Weighted Average Method vs. Gross Profit Method

Directions:

Analyze the following scenarios and complete the necessary calculations

1. A computer store has 10 laptop units at a $2,000 cost basis, 15 laptop units at a $1,700 cost basis and 20 laptop units at a $1,400 cost basis. Compute the inventory valuation using the **Weighted Average Method**.

   Weighted Average Inventory Valued per Unit: **$1,633.33333 per unit**

   10 x $2,000 = $20,000 15 x $1,700 = $25,500 20 x $1,400 = $28,000

   $20,000 + $25,500 + $28,000 = $73,500

   $73,500 / 45 = $1,633.33333

2. CryoTek sells stuffed animals for $10 per unit and it costs CryoTek $6 per unit to purchase the stuffed animals. Assume CryoTek has $20,000 in yearly sales. Compute the value of the ending inventory using the **Gross Profit Method**.

   A. Gross Profit per Unit: **$10 - $6 = $4 per unit**

   B. Gross Profit Percentage: **4 / 10 = .4 x 100 = 40 %**

   C. Estimated Cost of Goods Sold: **$20,000 - ($20,000 x 40 %) = $12,000**

3. Assume CryoTek has $1,000 of stuffed animals in inventory and bought $500 of stuffed animals to add to their inventory.

   D. Assigned Value of Cost of Goods Sold: **$500 + $1,000 = $1,500**

   E. Inventory Using the Gross Profit Method: **$2,500**
   $1,500 / $6 = 250 stuffed animals
   250 x $10 (price sold per unit)= $2,500

STUDENT ACTIVITY ANSWER KEY