Hey everyone, and welcome to our video today on FIFO. So what is today's video about? Well, we're going to discuss the inventory cost flow assumption known as FIFO, F-I-F-O. And we're going to get into what exactly those letters stand for in just a minute.

But what else are we going to talk about today? Well, we're going to learn about what FIFO is. What is it? And then we're going to finish up today by calculating our Cost Of Goods Sold, or C-O-G-S, using FIFO.

So let's start by talking about FIFO and learning about that. F-I-F-O, so what does that stand for? What is FIFO? Well, FIFO, as I mentioned, is an inventory valuation method.

And it stands for First In, First Out. So FIFO is an inventory evaluation method. And it helps to provide information about cost of goods sold and ending inventory.

So what does that mean? Under FIFO, goods that were purchased first are the first to be sold. So goods are assumed to be sold oldest to newest. So again, the goods that were purchased first are the first to be sold.

So what's the argument for FIFO, for using FIFO? Well, FIFO resembles the physical flow of goods. If you think about grocery stores or electronic stores, they want to sell that inventory that they brought in first. So the oldest product is what they want to sell first. In the case of grocery stores, they want to do that so that their food doesn't go bad.

So FIFO is First In, First Out. Goods are assumed to be sold oldest to newest, which means the most recent purchases are what remains in our ending inventory.

So now let's talk about FIFO and cost of goods sold. So what's our cost of goods sold calculation? Well, we start with beginning inventory. Then we add cost of goods purchased. And that gives us goods available for sale. And if we subtract out ending inventory, that gives us our cost of goods sold.

So now what we're going to do is we're going to look at an example of calculating cost of goods sold using FIFO. So let's go do that.

OK, everyone. So what we're going to talk about now is walking through the cost of goods sold calculation using our inventory valuation method of FIFO. So here you see on the screen that our cost of goods sold calculation starts with our beginning inventory. We add our cost of goods purchased to give us our goods available for sale. We subtract out the ending inventory to give us cost of goods sold.

So let's start with that first line, beginning inventory. Beginning inventory we would get from our balance sheet or get from our trial balance. So we can populate this information here. And you'll see there I have a schedule, beginning inventory and purchases. So we can plug in our beginning inventory.

Then we need to know what our cost of goods purchased is. Well, then we can come down here. And we have a detail of all the purchases that we've made. So we made three purchases throughout the year.

So we'll see that we have beginning inventory, as well as the detail of all of our purchases. So we can take the total of those purchases, which is $5,400, and drop that into our schedule. So then we have total goods available for sale of $5,900, which you can see is the total of our beginning inventory plus all of our purchases.

OK. So now we know our goods available for sale. So now we need to know what our ending inventory is. So if we go down to our ending inventory schedule that I have here, we're going to make the assumption that we have 100 units left in our ending inventory.

So if we're using FIFO and we have 100 units left, what does that mean? Which units are left in inventory? Well, under FIFO, First In, First Out. So that means the units that we sold, we started selling these and then worked our way through.

So when we're looking at ending inventory, we start with the most recent purchase and work our way back. So if we have 100 units left, we know that we can take 50 units from that purchase that we made on 10/1. And then we can take another 50 units from that purchase that we made on July 1. So that means our ending inventory, 100 units, is $1,500.

So then we can take that number, drop it into our cost of goods sold calculation. So we're going to subtract out our ending inventory to give us our cost of goods sold. So we start with our beginning inventory, add cost of goods purchased to give us goods available for sale.

Subtract out ending inventory, which we calculated using FIFO. So the most recent purchases are the units that are assumed to be remaining in inventory. That's our cost of goods sold calculation.

Great. So now that we've done a calculation of cost of goods sold using FIFO, First In, First Out, let's summarize what we talked about today. In a nutshell, well, we talked about FIFO, First In, First Out. And it's an inventory valuation method, so it helps to provide information about our cost of goods sold as well as our ending inventory.

And under FIFO, goods are assumed to be sold oldest to newest. So the oldest inventory items are sold first. And the newer inventory items are what remains in our ending inventory. We looked at a calculation using FIFO of our cost of goods sold.

I hope that everybody enjoyed this video. And I hope to see you next time.