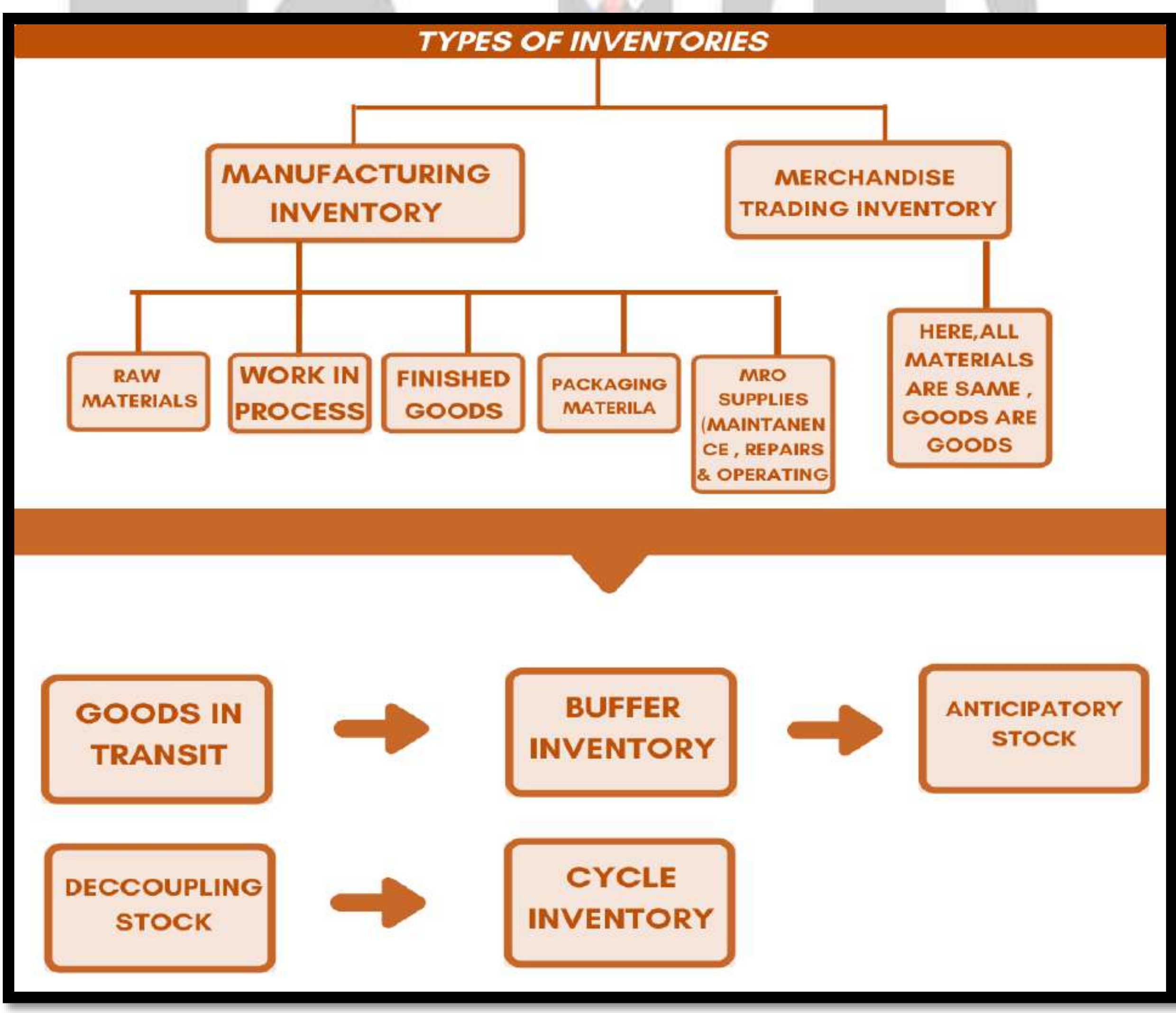
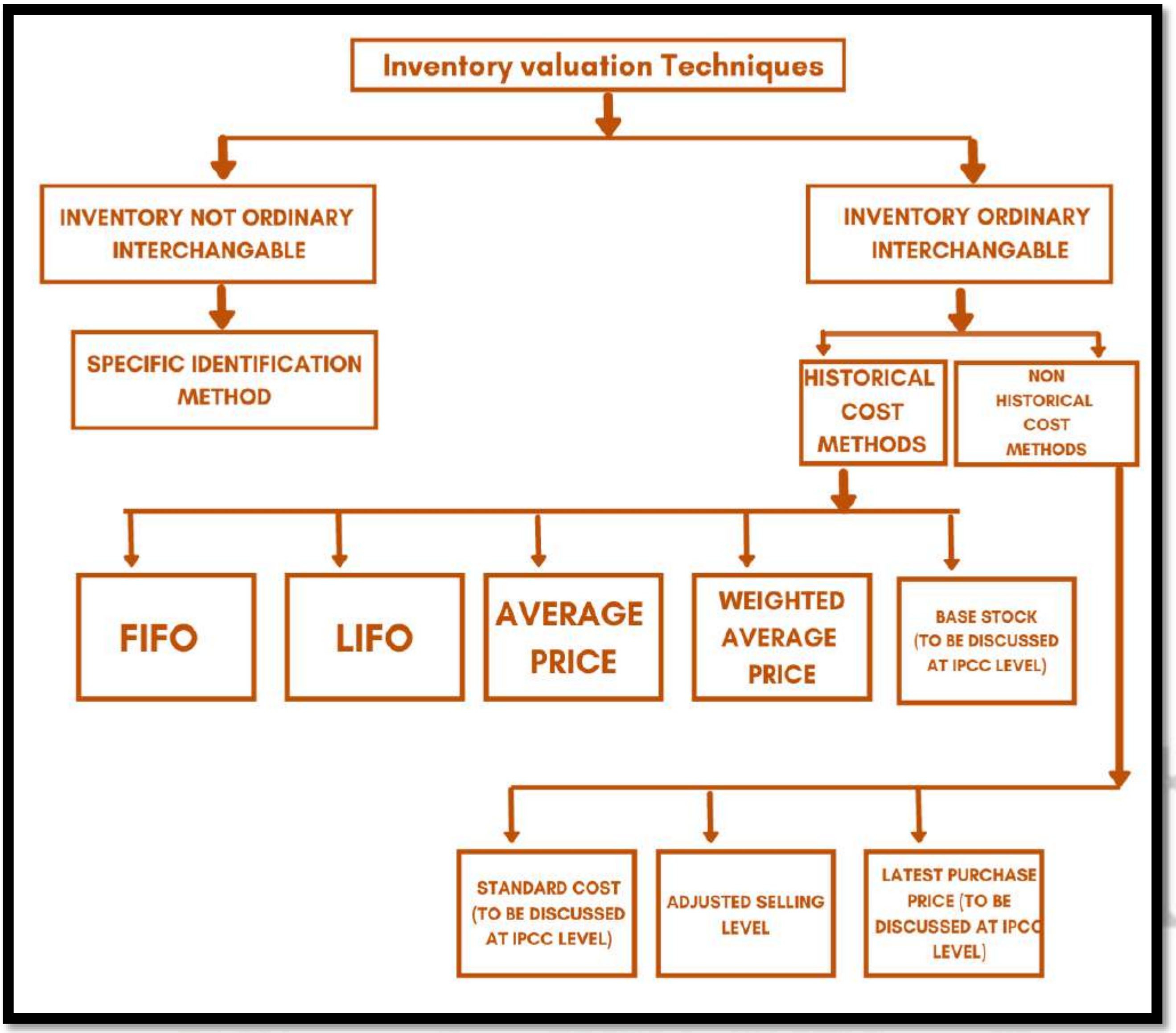
CHAPTER – 4

