INVENTORY VALUATION II

5.1 Results Variation in Inventory Valuation Methods

- Each method is based on a different assumption about the cost of the merchandise that are sold and the cost of the merchandise that are left in ending inventory.

Method	Cost of Sales	Cost of Ending Inventory
Specific Identification	Specifically identified	What is left over
First-in, first-out	First items purchased	Last items purchased
Last-in, first-out	Last items purchased	First items purchased
Average	Computed using an average cost	Computed using an average cost

5.2 Impact of LIFO and FIFO in periods of rising prices

Following are some impact on financial by using LIFO or FIFO

	LIFO	FIFO
Cost of goods sold	Higher	Lower
Income before taxes	Lower	Higher
Income taxes	Lower	Higher
Net income	Lower	Higher
Inventory balance	Lower	Higher

5.3 Cost flow Assumption under Periodic Inventory System

- In physical inventory system stock taking are done at the end of period
- No up-to-date record for cost of sales are available
- In this type of problems issuing date are not mention

Example 5.1: You are required to value the inventory (Cost of Sales and Ending Inventory) by FIFO, LIFO and Weighted average (Periodic System) and Comparative Cost Sheet in amount:

Date		Units	@	Total
1 Jan	Balance	100	10	Rs. 1,000
5 Jan	Purchases	100	11	1,100
10 Jan	Purchases	150	12	1,800

During the period 300 unit were sold @ Rs. 15 per unit

Solution: FIFO

Cost of Sales

Units	@	Amount

Cost Ending Inventory

Units	@	Amount

Solution: LIFO

Cost of Sales

Units	@	Amount

Cost Ending Inventory

Units	@	Amount

Solution: W. Avg

Cost of Sales

Units	@	Amount

Cost Ending Inventory

Units	@	Amount

W. Avg Rate =

Comparative Cost Sheet (in amount)

Methods	*Balance*	*Purchases*	*(Closing Stock)*	*CGS*	*Sales*	*(CGS)*	*Gross Profit*
FIFO							1,200
LIFO							1,100
Average							1,157

Video Lecture (Inventory Valuation)

https://youtu.be/hMorHAyfv-Q