

CH - 8

VALUATION OF INVENTORIES



DANGAL QUESTIONS

ICAI RTP QUESTIONS

ICAI PAST QUESTIONS

TOTAL QUESTIONS

3

22

25

Lets DANGAL with ICAI RTP QUESTIONS

MAY 18

Q1> Closing stock is valued by XYZ Stores on generally accepted accounting principles.

Stock taking for the year ended 31st March, 2017 was completed by 10th April, 2017, the valuation of which showed a stock figure of Rs. 1,67,500 at cost as on the completion date. After the end of the accounting year and till the date of completion of stock taking, sales for the next year were made for Rs. 6,875, profit margin being 33.33 percent on cost. Purchases for the next year included in the stock amounted to Rs. 9,000 at cost less trade discount 10 percent. During this period, goods were added to stock of the mark up price of Rs. 300 in respect of sales returns. After stock taking it was found that there were certain very old slow moving items costing Rs. 1,125 which should be taken at Rs. 525 to ensure disposal to an interested customer. Due to heavy floods, certain goods costing Rs. 1,550 were received from the supplier beyond the delivery date of customer. As a result, the customer refused to take delivery and net realizable value of the goods was estimated to be Rs. 1,250 on 31st March, 2017.

You are required to calculate the value of stock for inclusion in the final accounts for the year ended 31st March, 2017.

ANS.

Statement showing the valuation of stock as on 31st March, 2017

		₹
A	Value of Stock as on 10th October, 2017	1,67,500
B	Add: Cost of sales after 31 st March, till stock taking (₹ 6,875 – ₹ 1,719)	5,156
C	Less: Purchases for the next period (net)	8,100
D	Less: Cost of Sales Returns	225
E	Less: Loss on revaluation of slow moving inventories	600
F	Less: Reduction in value on account of default	300
G	Value of Stock on 31 st March, 2017	<u>1,63,431</u>

Note: Profit margin of 33.33 percent on cost means 25 percent on sale price.

MAY 2019

- Q2> A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2018 on which date the total cost of goods in his godown came to Rs. 50,000. The following facts were established between 31st March and 15th April, 2018.
- (i) Sales Rs. 41,000 (including cash sales Rs. 10,000)
 - (ii) Purchases Rs. 5,034 (including cash purchases Rs. 1,990)
 - (iii) Sales Return Rs. 1,000.
 - (iv) On 15th March, goods of the sale value of Rs. 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
 - (v) The trader had also received goods costing Rs. 8,000 in March, for sale on consignment basis; 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.
- Goods are sold by the trader at a profit of 20% on sales.
- You are required to ascertain the value of Inventory as on 31st March, 2018.

ANS.

Statement of Valuation of Stock on 31st March, 2018

	₹	₹
Value of stock as on 15th April, 2018		50,000
Add: Cost of sales during the period from 31 st March, 2018 to 15th April, 2018		
Sales (₹ 41,000 – ₹ 1,000)	40,000	
Less: Gross Profit (20% of ₹ 40,000)	<u>8,000</u>	32,000
Cost of goods sent on approval basis (80% of ₹ 6,000)		<u>4,800</u>
		86,800
Less: Purchases during the period from 31 st March, 2018 to 15th April, 2018	5,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	<u>2,400</u>	<u>7,434</u>
		<u>79,366</u>

MAY 2020

- Q3> Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:
- (i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.
 - (ii) On 31st December, stock sheet showed the following discrepancies:
 - a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.
 - (b) The total of a page had been undercast by Rs. 200.
 - (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices

entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.

(iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.

v) During the final quarter, credit notes at invoiced value of Rs. 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018.

Transfer of ownership takes place at the time of delivery of goods.

ANS.

Valuation of Physical Stock as at March 31, 2018

		₹
Stock at cost on 31.12.2017		80,000
Add: (1) Undercasting of a page total	200	
(2) Goods purchased and delivered during January – March, 2018		
₹ (70,000 – 3,000 + 4,000)	71,000	
(3) Cost of sales return ₹ (1,000 – 200)	<u>800</u>	<u>72,000</u>
		1,52,000
Less: (1) Overcasting of a page total ₹ (6,000 – 5,000)	1,000	
(2) Goods sold and dispatched during January – March, 2018		
₹ (90,000 – 5,000 + 4,000)	89,000	
Less: Profit margin $\left(89,000 \times \frac{25}{125}\right)$	<u>17,800</u>	<u>71,200</u>
Value of stock as on 31st March, 2018		<u>79,800</u>

Let's DANGAL with ICAI PAST EXAMS QUESTIONS

Q1> A company, started on April 1, 2017 purchased raw material during 2017-2018 as stated below:

April 2	800 kg	@ Rs. 62 per kg
May 26	1,200 kg	@ Rs. 57 per kg
July 13	2,500 kg	@ Rs. 59 per kg
Oct. 10	3,000 kg	@ Rs. 56 per kg
Dec. 18	1,500 kg	@ Rs. 60 per kg
Feb. 29	1,000 kg	@ Rs. 65 per kg

While preparing its final accounts on March 31, 2018 the company had 1,300 kg of raw material in its godown.