INVENTORIES





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INVENTORY VALUATION	
DETERMINATION OF INCOME	Cost of goods sold = Opening inventory + Purchases + Direct expenses – closing inventory
ASCERTAINMENT OF FINANCIAL POSITION	The value of inventory on the date of balance sheet is required to determine the financial position of the business
LIQUIDITY	Inventory is classified as a current asset , it is one of the components of net working capital which reveals the

ANALYSIS	liquidity position of the business.
STATUTORY COMPLIANCE	(a) The accounting policies adopted in measuring inventories , including the cost formula used , and (b) The total carrying amount of inventories and its classification appropriate to the enterprice.

Question 1

Differentiate periodic inventory system & Pertual inventory system.

Answer:

S no.	Periodic Inventroy System	Perpetual Inventory System
1	This system is based on Physical verification.	It is based on book records
2	This system provides information about inventory and cost of goods sold at a particular date.	It provides continous information about inventory and cost of sales.
3	This system determines inventory and takes cost.	It directly determines cost of goods sold and computers inventory as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in inventory
5	Under this method , inventory Control is not possible.	Inventory control can be exercised under this system.
6	This system is simple ans less expensive.	It is costlier method.

7	Periodic system requires closure of business for counting of inventory.	Inventory can be determiined without affecting the operations of the business.

Question 2

Write a short note on LIFO Method.

Answer:

LIFO (Last in first out) Method

As the name suggests, the LIFO formula assigns to cost of goods sold, the cost of goods that have been purchased last though the actual issues may be made out of the earliest lot on hand to prevent unnecessary deterioration in value. The closing inventory then is assumed to consist of earlier consignments and its value is then calculated according to such consignments. Under this basis, goods issued are valued at the price paid for the latest lot of goods on hand which means inventory of goods in hand is valued at price paid for the earlier lot of goods. In the absence of details of issue, the price paid for the earliest consignments is used for valuing closing inventory. LIFO method is based on the principle of matching current cost with current revenue as cost of recently purchased or produced goods are charged to cost against each sale. The cost of goods sold under this method represents the cost of recent purchases resulting that there is better matching of current costs with current sales.

Question 3

Distinguish between the following: FIFO and Weighted Average Price Method of stock Valuation.

Answer:

FIFOMethod:It means first in first out i.e, the goods first received are issue first. It gives the closest approximation to actual cash flow because whe stocks are issued on the FIFO basis, the balance of stock in hand at an point of time represents the more recent purchase price or production cos This method reflects a fair view. It is useful for perishable goods.

