INVENTORY

- Inventory is the stock available for trading. The company buys stock/goods, and sells goods, the remaining balance is called closing stock/inventory.
- In a business, the price of goods purchased may change within a year, and that can give a different value of stock/inventory.

3 ways of calculating Inventory

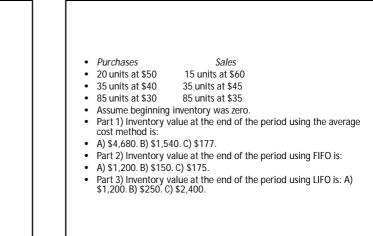
- FIFO First in First Out
- LIFO Last in First Out
- AVCO- Average Cost pricing

•	January 1	(beginning inventory)	
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- January 7 purchase: • January 19 purchase:
- 2 units @ \$2 per unit = \$4 3 units @ \$3 per unit = \$9
- COG available (BI + P)
- Units sold during January
- 5 units @ \$5 per unit = \$25
 - 10 units: \$38
 - 7 units
- What is the ending inventory value using FIFO COGS
- What is the ending inventory value using LIFO COGS?

- When prices are rising, COGS will be higher under LIFO and ending inventory will be lower.
- What happens in FIFO when prices are increasing?
- JME purchased 400 units of inventory that cost \$4.00 each. Later the firm purchased an additional 500 units that cost \$5.00 each. JME sold 700 units of inventory for \$7.00 each. If JME uses a first in, first out (FIFO) cost flow method, the amount of gross profit appearing on the income statement is:
- A) \$2,400. B) \$3,100. C) \$1,800.

- JME had beginning inventory of \$200 and ending inventory of \$300. JME had COGS of \$800. JME must have purchased inventory amounting to:
- A) \$900. B) \$700. C) \$1,100.



Effect on Profit

- When we have FIFO method in rising price, the GOGS will be lower, therefore the profit will be high.
- IN the LIFO method, the cost will be higher, therefore, the profit will be less.

FIFO

\$2,918.00

je O)	nit Price \$2.00 \$6.00 \$13.00 g the averag rst out (FIFC	9 6 9 Usinc	ods sold	enses \$2,64 he cost of gr nod and usir	Purchas Sales SGA Exp Part 1) What is
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٠	Average Cost	
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- A) \$4,142.02
- B) \$3,604.02 \$2,918.00
- C) \$3,604.02 \$3,423.82

- Part 2) What is the ending inventory level in dollars using the FIFO Method?
- A) \$1,836.00.
- B) \$1,744.20.
- C) \$3,604.02.

- You have been provided with the following stock information for your organisation, Wasdale
- Ltd, for the year ending 31st December 2006:
- – January bought 10 units at £30 each
- – March bought 10 units at £34 each
- - April issued to production 8 units
- – September bought 20 units at £40 each
- – December issued to production 12 units

- Required:
- (a) Calculate the value of the closing stock, at 31st December 2006, for Wasdale Ltd,
- using the following three methods of stock valuation:
- (i) FIFO (first in, first out)
- (ii) LIFO (last in, first out)
- (iii) AVCO (average cost)
- (b) Which method of stock valuation would result in the highest trading profit? Explain your
- answer.