Hey everyone, and welcome to our video today on the weighted average method. So what is today's video all about? Well, today we're talking about the inventory cost flow assumption known as the weighted average method.

We're going to talk about, what is it? What is the weighted average method, which we'll do in just a minute. And then we're going to finish up today by calculating our cost of goods sold using the weighted average method.

But first let's dive into what that weighted average method is. So the weighted average method, what is it? Well, as I mentioned, it's an inventory valuation method. And it's based on average cost per unit. So our weighted average method, inventory evaluation method that helps to provide information about our cost of goods sold and ending inventory based on average cost per unit.

So what does that mean? What is our weighted average method based on? It's based on our total cost and our total units. So it's based on the total cost of inventory units. The total cost of units available for sale is divided by the total units that are available for sale, so we divide our total cost by our total units to give us our average cost per unit.

And for the weighted average method, there's no concern for the timing of inventory purchases. So it doesn't matter if we purchased that inventory at the beginning of the period or at the end of the period. It's all based on the average cost per unit.

So what's the argument for the weighted average method? Well, the argument is that inventory is very complex. And it can be difficult to determine which exact units you're selling.

So are you selling the units you purchased at the beginning of the period? Or are you selling the units purchased at the end of the period? It can be difficult to monitor and measure the exact flow of your inventory. So that's our weighted average method.

So now our weighted average method and cost of goods sold, let's do a quick rundown of that cost of goods sold calculation. We start with beginning inventory. We add our cost of goods purchased to give us goods available for sale. From that we subtract out ending inventory. And that gives us our cost of goods sold.

So we're discussing the weighted average method. And we're looking at cost of goods sold. So let's walk through an example of calculating cost of goods sold using our inventory valuation method of the weighted average method.

OK, everyone. So what we're looking at here is a calculation of our cost of goods sold for the weighted average method. Now when we're performing cost of goods sold, you can see the formula there. Beginning inventory plus cost of goods purchased gives us goods available for sale, minus ending inventory gives us cost of goods sold.

So let's start with that first piece. Let's start with our beginning inventory. So if we go down to the section, Beginning Inventory and Purchases, you'll see we have our beginning inventory. So we can then pop that into our cost of goods sold calculation.

Now we need to know the cost of goods purchased. So we'll take all the purchases that we made during the year. So you'll see we made three purchases. Now what was our cost of goods purchased? It's going to be the total of these three purchases, which in this case is $5,400.

So if we take all that, we take our beginning inventory plus our purchases, that gives us our goods available for sale. So you'll see here we have our beginning inventory plus our purchases gives us $5,900. And we put that $5,900 up in our cost of goods sold schedule.

So now we need to know our ending inventory. Well, how do we calculate our ending inventory in the weighted average method? Well, we need to know the average cost per unit. So we take our total units and the total cost to calculate our average cost per unit. So that's the average cost per unit.

So now let's go down to this ending inventory. If we make the assumption that we have 100 units left in our ending inventory, our calculation is to take those 100 units, multiply them by our average cost per unit to get the total cost of our ending inventory. So that's our ending inventory. So then we can come back up to that cost of goods sold calculation, drop in the ending inventory, and then subtract that from our goods available for sale to give us our cost of goods sold. So that's the cost of goods sold calculation using the weighted average method.

Great. So now that we've seen how to perform that cost of goods sold calculation using the weighted average method, let's summarize what we talked about today. In a nutshell, we talked about the weighted average method. And that's an inventory valuation method. And the weighted average method is based on total cost and total units, to give us an average cost per unit. And we looked at a calculation using the weighted average method of our cost of goods sold.

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