Calculate the values of closing stock of raw materials according to—

- (i) 'First in First Out' basis, (ii) 'Last in First Out' basis, and
(iii) 'Weighted Average' basis.

Sol :

VALUATION OF CLOSING STOCK

Particulars	Rs.
I. On FIFO basis	65,000
1,000 kg @ Rs. 65 per kg	18,000
300 kg @ Rs. 60 per kg	83,000
Value of Closing Stock	
II. On LIFO basis	
800 kg @ Rs. 62 per kg	49,600
500 kg @ Rs. 57 per kg	28,500
Value of Closing Stock	78,100

III. On Weighted Average basis

Weighted Average Cost is computed as under:

Date of Purchase	Price Rs.	Quantity	Price × Quantity Rs.
Apr. 2, 2017	62	800	49,600
May 26, 2017	57	1,200	68,400
July 13, 2017	59	2,500	1,47,500

Oct. 10, 2017	56	3,000	1,68,000
Dec. 18, 2017	60	1,500	90,000
Feb. 29, 2018	65	1,000	65,000
		10,000	5,88,500

Weighted Average Price = $5,88,500/10,000 = \text{Rs. } 58.85 \text{ Kg}$

Value of Closing Stock, viz., $1,300 \text{ Kg} = 1,300 \times \text{Rs. } 58.85 = \text{Rs. } 76,505$

Q2> A firm dealing in cloth has 30,000 meters of cloths on 1st April, 2017 valued at Rs. 3,00,000 on LIFO method. It purchased 40,000 metre during the period ending 31st March, 2018 at the rate of Rs. 12 per metre and sold during the same period 60,000 meters @ Rs. 25 per metre. Ascertain the profit of the firm during the period ending on 31st March, 2018, the closing stock to be value on LIFO method. Give workings.

Sol:

DR.		TRADING ACCOUNT		CR.	
Particulars	Rs.	Particulars	Rs.		
To Opening Stock (30000 x ?10)	3,00,000	By Sales (60000 x ?25)	15,00,000		
To Purchases (40000 x ?12)	4,80,000	By Closing Stock (10000 x Rs.10)	1,00,000		
To Gross Profit	8,20,000	[30000 + 40000 - 60000]			
	16,00,000		16,00,000		

Q3> In pricing the petrol sold, service station X follows FIFO while service station Y follows LIFO. On April 1st 2018 both had the same quantity of petrol in stock, viz. 8,000 litres at Rs. 25 per litre. During April each station purchased additional supplies of 3,000 litres at Rs. 26 per litre. Sales for each of these stations during the month were 10,000 liters at Rs. 27 per litre. Calculate for each service station the profit earned during the month and the value of petrol in stock at the end of the month.

Sol :

SERVICE STATION X (USING FIFO METHOD)

Particulars		Rs.
A.	Opening Stock 8,000 litres @ Rs. 25	2,00,000
B.	Purchases 3,000 litres @ Rs. 26	78,000
C.	Less: Value of Closing Stock: [1,000 litres @ Rs. 26]	(26,000)
D.	Cost of Sales [A + B - C]	2,52,000
E.	Sales 10,000 litres @ Rs. 27	2,70,000
F.	Profit during April [E - D]	18,000

SERVICE STATION Y (USING LIFO METHOD)

Particulars		Rs.
A.	Opening Stock 8,000 litres @ Rs. 25	2,00,000
B.	Purchases 3,000 litres @ Rs. 26	78,000
C.	Less: Value of Closing Stock: [1,000 litres @ Rs. 25]	(25,000)
D.	Cost of Sales [A + B - C]	2,53,000
E.	Sales: 10,000 litres @ Rs. 27	2,70,000
F.	Profit during April [E - D]	17,000

Q4> Calculate Cost of Goods Sold, Value of Closing Stock and Profit under LIFO method of stock valuation from the following information:

December 30, 2017 Stock 200 units at Rs. 6 each

January 16, 2018 Bought 240 units at Rs. 8 each

February 3, 2018 Bought 220 units at Rs. 10 each

February 21, 2018 Bought 280 units at Rs. 12 each

During March, 2018, 800 units were sold at Rs. 16 each

Sol:

