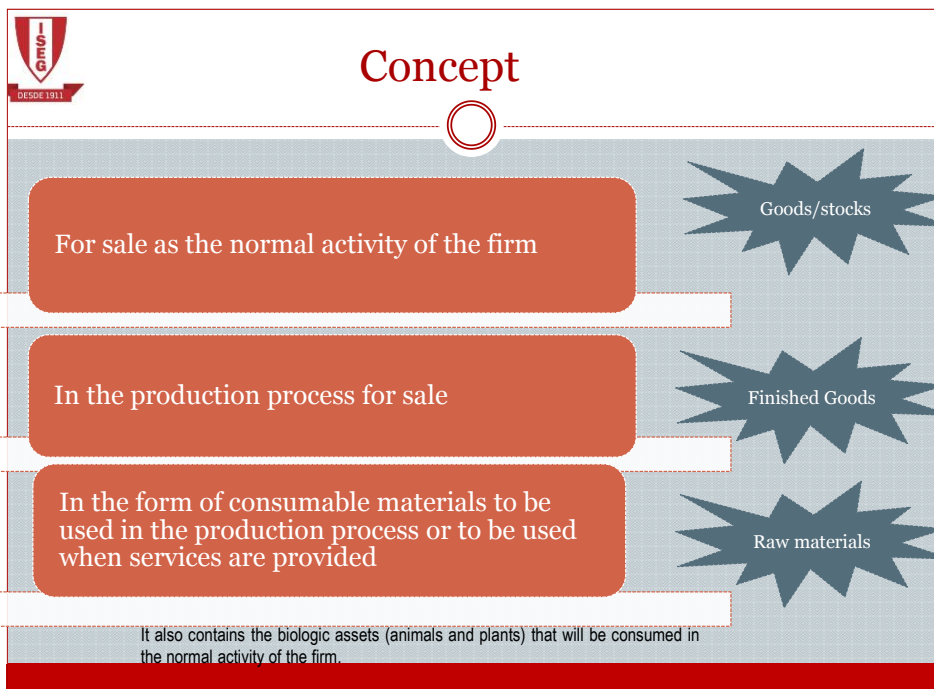


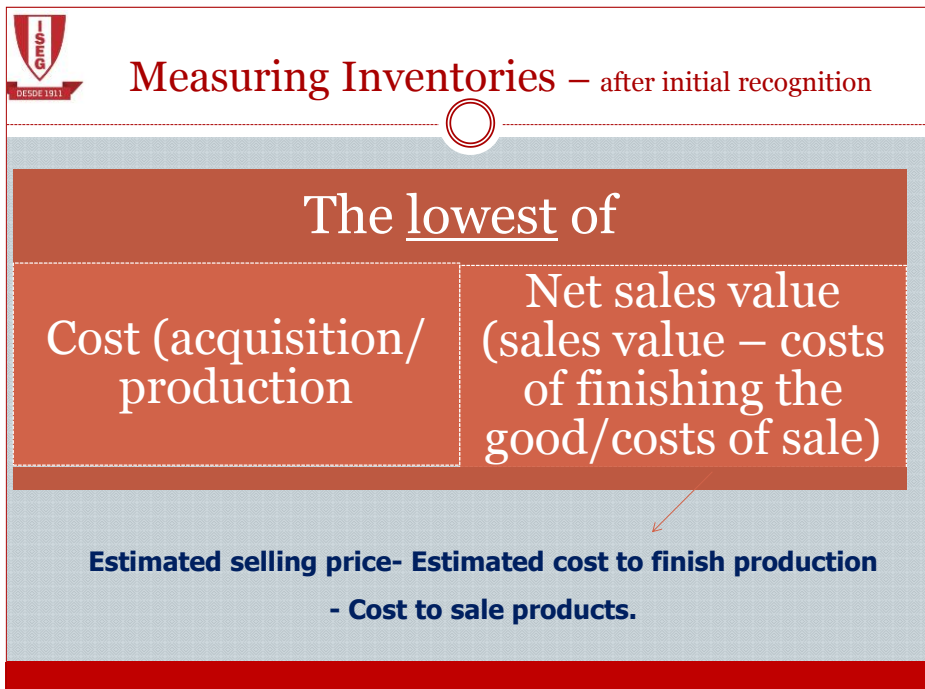
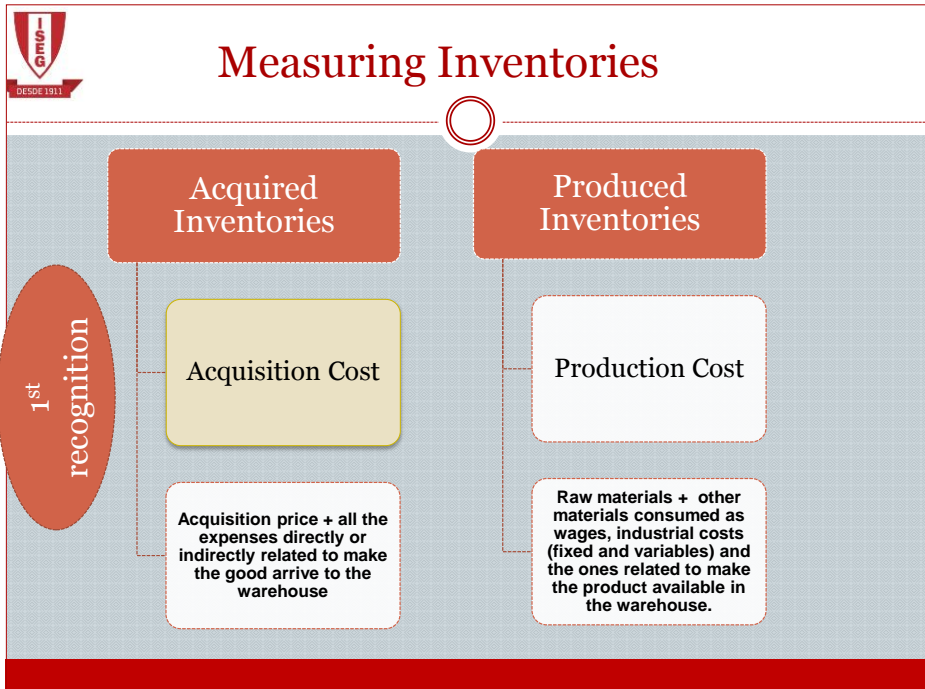
Accounting I