Weighted Average price Method: It includes periodic weighted average and moving weight average Where goods have been purchased from tim to time and are mixed in, such a manner that they cannot be identified individually, then an average of the prices at which the goods were purchased are taken for valuation of unsold stocks. Weighted average-priq is calculated by dividing the total cost of material in stock by the total quantity of material in stock. The periodic weighted method does not reflects the far view, so, generally, it is not used by the enterprises. The moving method preferred and it is suitable for slow moving items.

Question 4

Write short notes on:Principal methods of ascertainment of cost of inventory.

Answer:

The specific identification method, First-In-First-Out (FIFO) and weighted average cost formulae are the principal methods of ascertaining the cost of inventory. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs under the specific identification method.

Question 5

What is inventory control?

Answer:

Inventory control is the process of reducing inventory costs while remaining responsive to customer demands. By this definition a store would want to lower its acquisition, carrying ordering and stock-out costs to their lowest possible levels. However a store would need to have enough inventories to meet any needs of its customers

Question 6 List out The Diffrences Between LIFO And FIFO.

Answer:

Point of Difference	FIFO	LIFO
Stands for:	First in , first out	Last in , first out
Unsold Inventory	Unsold inventory is comprised of goods acquired most recently.	Unsold inventory is comprised of the earliest acquired goods.
Restriction:	There are no GAAP or IFRS restrictions for using FIFO	IFRS does not allow usinf LIFO for accounting.
Effectof Inflation:	If costs are increasing , the items acquired first were cheaper. This decarese the cost of goods sold (COGS) under FIFO and increases profit. The income tax is larger. Value of unsold inventory is also higher.	If costs are increasing then recently acquired items are moreexpensive.This increases the cost of goods sold (COGS) under LIFO and decreases the net profit. The income tax is smaller. Value of unsold inventory is lower.
Effectof Deflation:	Converse to the inflation scenario , accounting profit (and therefore tax) is lower using FIFO in a deflationary period. Value of unsold inventory, is lower	Using LIFO for a deflation period results in bothe accounting profit and value of unsold inventory being higher.
Record keeping:	Since oldest items are sold first , the number of records to be maintaned decreases	Since newest items are sold first , the oldest items may remain in the inventory for many years. This increases the number of records to be maintaned.
Fluctuations:	Only the newest items remain in the inventory and the cost is more recent. Hence , there is no unusual increase or decrease in cost of goods sold	Goods from number of years ago may remain in the inventory. Selling them may result in reporting unusual increase or decrese in cost of goods.

Question 7

States Advantages and Disadvantages of LIFO Method.

Answer:

Advantages:

1. This method is also simple to understand and easy to operate.
2. It can easily be applied particularly when inventories are not too large and their prices are fairly steady.
3. The cost of materials which is charged to jobs represent more or less the current market price.
4. At the time of raising prices it makes high charge to production. As such, quantity of materials can easily be procured without requiring additional funds.
5. This method, no doubt, gives a better result when profit fluctuates during the period of changing price level (inflation).
6. The effect of current market price is reflected in the cost of production and cost of goods sold as well.
7. Since inventories represent earlier low prices there will be no unrealised profit in Profit and Loss Account under financial accounting.

Disadvantages:

1. In condition of raising prices, the closing inventories will be undervalued, i.e., it will have no impact on the current market conditions.
2. At times of falling prices, this method will reveal a lower charge to production and a higher value of closing inventories which has no relation to the current replacement value.
3. Like FIFO method, if there are large number of purchases at different prices, possibility of clerical errors will increase
4. Comparison of cost becomes unreliable if two jobs are charged at different prices.

Question 8

Why is inventory valuation used?

Answer:

- It allows a company to provide a monetary value for items that they have in their inventory on their balance sheet

- To show transactions related to the sale and purchase of bonds.
- To evaluate inventory of a company prior to it being sold.
- To understand the average cost of doing business on a daily basis.

Question 9

Define the term Inventory.

Answer:

Inventory can be defined as assets held-

- for sale in the ordinary course of business, or
- in the process of production for such sale, or
- for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares, servicing equipment and standby equipment.

Question 10

What is the exclusive from cost of inventory.

Answer:

Exclusions from cost of inventories: Following expenses are generally not included in the costs of inventories:

- Abnormal amounts overheads;of wasted materials, labour or other production
- Storage costs, unless those costs are necessary in the production process prior to further production stage;
- Administrative overheads that do not contribute to bringing the inventories to their present location and condition, and
- Selling and distribution costs

Question 11

What are the NRV concept? Explain

Answer:

Net realizable value: This is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. In case of finished goods and traded goods Net realizable value will generally mean selling price which reduced by selling and distribution expenses. In case of work in progress, expenses and overheads required to be incurred to convert work In progress into finished goods and making it ready for sale will also be reduced from selling price. In case of raw materials, replacement cost is generally considered as net realizable value.

Question 12

Write short notes on:Adjusted Selling Price method of determining cost of stock.

Answer:

Adjusted selling method is also called retails inventory method. Widely in retail business or in business where the inventory comprises of items, the individual costs of which are not readily ascertainable. The historical cost of inventory is estimated by calculating it in the first instance at selling price and then deducting an amount equal to the estimated gross margin of profit on such stocks.