STORES LEDGER (ACCORDING TO LIFO METHOD)

Date	Receipts			Sales			Balance		
	Unit	Cost	Amount	Unit	Cost	Amount	Unit	Cost	Amount
2017									
Dec 30					—		200	6	1,200
2018							200	6	1,200

Jan 16	240	8	1,920		—		240	8	1,920
							200	6	1,200
Feb 3	220	10	2,200				240	8	1,920
							220	10	2,200
Feb 21	280	12	3,360				200	6	1,200
							240	8	1,920
							220	10	2,200
							280	12	3,360
March				280	12	3,360			
				220	10	2,200			
				240	8	1,920			
				60	6	360	140	6	840
			7,480			7,840			

1. Cost of Goods Sold = Rs. 7,840 (i.e. Rs. 3,360 + 2,200 + 1,920 + 360)

2. Stock at the end = Rs. 840

3. Profit = Sales - Cost of Goods Sold

= (800 x Rs. 16) - (Rs. 3,360 + Rs. 2,200 + Rs. 1,920 + Rs. 360) = Rs. 12,800 - Rs. 7,840

= Rs. 4,960

Q5> The following are the details of a spare part of Sriram Mills:

01.01.2018	Opening stock	Nil
01.01.2018	Purchases	100 units @ Rs. 30 per unit
15.01.2018	Issued for consumption	50 units
01.02.2018	Purchases	200 units @ Rs. 40 per unit
15.02.2018	Issued for consumption	100 units
20.02.2018	Issued for consumption	100 units
01.03.2018	Purchases	150 units @ Rs. 50 per unit
15.03.2018	Issued for consumption	100 units

Required: Find out the Value of Stock as on 31.03.2018 if the company follows: (a) First in First Out

basis; (b) Last in First Out basis; (c) Weighted Average basis.

Sol:

(I) STOCK LEDGER (ON FIFO BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50	30	1,500
							200	40	8,000
15.02.2018				50	30	1,500			
				50	40	2,000	150	40	6,000
20.02.2018				100	40	4,000	50	40	2,000
01.03.2018	150	50	7,500				50	40	2,000
							150	50	7,500
15.03.2018				50	40	2,000			
				50	50	2,500	100	50	5,000

Therefore, the Value of Stock as on 31.3.2018: 100 units @ Rs. 50 = Rs. 5,000.

(B) STOCK LEDGER (ON LIFO BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50	30	1,500
							200	40	8,000
15.02.2018				100	40	4,000	50	30	1,500
							100	40	4,000
20.02.2018				100	40	4,000	50	30	1,500
01.03.2018	150	50	7,500				50	30	1,500
							150	50	7,500
15.03.2018				100	50	5,000	50	30	1,500
							50	50	2,500

Therefore, the Value of Stock as on 31.3.2018

$$= [50 \text{ units @ Rs. } 30 + 50 \text{ units @ Rs. } 50] = \text{Rs. } 4,000$$

© STOCK LEDGER (ON WEIGHTED AVERAGE BASIS)

Date	Receipts			Sales			Balance		
	Quantity	Rate Rs.	Amount Rs.	Quantity	Rate Rs.	Amount Rs.	Quantity	Rate Rs.	Amount Rs.
01.01.2018	Balance								Nil
01.01.2018	100	30	3,000				100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				250	38	9,500
15.02.2018				100	38	3,800	150	38	5,700
20.02.2018				100	38	3,800	50	38	1,900
01.03.2018	150	50	7,500				200	47	9,400
15.03.2018				100	47	4,700	100	47	4,700

Therefore, the Value of Stock as on 31.3.2018

$$= 100 \text{ units @ Rs. } 47 = \text{Rs. } 4,700.$$

Q6> Navkar Ltd. Was following LIFO method of valuation of stock. Due to promulgation of revised accounting standard, they want to switch over to FIFO method. From the following information:

(i) Draw up stock ledgers under FIFO and LIFO methods of valuation of stocks.

