, as there are much more complexities involved for the accounting of this industry as compared to the other industries. (The Seattle Times, 2013)

### 3 Advantages and Disadvantages of the Program Accounting System:

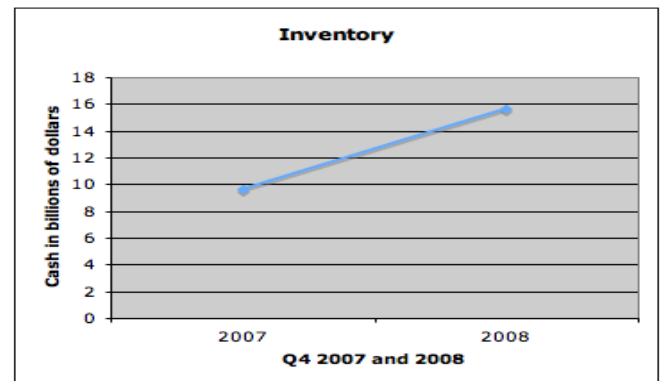
The major advantage of using the “Program Accounting” by the Boeing Company, as this involves designing the big aircrafts, which used the big financial resources. Mostly, programs have a long time to finish; therefore, Program Accounting allows the business to spread the cost over the multiple years throughout the project. It helps the business not to add the total cost of the project in one year, which can lead to the company suffering from the losses or decreased revenues due to bearing the total cost of the project in one year. Besides, it is also not possible for the finance managers to anticipate the total cost of the program or contract for which cost of sales would be analyzed. Program Accounting allows the Boeing Company to spread its cost of sales of the program or contract over

the number of years takes completing the project. It would help the operational and finance managers to add the cost of sales with the progress of the project. Therefore, they can add the exact cost of sales according to the project and it would not require the managers to suppose all costs in the beginning of the project. Moreover, Program Accounting also allows the Boeing business to spread its revenues over the multiple years same as the cost. This provides the balance between cost and revenues financial statement and gives the true picture of the business. (JOHNSON, 2013)

The disadvantage of the Program Accounting as it is also misused by the other businesses and Boeing as well. According to the Information, if the program is containing the more cost as compared to the actual cost budgeted or estimated. It would not be accounted in the income statement part of the financial statement and Boeing is said to hide its over-estimated cost of the project. It is said that If program is going to be succeed, they would hide all the over-estimated costs and would not disclose due to show the success of the program in front of the world. However, if program would not be succeeded, Boeing is used to disclose all the over-estimated costs in the financial statement. (Forbes, 2013)

Program Accounting Method has its own advantage and disadvantages in the accounting system. Mostly other heavy industrial based Corporations using the same Accounting Method in the business to evaluate the Inventory management, Cost of Sales and total sales in the business. This is an allowed method by the SEC to the Boeing for the cost and sales value evaluation.

#### 4 Example with Graph



In the above paragraph, it's a Boeing Inventory cash purchase graph, which has a higher increasing trend from 2007 to 2008. This shows Boeing is mostly purchasing the inventory in cash not credit, a reason might they have not maintained good credit reputation in market. (The Seattle Times, 2013)

#### 5 Conclusion

Boeing is one of the largest Aircraft selling organizations, which are offering its Commercial and Military Aircrafts to both the different Airlines and Military

forces in the world. Boeing is also designing its Missiles and providing Satellite service to the clients, who make the Boeing a largest defense contractor, it has been offering its services to the NASA and working in the International Space Station. Boeing uses the Program Accounting method for the evaluation of the produced units under a certain program; also record the expenses and revenues in the yearly income statement. Boeing has been using complex production techniques, which makes also difficult to maintain the financial record; therefore, Program Accounting provides the efficient solution.

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