Example 1.

Information:

1 January 2011	You have 50 apples left at the start of the financial year, purchased in December 2010 at R10 each.
15 June 2011	Purchased 45 apples at R 12 each
16 June 2011	Returned 15 bad apples purchased on 15 June 2011
20 July 2011	Sold 60 apples at R18 each

Required:

1.1 Calculate the value of the closing stock according to the FIFO method.
1.2 Calculate the gross profit according to the FIFO method.

Solution:

You have two baskets full of apples. The oldest basket had 50 apples at R10 each and the newest basket had 30 apples (45 purchased - 15 returned) at R12 each. When you sell your apples you will first empty the oldest basket and then take from the newest one.
If you sell 60 apples you will take 50 apples from the old basket and 10 apples from the new basket.
You will therefore be left with 20 apples in the new basket.
The 20 apples left in the new basket is valued at their actual cost price namely R12 each, i.e. R240.

The calculation can be shown as follows:

Date	Transaction	Sales	Cost of Sales	Cost of Purchases	Stock Value
1 January 2011	Opening stock 50 apples @ R10				R500
15 June 2011	Buy 45 apples @ R12			45 X R12 = R540	R1040
16 June 2011	Returned 15 apples			(15 x R12 = R180)	R860
20 December 2011	Sell 60 apples @ R18	60 x R18 = R1080	(50 X R10 = R500) (10 X R12 = R120)		R360 R240
Total		R1080	(R620)	R360	

Gross profit will be calculated as follows

Sales	R 1 080
- Cost of Sales	(R 620)
= Gross Profit	R 460

60 apples sold, 50 from the R10 basket and 10 from the R12 basket.

Cost of Sales can also be calculated as follows:

Opening Stock	R 500
+ Net Purchases	R 360
= Stock available	R 860
- Closing Stock	(R 240)
= Cost of Sales	R 620

purchases R540 - returns R180 =net purchases R360

2.2 Weighted Average Method to calculate the value of closing stock

This method is best illustrated by means of an example.