(ii) Find out the closing stock and cost of materials consumed under each of the above two methods:

Opening Stock:	5,000 MT @ Rs. 22 per MT Rs. 1,10,000
Purchases:	
1.6.2018	1,000 MT @ Rs. 30 per MT
5.6.2018	2,000 MT @ Rs. 35 per MT
10.6.2018	1,500 MT @ Rs. 38 per MT
15.6.2018	1,500 MT @ Rs. 35 per MT
20.6.2018	2,000 MT @ Rs. 32 per MT
25.6.2018	2,000 MT @ Rs. 35 per MT

30.6.2018	1,500 MT @ Rs. 30 per MT
Issues:	
1-5.6.2018	2,000 MT
6-10.6.2018	3,000 MT
11-20.6.2018	4,000 MT
21-25.6.2018	3,000 MT
26-30.6.2018	3,000 MT

Sol:

STOCK LEDGER (ON FIFO BASIS)

Date	Purchases			Sales			Balance		
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Rate	Amount
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2018	Op. Bal.					5,000	22	1,10,000	
June 1	1,000	30	30,000				5,000	22	1,10,000
							1,000	30	30,000
June 1-5				2,000	22	44,000	3,000	22	66,000
							1,000	30	30,000
June 5	2,000	35	70,000				3,000	22	66,000
							1,000	30	30,000
							2,000	35	70,000
June 6-10				3,000	22	66,000	1,000	30	30,000
							2,000	35	70,000
June 10	1,500	38	57,000				1,000	30	30,000
							2,000	35	70,000
							1,500	38	57,000
June 15	1,500	35	52,500				1,000	30	30,000
							2,000	35	70,000
							1,500	38	57,000
							1,500	35	52,500
June 11-20				1,000	30	30,000			
				2,000	35	70,000			
				1,000	38	38,000	500	38	19,000
							1,500	35	52,500
June 20	2000	32	64,000				500	38	19,000
							1,500	35	52,500
							2,000	32	64,000

June 21-25				500	38	19,000			
				1,500	35	52,500			
				1,000	32	32,000	1,000	32	32,000
June 25	2,000	35	70,000				1,000	32	32,000
							2,000	35	70,000
June 26-30				1,000	32	32,000			
				2,000	35	70,000	—	—	—
June 30	1500	30	45,000				1,500	30	45,000
Total			3,88,500			4,53,500			

Particulars	FIFO	LIFO
Closing Stock	Rs. 45,000	Rs. 45,000
Cost of Materials Consumed	Rs. 4,53,500	Rs. 4,53,500

Assumption: In case of purchases and issues of goods on the same day, it has been assumed that the issues were made before making purchases.

Q7> From the following data, find out value of inventory as on 30th April using (a) LIFO method, and (b)

Weighted Average Method:

1. 1st April Purchased	10 units @ Rs.70 per unit
2. 6th April Sold	5 units @ Rs.90 per unit
3. 9th April Purchased	20 units @ Rs.75 per unit
4. 18th April Sold	14 units @Rs.100 per unit

Sol: (A) VALUATION OF CLOSING INVENTORY BY LIFO METHOD

Date	Receipts			Issue			Balance		
	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount
Apr. 1	10	70	700				10	70	700
Apr. 6				5	70	350	5	70	350
Apr. 9	20	75	1500				5	70	350
							20	75	1500
Apr. 18				14	75	1,050	5	70	350
							6	75	450

Value of Closing Inventory as per LIFO Method = (4 units x Rs. 70) + (6 units x Rs. 75) = Rs. 730

(B) VALUATION OF CLOSING INVENTORY BY WEIGHTED AVERAGE METHOD

Date	Receipts			Issue			Balance		
	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount
Apr. 1	10	70	700				10	70	700
Apr. 6				5	70	350	5	70	350
Apr. 9	20	75	1500				25	74	1850
Apr. 18				14	74	1,036	11	74	814

Value of Closing Inventory as per WEIGHTED AVERAGE Method: = Rs. 814

Q8> HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available:

Sales: Rs. 47,25,000

General overheads cost Rs. 1,25,000

Inventory at beginning 1,00,000 litres @ Rs. 15 per litre

Purchases:

June 1 two lakh litres @ Rs. 14.25 June 30 one lakh litres @ Rs. 15.15

Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS 2:

(i) Value of Inventory on June, 30. (ii) Amount of cost of goods sold for June.

(iii) Profit/Loss for the month of June

Sol:	(i)	Cost of closing inventory for 1,30,000 litres as on 30 th June	Rs.
		1,00,000 litres @ Rs. 15.15	15,15,000
		30,000 litres @ Rs. 14.25	4,27,500
		Total	19,42,500
	(ii)	Calculation of Cost of Goods Sold	Rs.
		Opening inventories (1,00,000 litres @ Rs. 15)	15,00,000
		Purchases: June-1 (2,00,000 litres @ Rs. 14.25)	28,50,000
		June-30 (1,00,000 litres @ Rs. 15.15)	15,15,000
			58,65,000

	Less: Closing inventories	19,42,500
	Cost of goods sold	39,22,000
(iii)	Profit = Rs. 47,25,000 – (Rs. 39,22,500 + Rs. 1,25,000) = Rs. 6,77,500	

Q9>	Unsold units with Agent	1,000
	Cost per unit	Rs. 10
	Estimated Selling Price per unit as at Balance Sheet Date	Rs. 8
	Agent's Commission on Sales	5%
	What should be the Value of Closing Stock?	

