Cxc accounts

The Average Cost (AVCO) Method of stock valuation allows for the cost of units to be averaged over a period of time, making it possible for units issued (sold) to be priced at an average cost. Advantages Disadvantages 1. Makes no assumptions about how the goods are issued. 1. More challenging to calculate 2. Valuation of closing stock will be close to the latest price. 2. A new average must be calculated with every purchase 3. Average price is mainly affected by the amount bought at the different prices. . The calculated average does not represent any actual price paid for the stocks Fig. 1 Advantages and disadvantages of AVCO method and stock valuation Worked example 1: Information relating to a sole trader's receipts and issues of stock for the year 2008: 2008 Receipts Issues January 1 600 units @ $2 each February 14 400 units May 16 1 000 units @ $4 each July 21 800 units @ $5 each August 19 1 600 units September 14 1 600 units @ $6 each October 20 1 600 units

AVCO method Date Received Issued Balance 2008 Units Per Units $ Cost $ Units Per Units $ Cost $ Units Cost $ $ $ Jan 600 2 1200 600 2 1 200 Feb 400 2 800 200 2 400 May 1 000 4 4 000 4 400/ 1 200 3. 67 4 404 July 800 5 4 000 8 404/ 2000 4. 20 8 404 Aug 1 600 400 x 4. 20 1 680 Sept 1 600 6 9 600 11 280/ 2000 5. 64 11 280 Oct 1 600 400 5. 64 2 256 Closing stock = 400 units valued at $2, 250. The units are valued at weighted average price of $13. 8 per unit. Facts: The higher the closing stock the higher the profit. A lower the closing stock valuation with resilt in lower profits Exercise 1: You are required to use the information below to calculate the closing stock-in-trade using the AVCO. Receipts and issues of a good are as follows: Receipts

Sales Jan 40 x $30 each June 12 for $45 each May 20 x $33 each Aug 44 for $46 each July 32 x $38. 5 each Dec 20 for $48 each Oct 24 x $39 each