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PRACTICAL

Question 13

In a factory, stores are issued and accounted for on FIFO method. If the stock of a particular material on 1st Jan. 1992 is 1,000 units valued at Rs. 5 per unit and the particulars of purchases and issues during the month of January 1992 are as follows, prepare a statement showing how the value of issues should be arrived at:

Dates

Jan. 3	Purchases	200 units at Rs. 5.50

9	Issues	1,000 units
15	Purchases	1,400 units at Rs. 600
17	Issues	1,000 units
21	Purchases	800 units at Rs. 650
23	Issues	1,000 units

Solution:

Store Ledger Account

FIFO Method

Name or material – Folio No. -

Specification – Maximum level -

Code No. – Bill No. - Minimum level -

Unit of measurment - Location - Recordering level –

	Receipts				Issues			Balance			
Date	G.R no.	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount	Remarks
199				Rs.			Rs.			Rs.	
2								1,000	5	5,000	
Jan		200	5.5	1,100				1,000	5	5,000	
1								200	5.5	1,100	
3					1,000	5	5,000	200	5.5	1,100	
9		1,400	6	8,400				1,400	6	8,400	
					200	5.5	1,100				
15					800	6	4,800	600	6	3,600	
17		800	6.5	5,200				600	6	3,600	
								800	6.5	5,200	
21					600	6	3,600				
					400	6.50	2,600	400	6.5	2,600	
23											

Question 14

The following are the details of a spare part of Sriram mills:'

1-1-2016	Opening Inventory	Nil
1-1-2016	Purchases	100 units @ 30 per unit

15-1-2016	Issued for consuption	50 units
1-2-2016	Purchases	200 units @ 40 per unit
15-2-2016	Issued for consumption	100 units
20-2-2016	Issued for consumption	100 units

Sriram Mills

Calculation of the value Inventory as on 31 – 3 – 2016

Receipts	Issues		Balance							
Date	Units	Rate	Amount	Units	Rate		Amount	Units	Rate	Amount
1-1-2016	Balance									
1-1-2016	100	30	3,000					100	30	3,000
15-1-2016				50		30	1,500	50	30	1,500
1-2-2016	200	40	8,000					50		1,500
15-2-2016				50		30	1,500	200	40	8,000
						40	2,000	150	40	6,000
20-2-2016				100		40	4,000	50	40	2,000

Therefore, the value of Inventory as on 31-3-2016: 50 units @ 40 = 2,000

Question 15

The Delta company uses a periodic inventory system. The beginning balance of inventory and purchases made by the company during the month of July, 2016 are given below:

July 01: Beginning inventory, 500 units @ $20 per unit.

July 18: Inventory purchased, 800 units @ $24 per unit.

July 25: Inventory purchased, 700 units @ $26 per unit.

The Delta company sold 1,400 units during the month of July.

Required: Compute inventory on July 31, 2016 and cost of goods sold for the

month of July using following inventory costing methods:

1) First in , first out (FIFO) Method
2) Last in , first out (LIFO) method
3) Average cost method

Solution:

1. First in, first out (FIFO) method:

a. Computation of inventory on july 31 , 2016 (i.e , ending inventory) under FIFO:

Most recent cost : July 25 , 2016 :	
600 units @ $26.000 per unit	$ 15 , 600

b.Computation of cost of goods sold (COGS) for july 31 , 2016 under FIFO:

Cost of units on July 1 , 2016 (beginning inventory):		
500 units @ Rs. 20 per unit	10,000	
Add: cost of units purchased during the month:		
800 units purchased @ Rs. 24 per unit	Rs.19,200	
700 units purchased @ Rs. 26 per unit	Rs. 18,200 37,400	
Total cost of units available for sale		Rs. 47,400
Less: cost of units in ending inventory (see part a)		15,600
Total cost of 1,400 units sold during july (i.e Cost of goods sold for july , 2016)		Rs. 31,800

2. Last in , first out (LIFO) method

a. Computation of inventory on July 31, 2016 under LIFO

Earliest cost ; July 1 , 2016 (beginning inventory):	
500 units @ Rs. 20 per unit	Rs.10,000
Next earliest cost ; July 18 , 2016:	

100 units @ Rs. 24 per unit 2,400

Total cost of 600 units in inventory on July
31 , 2016 (i.e ending inventory) Rs. 12,400

b. Computation of cost of goods sold (COGS) for july 31 , 2016 under LIFO:

If average cost method is used:

[(500 units X 200) + (800 units X $ 24) + (700 units X $ 26)] / 500 units + 800 units + 700 units

= Rs. 47,400 / 2,000 units

= Rs. 23.70

1) Average cost method
   a. Computation of inventory on july 31 , 2016 (i.e ending inventory) under average cost method:

Ending inventory = 600 units X Rs. 23.70

= Rs. 14,220

   b. Computation of cost of goods sold (COGS) for july 31, 2016 under average cost method :

Cost of goods sold (COGS) = 1,400 X Rs. 23.70

= Rs. 33,180

Question 16

A manufacturer has the following record of purchase of a condenser , which he uses while manufacturing radio sets:

Date	Quantity (units)	Price per unit
Dec. 4	900	5.00
Dec. 10	400	5.50
Dec. 11	300	5.50

Dec. 19	200	6.00
Dec. 28	800	4.75

1,600 units were issued during the month of December. Calculate the weighte average price and also the value of closing inventory by weighted average price method.

