

(a) True/False

1. Inventories are stocks of goods and materials that are maintained mainly for the purpose of revenue generation.
2. A building is considered inventory in a construction business.
3. Inventory is valued as carrying cost less percentage decreases.
4. Management has daily information about the quality and valuation of the closing stock under the physical inventory system.
5. The Periodic Inventory System is more suitable for small enterprises.
6. When closing inventory is overstated, net income for the accounting period will be understated.

(b) MCQ

7. The amount of purchase if the cost of goods sold is Rs. 80, 700 , opening inventory is Rs. 5, 800 , closing inventory Rs. 6, 000 .

(1) Rs. 80, 500	(2) Rs. 74, 900
(3) Rs. 80, 900	(4) none of the above
8. Average inventory is Rs. 12, 000 closing inventory is Rs. 3, 000 more than opening inventory. The value of closing inventory=-----

(1) 12, 000	(2) 24, 000
(3) 13, 500	(4) None of the above
9. While finalising the current year's profit, the company realised that there was an error in the valuation of the closing inventory of the previous year. In the previous year closing inventory was valued more Rs. 50, 000 as a result
 - (1) Previous year's profit is overstated and the current year's profit is also overstated.
 - (2) Previous year's profit is overstated and the current year's profit is understated.
 - (3) Previous year's profit is understated and the current year's profit is understated.
 - (4) none of the above
10. Consider the following for the Q co. for the year 2019-20

Cost of goods available for sale Rs.1,00,000
 Total sales Rs.80,000
 Opening inventory of goods Rs.20,000
 Gross profit margin on sales 25%
 Closing inventory of goods for the year 2019-20 as:

(1) Rs.80,000	(2) Rs.60,000
(3) Rs.40,000	(4) None of the above



11. If the profit is 25% of the cost price then it is

(1) 25% of the sales price	(2) 33% of the sales price
(3) 20% of the sales price	(4) none of the above

(c) SUB

12. Write a short note on:
Principal methods of ascertainment of cost of inventory
13. Distinguish between:
LIFO and FIFO basis of costing of stock
14. Distinguish between:
FIFO and Weighted Average Price method of stock costing

14. Distinguish between:
FIFO and Weighted Average Price method of stock costing
15. Define inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.



Answer Key

- | | |
|------------|-------------|
| 1. (True) | 9. (2) |
| 2. (True) | 10. (3) |
| 3. (False) | 11. (3) |
| 4. (False) | 12. (H & S) |
| 5. (True) | 13. (H & S) |
| 6. (False) | 14. (H & S) |
| 7. (3) | 15. (H & S) |
| 8. (3) | |



Hints & Solutions

1. **(True)**
We use the word inventories for the stocks of goods in which we trade.
For example - For a machinery trader , stocks of machinery are inventories.
2. **(True)**
Yes , a building is considered as inventory in a construction business because the construction business trades in buildings and eventually the building will be sold as Inventory .
3. **(False)**
Inventory is valued at lower of cost or net realisable value .
If our cost of inventory is more than the present net realisable value, then we shall value inventory at net realisable value.
4. **(False)**
If management wants daily information about the quality and valuation of closing stock, it should apply a Perpetual inventory system.
5. **(True)**
Small enterprises may apply a periodic inventory system because in small enterprises , physical counting of inventory is not a very tough job.
6. **(False)**
When we have overstated our closing inventory that means our cost of goods sold will be reduced, as a result, the net income of the business for the accounting period will be overstated.
7. **(3)**
Purchase = (cost of goods sold + closing inventory) - opening inventory
Purchase = (Rs. 80, 700 + Rs. 6, 000) – Rs, 5, 800 = Rs. 80, 900
8. **(3)**
Average inventory = (opening inventory+ closing inventory) ÷ 2
let opening inventory is x
then closing inventory will be $x + 3,000$
given that average inventory is 12,000
now putting values in average inventory formula:
$$12,000 = \frac{x + x + 3000}{2}$$
$$24,000 = 2x + 3000$$
$$2x = 24,000 - 3,000$$

 $x = 10,500$ (opening inventory)
so closing inventory $10,500 + 3000 = 13,500$

9. (2)

Since in the previous year closing inventory was overstated, so the cost of goods sold will be less by Rs. 50, 000 and profit will be overstated by the same amount.

In the current year previous year's closing stock will be the opening stock and it is valued more by Rs. 50, 000 so the cost of goods sold will be more by the same amount as a result profit will be understated.

