<u>Stock Valuation</u>

<u>Terms you should know:</u>

1. **FIFO (first in first out)** – the first stock bought should be the first stock to be sold. This method is appropriate for businesses that sell goods such as perishable goods which do not have a very long shelf life.

2. **LIFO (last in first out)** – the last stock to be bought should be the first stock to be sold. This is appropriate for businesses that sell fashion goods or goods that have a long shelf life.

3. **AVCO (average cost)** – the average cost of each item is calculated when new stock is bought. Stock is then issued at the last average cost calculated.

4. **NET PRESENT VALUE** – this is calculated on stock that is damaged. The <u>prudence principle</u> states that stock should not be over-valued.

   Calculation of NPV = saleable price – any expenses needed to get the stock into a saleable condition.

   When valuing stock we always choose the **LOWER OF COST OR NPV**.

<u>Other problems when calculating the final closing stock figure</u>

1. Sales of stock during the physical stock count – **ADD** *the cost price* of the sales back to the end stock balance.

2. Purchases of new stock during the physical stock count – **SUBTRACT** from the end stock balance.

3. Stock *received on a Sale or Return* basis – **SUBTRACT** from the end stock balance (as the stock does not belong to us).

4. Stock *sent on a Sale or Return* basis – **ADD** to the end stock balance (as the stock still belongs to us).

5. Invoices or stock ordered during the financial year but will only be received after the end of the financial year – **ADD** to the stock balance.

6. Mark up and Margin – **Mark-up** is a percent based on the **Cost Price**. <u>Margin</u> is a percent based on the <u>Sales Price</u>. To *change* Mark-up to Margin (same numerator divided by the denominator PLUS the numerator). To change Margin to Mark-up (same numerator divided by the denominator MINUS the numerator).