What is the Weighted Average Method?

Worksheet

The weighted average method calculates a single average cost per unit by dividing the total cost of goods available for sale by the total units available, then uses that average for both COGS and ending inventory.

$$C_{avg} = \frac{\sum C}{\sum U}$$

Questions

1. The weighted average cost per unit is calculated as

A) highest cost minus lowest cost
B) total cost total units
C) total units total cost
D) most recent purchase price

2. 200 units at $4 and 100 units at $7 are available. What is the WAC?

A) $5.00
B) $5.50
C) $6.00
D) $4.50

3. Compared to FIFO and LIFO, the weighted average method generally produces COGS that is

A) always the highest of the three
B) always the lowest of the three
C) between FIFO and LIFO results
D) unrelated to purchase costs

4. In a perpetual inventory system, the weighted average is recalculated

A) once a year only
B) after every new purchase
C) never
D) only when prices fall

5. A company has 100 units at $8 and later buys 150 units at $10. What is the weighted average cost per unit?

6. Using the same data (WAC = $9.20/unit), find COGS if the company sells 180 units.

7. A company adds a third purchase of 50 units at $11 to the previous 250 units (total cost $2,300). Find the new weighted average cost.

8. Define: What is the weighted average method?

9. Define: What is the weighted average cost formula?

10. Define: Where does the weighted average fall between FIFO and LIFO?

Answer Key

1. B) total cost total units - WAC = Total cost of goods available Total units available.

2. A) $5.00 - (2004 + 1007) 300 = (800+700)/300 = 1,500/300 = $5.00 per unit.

3. C) between FIFO and LIFO results - Because it blends all costs together, WAC results usually fall between the FIFO and LIFO extremes.

4. B) after every new purchase - Under a perpetual (moving average) system, WAC updates after each new purchase.

5. Total cost = (1008) + (15010) = 800 + 1,500 = $2,300 Total units = 100 + 150 = 250 WAC = 2,300 / 250 = $9.20 per unit

6. COGS = units sold WAC COGS = 180 9.20 = $1,656

7. New total cost = 2,300 + (5011) = 2,300 + 550 = $2,850 New total units = 250 + 50 = 300 New WAC = 2,850 / 300 = $9.50 per unit

8. An inventory costing method that uses one blended average cost per unit for all units available, rather than separate batches.

9. WAC = Total cost of goods available for sale Total units available for sale.

10. Its COGS and ending inventory values typically sit between FIFO's and LIFO's results.