10. (3)

Given that gross profit margin on the sale is 25%

so gross profit will be = $\frac{\text{sales} \times \text{gross profit margin}}{100}$

$$= \frac{80,000 \times 25}{100} = 20,000$$

costs of goods sold = sales - gross profit

$$80,000 - 20,000 = 60,000$$

costs of goods available for sale = opening inventory + purchase

closing inventory = cost of goods available for sale - cost of goods sold

$$= 1,00,000 - 60,000 = 40,000$$

11. (3)

Let the cost is 100 then 25% profit of cost = $\frac{100 \times 25}{100} = 25$

sales price will be = cost + profit = 100 + 25 = 125

so a percentage of profit on sale price = $\frac{\text{profit} \times 100}{\text{sales price}} = \frac{25 \times 100}{125} = 20\%$

12. (3)

As there will be fluctuations in the cost of inventory items, an assumption must be made to maintain a systematic method for allocating costs to the units in stock (and to units sold).

A company needs to use the inventory costing approach and use it consistently over the years. Of the various options, one of the following methods is often used:

Specific Identification method First-in, first-out (FIFO)

Last-in, first-out (LIFO) Weighted-average method

Specific identification of individual costs using the specific identification method should be used to allocate the cost of inventories of products and services manufactured and segregated for selected projects, in addition to items that are not typically interchangeable.

13. (H & S)

<u>BASIS FOR COMPARISON</u>	<u>FIFO</u>	<u>LIFO</u>
Meaning	In the FIFO method of inventory valuation, the first stock of goods received is issued first.	In the LIFO method of inventory valuation, the last stock of goods received is issued first.
Stock in Hand	It reflects the current stock.	It reflects the oldest stock.

Constraints	There is no such restriction.	International Financing Reporting Standards (IFRS) does not advise adopting LIFO to value inventory in accounting.
Inflation	Income tax amounts increase when there is inflation.	When the economy is experiencing inflation, the income tax shows the bare minimum.
Deflation	Deflationary conditions will result in lower income tax.	A higher income tax amount is stated in the case of deflation.

14. (H & S)

<u>BASIS FOR COMPARISON</u>	<u>FIFO</u>	<u>WEIGHTED AVERAGE METHOD</u>
Meaning	In the FIFO method of inventory valuation, the first stock of goods received is issued first.	The weighted average method evaluates the value of the inventory based on average inventory levels.
Approach	The oldest batch still accessible will be issued inventory.	A price will be calculated by averaging the inventory.
Ease of Application	It is basic, straightforward, and easy to implement.	It is simple to grasp yet difficult to implement.
Effect on financial parameters	If inflation increases, the FIFO method will report higher earnings and vice versa.	If inflation decreases, the weighted average method will reflect bigger profits and vice versa.

15. (H & S)

All commodities, goods (tangible or intangible), merchandise, and materials held in the ordinary course of business for sale in the market to earn a profit are referred to as inventory, including maintenance supplies and consumables other than spare parts for machinery.

Companies use inventory valuation as a method of accounting to calculate the value of unsold inventory stock when preparing their financial accounts.

Your financial objectives and the market situation have a significant role in the technique you choose for inventory valuation. So be careful not to shift valuation methods constantly as this can confuse your bookkeeping and raise suspicions.

Because of the following factors, inventory valuation is important:

Income Analysis

Evaluation of Financial Position Liquidity Analysis

Compliance with Law

Seeking a loan to Expand business Reducing taxes

Ensuring shareholder satisfaction

(a) True/False

1. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of Goods Sold
2. Cost of inventories should comprise all costs of purchases.
3. Cost of conversion of inventory includes costs directly related to the units of production. They include the allocation of fixed overheads only.
4. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
5. Perpetual system requires closure of business for counting of inventory.
6. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

(b) MCQ

7. If the profit is of 25% the cost price then it is.

(1) 25% of the sales price	(2) 33% of the sales price
(3) 20% of the sales price	(4) none of the above

8. A company is following the weighted average cost method for valuing its inventory. The details of its purchase and issue of raw materials during the week are as follows:
 01. 12. 2020 opening inventory 50 units value Rs. 2, 200
 02. 12. 2020 purchased 100 units @ Rs. 47
 04. 12. 2020 issued 50 units
 05. 12. 2020 purchased 200 units @ Rs. 48
 The value of the inventory at the end of the week and the unit weighted average cost is-

(1) Rs. 14, 200 – Rs. 47. 33	(2) Rs. 14, 300 – Rs. 47. 67
(3) Rs. 14, 000 – Rs. 46. 66	(4) None of the above

9. The cost of sales is equal to

(1) opening stock plus purchases	(2) purchases minus closing stock
(3) opening stock plus purchases minus closing stock	(4) none of the above

10. Inventory is disclosed in Financial Statements under

(1) Fixed Assets	(2) Current Assets
(3) Current Liabilities	(4) None of the above