Solution:

The computation of weighted average price.

Quantity	Rate	Price paid
Units	.	.
900	5.00	4,500
400	5.50	2,200
300	5.50	1,650
200	6.00	1,200
800	4.75	3,800
2,600	Total	13,350
Weighted average price	13,350 = 2,600 = 5.135 per unit	

Value of closing inventory of 1,000 units = 1,000 X 5.135 = 5,135

Question 17

The Clothing Store Limited bought a range of beachwear in the Spring, with each item costing Rs.15 and retailing for Rs.30. Most of the goods sell well but, by Autumn, ten items remain unsold. These are put on the bargain rail at Rs.18 each. On 31 December, at the end of the store's financial year, five items remain unsold. At what price will they be included in the year-end inventory valuation? Twelve months later, three items still remain unsold and have been reduced further to Rs 10 each. At what price will they now be valued in the year-end inventory valuation?

Answer:

At 31 December, the five items will be valued at a cost of Rs. 15 each, i.e. 5 x Rs.15 = Rs.75. Twelve months later, the three items remaining unsold will be valued at a net realisable value of Rs. 10 each, i.e., 3 x Rs. 10 = Rs. 30.

Important note: Inventories are never valued at selling prices when selling prices are above cost prices. The reason for this is that selling prices include profit, and to value inventory in this way would recognise the profit in the financial statements before it has been realised.

Question 18

X Who was closing his books on 31.3.1996 failed to take the actual stock, which he did only on 9th April 1996, when it was ascertained by him to be worth Rs 25,000. It was found that sales are entered in the sales book in the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book when the invoices are received.

It was found that sales between 31:3.1996 and 9.4.1996 as per the sales daybook are {1,720. Purchases between 31.3.1996 and 9.4.1996 as per purchases day book are 120, out of these goods amounting to Rs. 50 were not received until after the stock was taken.

Goods invoiced during the month of March 1996 but goods received only n 4th April 1996 amounted to 100. Rate of gross profit is 33 1/3% on cost. Ascertain the value of physical stock as on 31.3.1996.

Solution:

Statement of valuation of physical as on 31st March 1996

Particulars	Rs.	
Value of stock as on 9th April , 1996 Add: Cost of sales		25,000
Sales made between 31.3.1996 and 9.4.1996	1,720	
Less: Gross profit @ 25% on sales	430	1,290
		26,290
Less: Purchases actually received	‘	
Purchases from 1.4.1996 to 9.4.1996	120	
Less: Goods not received up to 9.4.1996	(50)	70

		26,220
Less: Purchases during March , 1996 Received on 4.4.1996		100
Value of physical stock as on 3.3.1996		26,120

Question 19

From the following information, calculate the historical cost of inventories using	
Sales during the year	2,00,000
Cost of purchases	2,00,000
Opening inventory	Nil
Closing inventory at selling price	50,000

Solution:

Calculation of gross margin of profit:

Particular	Amount
Sales	2,00,000
Add: Closing inventory (at selling price)	50,000
Selling price of goods available for sale:	2,50,000
Less: Cost of goods available for sale	2,00,000
Gross margin	50,000
Cost of closing inventory = 50,000 less 20% of 50,000 = 40,000	

Question 20

Adnan Naeem Imports , Lts has the following information about the inventory of electronic components for October 2016

Date	Quantity	Cost per item
Beginning Inventory	150	Rs. 32
5 October Purchase	200	Rs. 32
17 October Purchase	450	Rs. 31

28 October Purchase	100	Rs. 33

At the end of October , 220 components remained in inventory.

If uses the FIFO method of allocating inventory , what would is the cost of goods sold for october?

Solution:

Cost of Goods Sold

Units	@	Amount
150	32	4,800
450	31	13950
100	33	3300
1580		Rs. 28450

Question 21

Malik company uses a periodic inventory system. The beginning inventory of a particular product , and the purchases during the current year , were as follows:

Jan 1 - Beginning inventory _______________ 60 units @ Rs. 105 = Rs. 6,300

Mar . 8 – Purchase _____________ 30 units @ 115 = 3,450

Aug. 11 – Purchase _______________ 90 units @ 125 = 11,250

Oct. 23 - Purchase __________________ 20 units @ 135 = 2,700

Total available for sale ____________________ 200 units Rs. 23, 700

At December 31 , the ending inventory of this product consisted of 55 & selling price during year was Rs. 150

Using periodic costing procedures , determine :

(1) Cost of goods sold relating to this product and

(2) Cost of the year – end inventory under cash (LIFO , FIFO and W Avg.) of the flow assumptions?