SOLUTION:

I. Cost of Closing Stock (1,000 x Rs. 10)	Rs. 10,000
II. Net Realizable Value	
A. Total Realizable Value (1,000 x Rs. 8)	Rs. 8,000
B. Less: Realizable Expenses (here agent's commission is realizable expense) (Rs. 8,000 x 5/100)	Rs. 400
C. Net Realizable Value (A – B)	Rs. 7,600
III. Valuation since out of cost (which is Rs. 10,000 as calculated above) and NRV (which is Rs. 7,600), NRV is lower, the said unsold stock should be valued at Rs. 7,600.	

Q10> Best Ltd. Deals in five products, P, Q, R, S, and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31st March 2018, the historical cost and net realizable value of the items of the closing stock are determined as follows:

Items	Historical Cost	Net Realizable Value
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock as at 31st March 2018 as per AS 2 "Valuation of Inventories"?

Sol: As per para 5 of AS 2 "Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis.

VALUATION OF INVENTORY (ITEM WISE) AS AT 31 ST MARCH 2018

Item	Historical Cost	Net realizable value	Valuation of closing stock
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	1,60,000
			23,29,000

The value of inventory as at 31st March 2018 = Rs. 23,29,000.

Q11> X who was closing his books on 31.3.2018 failed to take the actual Stock which he did only on 9th April, when it was ascertained by him to be worth Rs. 25,000.

It was found that sales are entered in the sales book on 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 daybook once the invoices are received.

It was found that sales between 31st March and 9th April as per the sales day book are Rs. 1,720.

Purchases between 31st March and 9th April as per purchases day book are Rs. 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, but goods received only on 4th April, amounted to Rs. 100.

Rate of gross profit is 33-1/3% on cost.

Required: Ascertain the value of physical stock as on 31.3.2018

Sol:

STATEMENT OF VALUATION OF PHYSICAL STOCK AS ON 31ST MARCH, 2018

Particulars	Rs.
A Value of Stock as on 9 th April	25,000
B Add: Cost of Sales during the intervening period [Rs. 1,720 x 25%]	1,290
C Less: Purchases actually received during the intervening period [Rs. 120 - Rs. 50]	70
D Less: Purchases during March received on 4 th April	100
E Value of Physical Stock as on 31 st March (A + B - C - D)	26,120

Q12> Mr Vijay's financial year ends on 31st March 2018, but actual stock is not taken until the following 8th April when it is ascertained at Rs. 7,425.

You find that:

(a) Sales are entered in the sales book on the same day as dispatched and returns inward in the return inward book the day the goods are received back.

(b) Purchases are entered in the purchases day book as the invoices are received.

(c) Sales between 31st March and 8th April as per the sales day book and cash book are Rs. 8,600.

(d) Purchases between 31st March and 8th April as per the purchases day book are Rs. 660 but, of these goods amounting to Rs. 60 are not received until after the stock was taken.

(e) Goods invoiced during the March (before 30th March) but not received until after 30th March amounted to Rs. 500 of which Rs. 350 worth are received between 31st March and 8th April.

(f) Rate of Gross Profit is 33.33% on cost. Ascertain the value of Stock on 31st March, 2018

Sol:

STATEMENT SHOWING COMPUTATION OF STOCK AS ON 31st MARCH, 2018

Particulars		Rs.
A	Stock as on 8 th April	7,425
B	Add: Cost of goods sold after 31, March [75% of Rs. 8,600]	6,450
C	Less: Cost of goods purchased & received after 31 st March [Rs. 660 - Rs. 60]	600
D	Add: Purchases invoiced before 31 st March, not received upto 8 th April (Rs. 500 - Rs. 350)	150
E	Stock as on 31 st March	13,425

Q14> Determine the value of stock to be taken for Balance Sheet as on 31st March, 2018 from the following information:

(a) Purchases Rs. 50,000, of this, goods worth Rs. 20,000 were delivered on 5th April.

The stock was physically verified on 23rd March, and was valued at Rs. 6,00,000. Between 23rd March,

and 31st March, the following transactions had taken place:

(b) Out of goods sent on consignment, goods worth Rs. 30,000 (at cost) were unsold.

