INVENTORY MANAGEMENT

Stock valuation methods:

* FIFO: first in first out
  + When we sell, we sell first the oldest stock (meaning the 1st bottles bought at the price they were bought) and then we reduce with the 2nd etc..)
* LIFO: last in first out
  + When we sell, we sell first the newest stock (new purchases, and then the oldest)
* Weighted average cost:
  + Every time we buy new stock, we recalculate the weighted average value of that stock. When we sell, we use the weighted average price to reduce the stock.

Periodic inventory management:

In the balance sheet we have a current asset account = Stocks or Inventory

* Not adjustment along the year
* Adjusted only when we make a physical inventory

Journal entries:

Increase of stock: Stocks to inventory variation (P&L) or purchase account

Decrease of stock: Inventory variation (P&) or purchase (P&L) account to Stocks (Current asset)

We buy more than what we sell, our stock increases

We sell more than what we buy, our stock decreases

Perpetual inventory management:

Stocks always reflect the real stock in our balance sheet

* Every time we buy, we book it in our stocks
* Every time se well, we reduce our stocks by booking a double journal entry

Journal entries:

Purchase of goods: Stocks (Current asset) to Cash or Payables

Sale of goods:

* + Cash or Receivables (current assets) to Sales (P&L) – **for the amount we sell**
  + COGS (Cost of goods sold = P&L) to Stocks (current assets)- **for the amount of the stock value**