Solution:

FIFO

Cost of Sales

Units	@	Amount
60	105	6,300
30	115	3,450
55	125	6,875
145		Rs. 16,625

Cost Ending inventory

Units	@	Amount
35	125	4,375
20	135	2,700
55		Rs. 7,075

Solution:

LIFO

Cost of SALES

Units	@	Amount
20	135	2,700
90	125	11,250
30	115	3,450
5	105	525
145		Rs. 17,925

Cost ending inventory

Units	@	Amount
55	105	5,775
55		Rs. 17,925

Solution:

Weighted Average

Cost of sales

Units	@	Amount
145	118.5	17,182.5
145		Rs. 17,182.5

Cost Ending inventory

Units	@	Amount
55	118.5	6,517.5
55		Rs. 6,517.5

Avg. Rate = 23,700 / 200 = Rs. 118.5 per unit

Comparative Cost sheet (in amount)

Methods	Balance	Purchases	(Closing Stuck)	CHS	sales	CGS	Gross profit
FIFO	6,300	17,400	(7,075)	16,625	21,750	16,625	5,125
LIFO	6,300	17,400	(5,775)	17,925	21,750	17,925	3,825
Average	6,300	17,400	(6,517.5)	17,182.5	21,750	17,182.5	4,567.5

Question 22

Use LIFO on the following information to calculate the value of ending inventory and the cost of goods sold of March.

Mar 1	Beginning Inventory	60 units @ Rs. 15.00
5	Purchase	140 units @ Rs. 15.50
14	Sale	190 units @ Rs. 19.00
27	Purchase	70 units @ Rs.16.00
29	Sale	30 units @ Rs. 19.50

Solution:

LIFO Periodic

Units Available for sale	= 60 + 140 + 70		= 270
Units Sold	= 190 + 30		=220
Units in Ending Inventory	= 270 - 220		=50
Cost of Goods sold	**Units**	**Unit Cost**	**Total**
Sales from Mae 27 Inventory	70	$16.00	$ 1,120
Sales From Mar 5 Purchase	140	$15.50	$2,170
Sales From Mar 1 Purchase	10	$ 15.00	$ 150
	220		**$ 3440**
Ending Inventory	**Units**	**Unit Cost**	**Total**
Inventory from Mar 27 Purchase	50	$15.00	$ 750

Question 23

Bike LTD purchased 10 bikes during January and sold 6 bikes, details of which are as follows:

January 1 Purchased 5 bikes @ Rs 50 each

January 5 Sold 2 bikes

January 10 Sold 1 bike

January 15 Purchased 5 bikes @ 70 each

January 25 Sold 3 bikes

The value of 4 bikes held as inventory at the end of January may be calculated as follows:

The sales made on January 5 and 10 were clearly made from purchases on 1st January. Of the sales made on January 25, it will be assumed that 2 bikes relate to purchases on January 1 whereas the remaining one bike has been issued from the purchases on 15th January.

Solution:

Date	Purchase			Issues			Inventory		
	Units	Unit	Total	Unit	Unit	Total	Unit	Unit	Total
Jan 1	5						5	50	250
Jan 5				2	50	100	3	50	150
Jan 10				1	50	50	2	50	100
Jan 15	5	70	350				5	70	350
Jan 15							7		450
Jan 25				2	50	100			
				1	70	70	4	70	280

Question 24

Cindy Sheppard runs a candy shop. She enters into the following transactions during July:

July 1 Purchases 1,200 lollypops at Rs. 1 each

July 13 Purchases500 lollypops 500 lollypopat Rs. 1.20 each

July 14 Sells 700 lollypops at Rs. 2 each.

Value its closing stock by weighted Average method.

Solution:

Date	Details	Number	Unit	Value
July 1	Purchases 1,200 lollypops at Rs.1 each	1,200	1	1,200
July 13	Purchases 500 lollypops at 1.20	1,200	1	1,200
		500	1.20	600
		1,700		1,800
Therefore, the average cost per lollypop is Rs. 1,800/1,700 lollypop, which comes to Rs 1.06				
		1,700	$1.06	1,800
July 14	Sells 700 lollypops at Rs. 2 each	1,000	1.06	1,059

Question 25

Prepare Store Ledger Card (SLC) from the following information for July

JULY 1______Beginning Inventory ______50 Pieces @ Rs. 20 __________Rs. 1,000

JULY 2 ________Purchases ____________100 Pieces @ Rs. 25 _________Rs. 2,500

JULY 9 _________Purchases __________50 Pieces @ Rs. 28 _________ Rs. 1,400

JULY 18 __________Sales ____________125 Pieces @ Rs. 30 __________Rs. 3,725

JULY 20 __________ Purchases _______85 Pieces @ Rs. 32 __________Rs. 2,720

JULY 22 ____________Purchase ________100 Pieces @ Rs. 34 ___________Rs. 3,400

JULY 27 _____________Sales ___________150 Pieces @ Rs. 29 ____________Rs. 4,350

Solution:

Store ledger card (SLC) Weighted Average

Date	Description	Purchases			Sales			Balances		
		Unit	@	Amt.	Unit	@	Amt.	Unit	@	Amt.
July 1	Balance b/f							50	20.00	1,000
2	Purchase	100	25	2,500				150	23.33	3,500
9	Purchases	50	28	1,400				200	24.50	4,900
18	Sales				125	2450	3,062.50	75	24.50	1,838
20	Purchases	85	32	2,720				160	28.49	4,558
22	Purchases	100	34	3,400				260	30.61	7,958
27	Sales				150	3061	4,591.50	110	30.60	3,366.50
Total		335		10,020	275		7,654	110	30.60	3,366.50