(c) Sales were Rs. 1,70,000. These includes goods worth Rs. 40,000 sent on approval. Half of these were returned before 31st March, as regards remaining, no information is received. Option period is 2 weeks.

(d) Normally firm sells goods on cost + 25%. However, one lot of goods costing Rs. 30,000 was sold for Rs. 15,000.

Sol: **STATEMENT SHOWING THE VALUATION OF STOCK AS ON 31 ST MARCH, 2018**

Particulars			Rs.
A	Physical Stock as on 23 rd March		6,00,000
B	Add: (a) Cost of Goods purchased after stock taking till 31 st March		
	Goods received	30,000	
	Goods in transit	20,000	
	(b) Cost of Stock on Consignment	30,000	80,000
C	Less: Cost of Goods sold after stock taking till 31 st March		
	(a) Cost of Normal Sales (80% of Rs. 1,15,000)	92,000	
	(b) Cost of Abnormal Sales	30,000	(1,22,000)
D	Stock as on 31 st March (A + B - C)		5,58,000

Working Note: Calculation of Normal Sales		Rs.
A	Actual Sales (given)	1,70,000
B	Less (a) Sale of Abnormal Items	15,000
	(b) Goods sent on approval basis	40,000
C	Normal Sales (A - B)	1,15,000

Note: Since the stock given on 23rd March already includes the cost of goods sent on approval basis, no adjustment is required in this respect. It is assumed that Goods are being sold after 23rd March

Q15> Following information are available from the books of accounts of AB and Co. for the year 2017-2018:

	Rs.
Purchases during the year	28,200

Stock on 1-4-2017	5,960
Sales during the year	31,610

At the time of valuation of stock for 2016-2017, a part of the stock costing Rs. 1,800 was recorded in the books for Rs. 1,560; one-third of these goods were sold during the year for Rs. 610.

Required: Find out the value of the stock as on 31st March 2018 assuming that firm makes 25% profit on cost.

Sol:

STATEMENT SHOWING THE VALUE OF STOCK AS ON 31st MARCH 2018

Particulars	Normal Item Rs.	Abnormal Item Rs.	Total Rs.
A Opening Stock	4,400	1,560	5,960
B Purchases	28,200	—	28,200
C Cost of goods available for sale (A + B)	32,600	1,560	34,160
D Less: Cost of goods sold: Normal [80% of Rs. 31,610 - Rs. 610] Abnormal [1/3 of Rs. 1,560]	24,800	520	25,320
E Value of Closing Stock	7,800	1,040	8,840

Thus, Book value of Closing Stock Rs. 8,840.

Q16>

From the following information, ascertain the value of stock as on 31.3.2018:	Rs.
Value of Stock on 1.4.2017	70,000
Purchases during the period from 1.4.2017 to 31.3.2018	3,46,000
Manufacturing expenses during the above period	70,000
Sales during the same period	5,22,000

At the time of valuing stock on 31.3.2017, a sum of Rs. 6,000 was written off a particular item which was originally purchased for Rs. 20,000 and was sold for Rs. 16,000. But for the other transactions the gross profit earned during the year was 25% on cost.

Sol:

STATEMENT SHOWING THE VALUATION OF CLOSING STOCK AS AT 31ST MARCH, 2018

Particulars		Rs.	Rs.
A	Normal Sales [Rs. 5,22,000 – Rs. 16,000]		5,06,000
B	Less:Gross Profit @ 20% on Sales		1,01,200
C	Cost of Goods sold		4,04,800
D	Less:Opening Stock of Normal Goods [Rs. 70,000 – Rs. 14,000]	56,000	
	Purchases	3,46,000	
	Manufacturing Expenses	70,000	4,72,000
E	Value of Stock as on 31.3.2018		67,200

Q17> From the following information ascertain the value of stock as on 31st March, 2018 and also the profit for the year:

Stock as on 1.4.2017	Rs. 14,250	Administrative Expenses	Rs. 3,000
Purchases	Rs. 76,250	Financial Charges	Rs. 2,150
Manufacturing Expenses	Rs. 15,000	Sales	Rs. 1,24,500
Selling Expenses	Rs. 6,050		

At the time of valuing stock as on 31st March, 2017, a sum of Rs. 1,750 was written off on a particular item, which was originally purchased for Rs. 5,000 and was sold during the year at Rs. 4,500. Barring the transaction relating to this item, the gross profit earned during the year was 20 percent on sales.

