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) 2 units @ $2 per unit = $4
- January 7 purchase: 3 units @ $3 per unit = $9
- January 19 purchase: 5 units @ $5 per unit = $25
- COG available (BI + P) 10 units: $38
- Units sold during January 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.

- *Purchases* *Sales*
- 20 units at $50 15 units at $60
- 35 units at $40 35 units at $45
- 85 units at $30 85 units at $35
- Assume beginning inventory was zero.
- Part 1) Inventory value at the end of the period using the average cost method is:
- A) $4,680. B) $1,540. C) $177.
- Part 2) Inventory value at the end of the period using FIFO is:
- A) $1,200. B) $150. C) $175.
- Part 3) Inventory value at the end of the period using LIFO is: A) $1,200. B) $250. C) $2,400.

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.

.	*Units*	*Unit Price*
Beginning Inventory	709	$2.00
Purchases	556	$6.00
Sales	959	$13.00

- SGA Expenses $2,649 per
- Part 1)
  What is the cost of goods sold using the average cost method and using the first in first out (FIFO) method?

Average Cost	FIFO
A) $4,142.02	$2,918.00
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.