Accounting for Inventories

Inventory Valuation Method with Perpetual System

1. Moving Average Method ( Weighted Average Method)

2. FIFO Method

3. LIFO Method

Eg.

|  |  |  |  |
| --- | --- | --- | --- |
| Part… | Units | Rate | Amount |
| Beg. Inventory  Jan 1 | 1500 | 10 | 15,000 |
| Unit Purchase;  Jan 15  May 12  Sep 18  Dec 20 | 900  1200  600  300 | 11  12  13  14 |  |
| Total Purchase | 3000 | - | 36,300 |
| Available for Sale | 4500 | - | 51,300 |
| Unit Sold:  Feb 8  Jun 3  Dec 25 | 1100  900  700 |  |  |

Required: Ending Inventory under Moving Average, FIFO & LIFO Using Perpetual System:

a. Store Ledger Account (FIFO method)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Purchase |  |  | Sale/Issued |  |  | Balance |  |
|  | Units | Rate | Amount | Units | Rate | Amount | Units | Rate | Amount |
| Jan 1 | - | - | - | - | - | - | 1500 | 10 | 15,000 |
| Jan 15 | 900 | 11 | 9,900 | - | - | - | 1500  9,00 | 10  11 | 15,000  9,900 |
| Feb 8 |  | - | - | 1100 | 10 | 11,000 | 400  9,00 | 10  11 | 4,000  9,900 |
| May 12 | 1200 | 12 | 14,400 | - | - | - | 4,00  9,00  1,200 | 10  11  12 | 4,000  9,900  14,400 |
| Jun 3 | - | - | - | 400  5,00 | 10  11 | 4,000  5,500 | -  4,00  1200 | -  11  12 | -  4400  14,400 |
| Sep 18 | 600 | 13 | 7800 | - | - | - | 400  1200  600 | 11  12  13 | 4400  14,400  7800 |
| Dec 20 | 300 | 14 | 4200 | - | - | - | 400  1200  600  300 | 11  12  13  14 | 44  14400  7800  4200 |
| Dec 25 | - | - | - | 400  300 | 11  12 | 4400  3600 | -  900  600  300 | -  12  13  14 | -  10,800  7800  4200 |

Cost of Ending Inventory:

900 units@ Rs 12= 10,800

600 units@ Rs 13 = 7800

300 Units @ Rs 14 = 4200

1800 Units - = Rs 22,800 Ans.

Cost of Goods Sold = Cost of Goods available for Sales – Cost of Ending Inventory

51,300 – 22,800 = 28,500 Ans.

b. Store Ledger Account (Under Moving Average method)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Purchase |  |  | Sale/Issued |  |  | Balance |  |
|  | Units | Rate | Amount | Units | Rate | Amount | Units | Rate | Amount |
| Jan 1 | - | - | - | - | - | - | 1500 | 10 | 15,000 |
| Jan 15 | 900 | 11 | 9,900 | - | - | - | 2400 | 10.375 | 24,900 |
| Feb 8 |  | - | - | 1100 | 10.375 | 11,412 | 1300 | 10.375 | 13,488 |
| May 12 | 1200 | 12 | 14,400 | - | - | - | 2500 | 27888/2500  =11.155 | 13488+14400=  27,888 |
| Jun 3 | - | - | - | 900 | 11.155 | 10,040 | 1600 | 11.155 | 27,888-10040=17848 |
| Sep 18 | 600 | 13 | 7800 | - | - | - | 2200 | 25,648/2200=  11.658 | 17,848+7800=  25,648 |
| Dec 20 | 300 | 14 | 4200 | - | - | - | 2500 | 29848/2500= 11.939 | 25648+4200=  29,848 |
| Dec 25 | - | - | - | 700 | 11.939 | 8357 | 1800 | 11.939 | 29,848-8357=  21,491 |

Moving Average Cost Per Unit = cost of goods available for Sales/ Total units available for Sales

Jan 15 = 24,900 / 2400 = Rs 10.375

Cost of Ending Inventory :

1800 Units @ Rs 11.939 = Rs 21,491

Cost of Goods Slod = Cost of goods available for Sales – Cost of Ending Inventory

= 51,300 – 21,491 = 29,809

Or

Sold Units Rate Amount

1100 10.375 11,412

900 11.155 10,040

700 11.939 8357

2700 --- Total 21,491

Comparative Income Stataement