Sol:

STATEMENT OF VALUATION OF STOCK AS ON 31 ST MARCH, 2018

Particulars		Rs.	Rs.
A..	Stock as on 1 st April, 2017	14,250	
B.	Less: Book value of abnormal stock (Rs. 5,000 – 1,750)	3,250	11,000
C.	Add: Purchases		76,250
	Manufacturing Expenses		15,000
			1,02,250
D	Less: Cost of Normal Sales:[80% (1,24,500 – 4,500)]		96,000
E	Stock as on 31 st March, 2018		6,250

STATEMENT SHOWING NET PROFIT FOR THE YEAR

Particulars	Rs.	Rs.
A. Gross Profit on Normal Sales		24,000
B. Add: Profit on abnormal item] 4,500 - 3,250]		1,250
C. Less: Overhead Expenses:		
Selling Expenses	6,050	
Administrative Expenses	3,000	
Financial Charges	2,150	11,200
D. Net Profit		14,050

Q18> The Profit and Loss Account of Hanuman showed a net profit of Rs. 60,000, after considering the closing stock of Rs. 37,500 on 31st March, 2018. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included Rs. 1,500 paid for new electric fittings for the shop.

(ii) Hanuman gave away goods valued at Rs. 4,000 as free samples for which no entry was made in the books of accounts.

(iii) Invoices for goods amounting to Rs. 25,000 have been entered on 27th March, but the goods were not included in stock.

(iv) In March, goods of Rs. 20,000 sold and delivered were taken in the Sales for April, 2018.

(v) Goods costing Rs. 7,500 were sent on sale or return in March, 2018 at a margin of profit of 33.33% on cost. Though approval was given in April, these were taken as sales for March.

Required: Calculate the value of stock on 31st March, 2018 and the Adjusted Net Profit for the year ended on that date.

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH, 2018

Particulars	Rs.
A Stock as already stated	37,500

B Add: Purchases not included	25,000
C Add: Cost of Goods sent on approval	7,500
D Stock as on 31 st March 2018	70,000

DR. PROFIT & LOSS ADJUSTMENT ACCOUNT CR.			
Particulars	Rs.	Particulars	Rs.
To Customer's A/c	10,000	By Profit as per P & L A/c	60,000
(Selling Price of Goods sent on approval)		By Fixtures & Fittings A/c	1,500
To Net Profit for the year	1,04,000	By Closing Stock (in transit) A/c	25,000
		By Customer's A/c	20,000
		By Closing Stock with customer (on approval)	7,500
	1,14,000		1,14,000

Note: Since the rectifying entry in case of free samples involves both the revenue accounts (i.e. Advertisement A/c and Purchases A/c). Profit & Loss Adjustment A/c is to be debited as well as Credited and hence not shown in the above account.

Q19> The Profit and Loss Account of Cardamom for the year ended 31st March, 2018 showed a net profit of Rs. 2,800 after taking into account the closing stock of Rs. 4,720.

On a scrutiny of the books the following information could be obtained:

- (a) Cardamom has taken goods valued Rs. 1,500 for his personal use without making entry in the books.
- (b) Purchases of the year included Rs. 600 spent on acquisition of a ceiling fan for his shop.
- (c) Invoices for goods amounting to Rs. 4,000 have been entered on 29th March, but such goods were Not included in stock.
- (d) Rs. 500 have been included in closing stock in respect of goods purchased and invoiced on 28th March, but included in purchase for April 2018.
- (e) Sale of goods amounting to Rs. 610 sold and delivered in March, had been entered in April sales.

Required: Ascertain the correct amount of closing stock as on 31st March, 2018 and the adjusted net

profit for the year ended on that date

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH 2018

Particulars		Rs.
A.	Stock as already stated	Rs. 4,720
B.	Add: Purchases not included	Rs. 4,000
C.	Stock as on 31 st March	Rs. 8,720

DR. PROFIT AND LOSS ADJUSTMENT ACCOUNT CR.

Particulars	Rs.	Particulars	Rs.
To Suppliers A/c	500	By Profit as per P&L A/c	2,800
To Net Profit for the year	9,010	By Drawings A/c (Goods taken for domestic use)	1,500
		By Fixture and Fittings A/c (Ceiling fan) (b)	600
		By Closing Stock A/c (In transit)	4,000
		By Customer's A/c (e)	610
	9,510		9,510

- Q20> FY Ltd. Conducts physical stock taking every year at the end of the accounting year. Due to certain difficulties, it was not possible for it to conduct physical stock taking at the end of the accounting year ending on 31 March, 2018. Physical stock was taken on 7th April when it was valued at Rs. 34,500.
- The following transactions took place during 1st April to 7th April.
- (a) Sales during the period were Rs. 9,340. These goods were sold at the usual rate of gross profit 25% on cost except goods which realized Rs. 840 on the basis of 20% profit on cost.
- (b) Purchases during the period were Rs. 7,500, of which Rs. 800 worth of goods were delivered to the company on 10th April.
- (c) Sales returns during the period were 11,500, of which 50% were out of the sales at 20% gross profit mentioned above.
- (d) On 5th April, goods worth Rs. 4,000 were received, which were to be sold on consignment basis.

