



# Stock Inventory Valuation

**November 2022**

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# What is Inventory Valuation?

**An accounting practice that is followed by companies to find out the value of unsold inventory stock at the time they are preparing their financial statements.**



# Stock Inventory Valuation

- Inventory stock is an asset for an organization, and to record it in the balance sheet, it needs to have a financial value.
- This value can help you determine your inventory turnover ratio, which in turn will help you to plan your purchasing decisions.
- For example, if you run a shoe business and you're left with 50 pairs of shoes at the end of the year, then you need to calculate their financial value and record it in your balance sheet.



# Importance of Inventory Valuation

- Identifying the unsold items is just one step in inventory valuation.
- You also need a rate that you can multiply by the quantity to arrive at a final value.
- You may have paid different prices for these items throughout the year, so you need to choose a technique to calculate a common rate.



# Inventory Valuation Methods

- There are three methods for inventory valuation: **FIFO** (First In, First Out), **LIFO** (Last In, First Out), and **WAC** (Weighted Average Cost).
- **In FIFO**, you assume that the first items purchased are the first to leave the warehouse. In other words, whenever you make a sale, under FIFO, the items will be subtracted from the first list of products which entered your store or warehouse.



# Inventory Valuation Methods

- **In LIFO**, you make the opposite assumption: that the last items that enter your store are the first ones to leave.
- **The WAC** method uses the item's average cost throughout the year. The average cost per unit is calculated by dividing the total cost by the total number of units purchased during the year.

# Worksheets



**Thanks!**  
**Any questions?**