

How far ahead to buy? CPAs give some tips

This is the third in a series of five articles written by the Michigan Association of Certified Public Accountants (MACPA) on "Living With Inflation."

Faced with the prospect of continuing inflation, wouldn't a family be wise to use its savings, or even borrow, to stock up on everything it will need for the next two to three years?

Probably not. In terms of what are known in business as inventory maintenance costs, which could easily outweigh any savings on the cost of stockpiled items.

One such expense is the high interest caused by inflation, itself — an important reason for not attaining products

that may not be used for many months. To purchase those products, a family must either pay high interest on money borrowed, or lose high interest that could otherwise be invested. In either case, the interest must be deducted from any savings on the purchase price.

Some other considerations to keep in mind when deciding how far ahead to buy:

The costs of storing the inventory: lost household space; heating and air condition expense.

Possible deterioration of the products; loss of strength, flavor, freshness or style; possibly even spoilage.

The bother and expense of protecting the inventory from vermin, fire or water damage.

Insurance protection.

The temptation to be lavish in the use of products that appear to be in such abundant supply.

It is acknowledged that in addition to the savings possible through paying today's prices rather than those that will prevail a year or two hence, there's the added attraction of "economics of scale" — the price reductions that come from buying in bulk. But if business conditions were to turn down, as some economists expect, big savings in inventory could turn into big losses.

That's what happened to many companies in 1974," a spokesman said. "They were heavily stocked when a recession set in and had to dump millions of dollars of inventory at a loss."

Individuals are generally playing its cards close to the vest at present, keeping on hand only what it expects to need during the weeks ahead — some

times stocking ahead no longer than it would take to restock an item were it to run out.

Small-business clients are often warned against speculating on their inventory — buying large amounts when the price is low in hopes of turning a profit on it. Such speculation not only ties up hard-to-find working capital, it puts the company into the jobbing of commodities, which may not be the business the company was set up to engage in.

Even large companies, which often go into the futures market to buy commodities they will need in the months ahead, do so merely to insure adequate supplies and prices they can count on. Although the company occasionally turns a profit (or loss) on future trading, that is not the primary concern.

Speculation in commodities is strictly for those who know what they're doing, and buying supplies too far in advance is speculation.

Next: true costs of buying and renting.



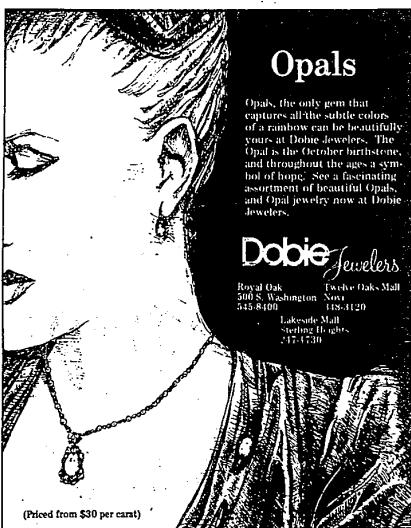
Cancer Foundation to offer free exams

Five Oakland county dentists and oral surgeons will be among those offering their professional services to the Michigan Cancer Foundation's Oral Cancer Detection Center (OCDC).

Herbert Bloom, DDS, PhD, of Orchard Lake, directs the OCDC program, training and supervising registered dental hygienists who provide free oral cancer screening exams in the tri-county branches of the Foundation.

Dr. Bloom also provides free examinations for those people in need of further evaluation following their initial examinations.

For more information about the free oral cancer screening and detection exams, or to schedule an appointment, call Linda Ress, clinical director of OCDC, at 833-0710, ext. 202.



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