Inventory Valuation Methods

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1. **Why Valuation Matters**
    - Inventory value directly affects both the balance sheet (asset value) and the income statement (cost of goods sold and profit).
2. **FIFO (First-In, First-Out)**
    - Assumes the oldest inventory is sold first; ending inventory reflects the most recent (often higher) purchase costs.
3. **LIFO (Last-In, First-Out)**
    - Assumes the newest inventory is sold first (not permitted under IFRS, but used in some jurisdictions like the US).
4. **Weighted Average Cost**
    - Calculates a single average cost per unit based on all inventory available during the period, smoothing out price fluctuations.
5. **Impact of Rising Prices**
    - FIFO tends to show higher profit (lower COGS) during inflation, since older, cheaper costs are matched against current revenue.
6. **Lower of Cost or Net Realizable Value**
    - Inventory must be written down if its market value falls below its recorded cost, following the prudence principle.