Required: Prepare a statement showing clearly the value of the stock to be taken into account in FY

Ltd.'s final accounts for the year ended 31st March, 2018

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31 ST MARCH 2018

Particulars	Rs.
A. Physical Stock as at 7 th April	34,500
B. Add: Cost of Sales after 31st March (Rs. 6,800 + Rs. 700)	7,500
C. Less: Cost of goods purchased & received after 31 st March (Rs. 7,500 - Rs. 800)	(6,700)
D. Less: Cost of Sales returns after 31st March (Rs. 600 + Rs. 625)	(1,225)
E. Less: Consignment Stock	(4,000)
F. Value of Stock as at 31st March	30,075

Q21> SG Ltd. closes its books on 31st March each year. In the beginning of March 2018 because of a proposal for sale of business (which later fell through), the firm carried out stock taking on 10th March. The figure of stock was established as Rs. 62,500 (cost) as on that date. The firm decided not to carry out any stock taking on 31st March, 2018. From the information given below, arrive at the stock as on that date:

(a) Sales from 11th March to 31st March totalled Rs. 43,200 including Rs. 3,000 sale of goods which had cost Rs. 3,600. The firm's mark up on cost is 25%.

(b) Purchases during the same period totalled Rs. 29,200.

(c) Sales returns and purchase returns were respectively Rs. 2,200 and Rs. 1,200 in this period.

(d) Goods with customers on sale or return basis were Rs. 10,000 (proforma invoice value). The goods had been sent on 9th March the customers had the right of returning the goods within four weeks but it was known that one customer who had goods worth Rs. 4,000 had pledged them with a bank.

Sol:

STATEMENT SHOWING THE VALUATION OF STOCK AS AT 31st MARCH 2018

Particulars	Rs.
A. Physical Stock as at 10th March	62,500
B. Less: Cost of Sales (Rs. 32,160 +13,600)	(35,600)
C. Add: Cost of Purchases	29,200
D. Add: Cost of Sales Returns (80% of Rs. 2,200)	1,760
E. Less: Cost of Purchase Returns	(1,200)
F. Add: Cost of goods sent on approval [(80% of (10,000 - 4,000)]	4,800
	61,300

Note: Pledge of goods amounts to acceptance of goods.

- Q22> Raj Ltd. prepared their accounts financial year ended on 31st March 2019. Due to unavoidable circumstances actual stock has been taken on 10th April 2019, when it was ascertained at Rs 1,25,000. It has been found that;
- (i) Sales are entered in the Sales Book on the day of dispatch and return inwards in the Returns Inward Book on the day of the goods received back.
 - (ii) Purchases are entered in the Purchase Book on the day the Invoices are received.
 - (iii) Sales between 1st April 2019 to 9th April 2019 amounting to Rs 20,000 as per Sales Day Book.
 - (iv) Free samples for business promotion issued during 1st April 2019 to 9th April 2019 amounting to Rs 4,000 at cost.
 - (v) Purchases during 1st April 2019 to 9th April 2019 amounting to Rs 10,000 but goods amounts to Rs 2,000 not received till the date of stock taking.
 - (vi) Invoices for goods purchased amounting to Rs 20,000 were entered on 28th March 2019 but the goods were not included in stock.
- Rate of Gross Profit is 25% on cost.
- Ascertain the value of Stock as on 31st March 2019. (May 2019)

SOL:

Statement of Valuation of Physical Stock as on 31st March, 2019

	₹	₹
Value of stock as on 10 th April, 2019		1,25,000
<i>Add: Cost of sales during the intervening period</i>		
Sales made between 1.4.2019 and 9.4.2019	20,000	
<i>Less: Gross profit @20% on sales</i>	<u>(4,000)</u>	16,000
Free sample		<u>4,000</u>
		1,45,000
<i>Less: Purchases actually received during the intervening period:</i>		
Purchases from 1.4.2019 to 9.4.2019	10,000	
<i>Less: Goods not received upto 9.4.2019</i>	<u>(2,000)</u>	<u>(8,000)</u>
		1,37,000
<i>Add: Purchases during March, 2019 but not recorded in stock</i>		<u>20,000</u>
Value of physical stock as on 31.3.2019		<u>1,57,000</u>