Question 26

Prepare Store Ledger Card (SLC) form the following information on Jan 2017:

JAN 1. Opening Stock _________400 units @ Rs. 30 _________Rs. 12,000

JAN 2. Purchases _____________200 units @ Rs. 28 _________________ Rs. 5,600

JAN 15. Sales __________________125 units @ Rs. 50 ______________ Rs. 6,250

JAN 21. Purchases ____________80 units @ Rs. 25 _________________ Rs. 2,000

JAN 27. Purchase ________________100 units @ Rs. 32 _______________ Rs. 3,200

JAN 29. Sales _________________175 units @ Rs. 48 _________________Rs. 8,400

JAN 30. Sales __________________140 units @ Rs. 55 _____________Rs. 7,700

Determine the Cost of Sales, cost of Closing Stock and Gross profit under each of the following method by using perpetual inventory system. Cost are assigned on the basis of LIFO

Solution:

Date	Description	Purchases			Sales			Balances		
		Unit	@	Amt.	Unit	@	Amt.	Unit	@	Amt.
Jan 1	Balance b/d							400	30	12,000
2	Purchases	200	28	5,600				400 200	30 28	12,000 5,600
15	Sales				125	28	3,500	400 75	30 28	12,000 2,100
21	Purchases	80	25	2,000				400 75 80	30 28 25	12,000 2,100 2,000
27	Purchases	100	32	3,200				400 75 85 100	30 28 25 32	12,000 2,100 2,000 3,200
29	Sales	175			75	25	2100	400	30	12,00
30	Sales	140			5 75 60	25 28 30	125 2,100 1,000	75 5 340	30 28 30	2100 125 10,200
Total		380		Rs. 10,000	440		Rs. 12,600	340		Rs. 10,200

Question 27

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2016:

Goods received from suppliers		
(Subject to trade discount and taxes)	‘	15,75,500
Trade discount 3% and sales tax 11%		
Packaging and transportation charges	‘	87,500
Sales during the year	‘	22,45,500
Sales price of closing inventories	‘	2,35,000

Find out the historical cost of inventories using adjusted selling price method.

Solution:

Determination of cost of purchases:

Goods received from suppliers	‘	15,75,500
Less: Trade discount 3%	‘	(47,265)
		15,28,235
Add: Sales Tax 11%	‘	1,68,106
	‘	16,96,341
Add: Packaging and transportation charges	‘	87,500
	‘	(17,83,841)

Determination of estimated gross profit margin

Sales during the year	‘	22,45,500
Closing inventory at the selling price	‘	2,35,000
	‘	24,80,500
Less: Purchases		(17,83,841)
Gross profit	‘	6,96,659
Gross profit margin		28,09%
Inventory Valuation:	‘	
Selling price of closing inventories	‘	2,35,000
Less: Gross profit margin 28.09%	‘	(66,012)
		1,68,988

Question 28

You are required to value the inventory by LIFO (Perpetual System). Opening Inventory is 8 Units at Rate of Rs. 10 at start of December and during the year the following were the purchases and sales of inventory:

Purchases		Sales	
2/12 22/12	6 units @ Rs. 12 10 units @ Rs. 16	15/12 31/12	4 units @ Rs. 22 14 units @ Rs. 25

Solution:

Store Ledger Card (SLC)

Date	Description	Purchases			Sales			Balances		
		Unit	@	Amt.	Unit	@	Amt.	Unit	@	Amt.
1/12	Balance b/d							8	10	80
2/12	Purchases	6	12	72				8 6	10 12	80 72
15/12	Sales							8 2	10 12	80 24
22/12	Purchases	10	16	160				8 2 10	10 12 16	80 24 160
31/12	Sales				10 2 2	16 12 10	160 24 20	6	10	60
Total		16	-	232	18	-	252	6	-	60

Question 29

From the following find out FIFO and LIFO inventory values under

1. **Perpetual inventory Method**
2. **Periodic Inventory Method**

					Rs.
Jan 1	O. B	100 Units	@	7	700,00
Jan 15	Issue	80 units			
Jan 25	Purchases	120 units	@	9	1080.00

Feb 20	Issue	129 units			
April 10	Purchases	160 units	@	8	1280.00
May 20	Issue	100 units			
Oct 15	Purchases	80 units	@	10	800.00
Dec. 31	Inventory (Closing)	160 units		Total	3860.00

Solution:

FIFO

Perpetual	Rs.	Rs.	Periodic		
80 units	@ Rs. 7	= 560	100 units	@ Rs. 7	
20 units	@ Rs. 7	=140	120 units	@ Rs. 9	=1080
100 units	@ Rs. 9	=900	80 units	@ Rs. 8	=640
20 units	@ Rs. 9	=180		Cost of issue	2440
80 units	@ Rs. 8	=640	Inventory value = Rs. 3860 = 2440 = Rs. 1,440		
	Cost of issue	2420	=1,440		
	Inventory Value = 3860 = 2440				

Question 30

The yearend inventories for the two main groups of inventories held by the Paint and Wallpaper Company Limited are found to be:

Value	Cost	Net realisable
Paints	2,500	2,300
Wallpapers	5,000	7,500
	7,500	9,800

Solution:

It has taken the 'lower of cost and net realizable value' for each group of inventories,

i.e., £ Paints (at net realisable value)		2,300
Wallpapers (at cost) 5,000		7,300
Total	7500	

Past Examination Questions

JAN 2021

Question 1

From the following particulars ascertain the value of inventories as on 31st March 2020:

Inventory as on 1st April 2019	- Rs 3,50,000
Purchase made during the year	- Rs. 12,00,000
Sales	- Rs. 18,50,000
Manufacturing Expenses	- Rs. 1,00,000
Selling and distribution Expenses	- Rs. 50,000
Administration Expenses	- Rs. 80,000

At the time of valuing inventory as on 31st March, 2019 a sum of Rs. 20,000 was written off on a particular item which was originally purchased for Rs. 55,000 and was sold during the year for 50,000.
Except the above-mentioned transaction gross profit earned during the year was 20% on sale.

Solution:

Statement showing the value of inventory on 31/3/2019

Particulars	Amount	Amount
Value of stock as on 1st April, 2019	3,50,000	
Less: Book value of abnormal inventory	(35,000)	3,15,000

Add: Purchase during the period from 1.4.2019to31.3.2020		12,00,000
Add: Manufacturing expenses during the above period		1,00,000
		16,15,000
Less: Cost of goods sold		
Sales	18,50,000	
Less: Sale of abnormal item	(50,000)	
	18,00,000	
Less: Gross Profit @ 20%	(3,60,000)	(14,40,000)
Value of inventory as on 31.3.2020		1,75,000

JULY 2021

Question 1

State with reason, whether the following statements are true or false:

Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

Answer:

False: Warehouse rent paid for storage of finished inventory should not be included in the cost of finished inventory, unless those costs are necessary in the production process prior to further production stage.

Question 2

From the following information, calculate the historical cost of closing inventories using

Adjusted selling price method:

Purchase during the year	**- ₹ 5,00,000**
Sales during the year	**- ₹ 7,50,000**
Opening Inventory	**- Nil**
Closing Inventory at selling price	**- ₹ 1,00,00**

Answer:

Calculation of Gross Profit Margin

Particulars	Amount (₹)
Sales	7,50,000
Add: Closing inventory (at selling price)	1,00,000
Selling price of goods available for sale:	8,50,000
Less: Cost of goods available for sale	5,00,000
Gross margin	3,50,000

Rate of gross margin $= \frac{3,50,000}{8,50,000} \times 100 = 41.18/\%$

Cost of closing inventory = 1,00,000 – (41.18% of Rs. 1,00,000) = Rs. 58,820

JUNE 2022

Question 1

Zed Enterprises furnishes the following information for the year ended 31st March,2021.

Particulars	*Amount(`)*
Value of Stock as on1stApril,2020	28,00,000
Purchases during the year	1,38,40,000
Manufacturing Expenses during the year	28,00,000
Sales during the year	2,08,80,000

Thefollowingfurtherinformationisalsoprovided:

(i) **At the time of valuing stock on 31st March,2020 a sum of `2,40,000 was written offfor a particular item which was originally purchased for ` 8,00,000. This item was soldduringtheyearended31stMarch,2021for`6,40,000.**

(ii) **Except for the above transaction,the rate of gross profit during the year was 1/3rd oncost.**

AscertainthevalueofStockason31stMarch,2021.

Answer:

StatementofValuationofStockason31stMarch,2021

Particular		Amount`
Value of stock as on1stApril,2020		28,00,000
Add:Purchasesduringtheyear		1,38,40,000
Add: Manufacturing expenses during the above period		28,00,000
Less: Cost of sales during the period:		1,94,40,000
Sales	2,08,80,000	

Less:Grossprofit	51,40,000	1,57,40,000
Valueofstockason31.3.2021		37,00,000

WorkingNote:

Particulars	Amount`
Calculation of gross profit:	
Gross profit on normal sales25/100x(2,08,80,000-6,40,000)	50,60,000
Gross profit on the particular(abnormal)item6,40,000-(8,00,000–2,40,000)	80,000
	51,40,000

The value of closing stock on 31st March, 2021 may, alternatively, be found out by preparing Trading Account for the year ended 31st March,2021.

Alternatively the solution can be presented in the following manner:

Dr Tradingaccountfortheyearended31stMarch,2021 Cr

	Normal	Abnormal	Total		Normal	Abnormal	Total
To Opening Stock	22,40,000	5,60,000	28,00,000	By Sales	2,02,40,000	6,40,000	**2,08,80,000**
To Purchases	13,8,40,000	0	1,38,40,000	By Closing Stock	37,00,000	0	**37,00,000**
To Manufacturing Expenses	28,00,000	0	28,00,000				
To Gross Profit (Working Note)*	50,60,000	80,000	51,40,000				
Total	**2,39,40,000**	**6,40,000**	**2,45,80,000**		**2,39,40,000**	**6,40,000**	**2,45,80,000**

DEC 2022

Question 1

Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

Answer:

True- Under periodic inventory system actual physical count of inventory is taken of all the Inventory on hand at a particular date.