6TH CLASS

OPERATING ACTIVITIES

INVENTORIES







INVENTORIES


Inventory Valuation Methods

The acquisition price of inventories is not always the same;

It varies with time (prices are not stable and are depending on the law of demand and supply)


When there is inflation the prices rise.

Because of these reasons, there is the need to adopt some **criteria** to value the stocks in the firm that are sold and the ones that are on the warehouse at the end of the year.




Inventories

Specific Identification	<ul style="list-style-type: none"> • Inventories measured by its real price or effective price
FIFO	<ul style="list-style-type: none"> • Inventories measured by the oldest prices. In the warehouse the inventories that remain are valued by the most recent prices
Weighed avergare	<ul style="list-style-type: none"> • Inventories measured at a unit cost that result from the weighted average price of all the inventories in the warehouse




Specific Identification

- The **specific identification method** concentrates on physically linking the particular items sold with the cost of goods sold that is reported
- This method is relatively easy to use for expensive low-volume merchandise
- The use of bar codes and scanning equipment makes specific identification economically feasible for many companies




FIFO

- **FIFO** assigns the cost of the earliest acquired units to cost of goods sold
- The costs of the newer units is assigned to the units in ending inventory
- FIFO provides inventory valuations that closely approximate the actual market value of the inventory at the balance sheet date
- In periods of rising prices, FIFO leads to higher net income




Weighted Average

- The **weighted-average method** computes a unit cost by dividing the total acquisition cost of all items available for sale by the number of units available for sale
- The weighted-average method produces gross profit somewhere between that obtained under FIFO and LIFO




Key formulas


$$\text{Net acquisition} = \text{Gross acquisition} - \text{Returns to suppliers} - \text{Obtained (commercial) discounts}$$

 **Key formulas**

$$\text{Net Sales} = \text{Gross Sales} - \text{Returns from clients} - \text{(commercial) discounts offered}$$


 **Key formulas**

$$\text{Cost of Sales} = \text{Initial Inventory} + \text{Net Acquisitions} - \text{Final Inventories} - \text{Inventories regularizations}$$



Key formulas

Gross Result from sales = Net Sales - Cost of sales



Key formulas

Sales Price = Aquisition cost + Margin

↓
% On top of sales price
or
% on top pf acqisiton price