11. Accounting Standards do not permit the following method of inventory valuation

(1) FIFO	(2) Average cost
(3) LIFO	(4) None of the above

(c) SUB

12. Short note on:
Periodic Inventory System

13. Short note on:
Perpetual Inventory System

14. X who was closing his books on 31.3.2020 failed to take the actual stock which he did only on 9th April, 2020, when it was ascertained by him to be worth ₹2, 50, 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 day book once the invoices are received. It was found that sales between 31.3.2020 and 9.4.2020 as per the sales day book are ₹17, 200. Purchases between 31.3.2020 and 9.4.2020 as per purchases day book are ₹1, 200, out of these goods amounting to ₹500 were not received until after the stock was taken.
 Goods invoiced during the month of March, 2020 but goods received only on 4th April, 2020 amounted to ₹1, 000.
 Rate of gross profit is $33\frac{1}{3}\%$ on cost.
 Ascertain the value of physical stock as on 31.3.2020.

15. From the following information, ascertain the value of stock as on 31.3.2020:

	₹
Value of stock on 1.4.2019	7, 00, 000
Purchases during the period from 1.4.2019 to 31.3.2020	34, 60, 000
Manufacturing expenses during the above period	7, 00, 000
Sales during the same period	52, 20, 000

At the time of valuing stock on 31.3.2019 a sum of ₹60, 000 was written off a particular item which was originally purchased for ₹2, 00, 000 and was sold for ₹1, 60, 000. But for the above transaction the gross profit earned during the year was 25% on cost.

Answer Key

- | | |
|------------|-------------|
| 1. (False) | 9. (3) |
| 2. (False) | 10. (2) |
| 3. (False) | 11. (3) |
| 4. (False) | 12. (H & S) |
| 5. (False) | 13. (H & S) |
| 6. (True) | 14. (H & S) |
| 7. (3) | 15. (H & S) |
| 8. (1) | |

Hints & Solutions

- (False)**
Closing inventory = Opening inventory + Purchases + Direct expenses – Cost of goods sold
- (False)**
Cost of inventories should not comprise only the cost of purchases but it should comprise the cost of purchases, cost of conversion, and other costs incurred in bringing inventories to their present location and condition.
- (False)**
Costs of conversion of inventories include costs directly related to the units of production with a systematic allocation of fixed and variable overheads.
- (False)**
If we add abnormal amounts of wasted materials, labour or other production overhead expenses in the cost of inventories then we could not find the fair cost of inventories and our pricing will be wrong.
- (False)**
Perpetual system does not require the closure of business for counting of inventory. The Periodic system of inventory requires the closure of business for the counting of inventory.
- (True)**
In the periodic inventory system actual physical count of inventory is taken at a particular date all the inventory is in the hand.

2. **(False)**
Cost of inventories should not comprise only the cost of purchases but it should comprise the cost of purchases, cost of conversion, and other costs incurred in bringing inventories to their present location and condition.
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Perpetual system does not require the closure of business for counting of inventory. The Periodic system of inventory requires the closure of business for the counting of inventory.
6. **(True)**
In the periodic inventory system actual physical count of inventory is taken at a particular date all the inventory is in the hand.
7. **(3)**
Let the cost is 100 then 25% profit of cost = $\frac{100 \times 25}{100} = 25$
sales price will be = cost + profit = 100 + 25 = 125
so a percentage of profit on sale price = $\frac{\text{profit} \times 100}{\text{sales price}} = \frac{25 \times 100}{125} = 20\%$
8. **(1)**
Unit weighted average cost = $\frac{\text{for sale during the period}}{\text{total number of units available}} \times \text{for sale during the period}$
 $= \frac{14,200}{300} = \text{Rs. } 47.33$



Date	Purchase			Issue			Balance		
	Qty.	@	Amount	Qty.	@	Amount	Qty.	@	Amount
1.12.20	—	—	—	—	—	—	50	44	2200
2.12.20	100	47	4700	—	—	—	150	46	6900
4.12.20	—	—	—	50	46	2300	100	46	4600
5.12.20	200	48	9600	—	—	—	300	47.33	14200

9. **(3)**
To find out the cost of sales we have to add opening stock with the purchase, that sum will be the total cost of goods available for sale and from it, we have to minus closing stock the final residual value will be the cost of sales.
10. **(2)**
Inventory is disclosed in Financial Statements on assets side under current assets.
11. **(3)**
LIFO method is based on an irrational assumption that inventory entered last in the stores are issued or consumed first, so Accounting Standards does not permit the adoption of LIFO method.
12. **(H & S)**
It is also called the Physical Inventory System which implies: Inventory records are not maintained. At the end of the year, inventory is measured physically and valued.
Small businesses usually adopt this straightforward policy. Unless otherwise stated, we can always presume that inventory/closing stock is assessed by physical counting and then valuation for the annual financial account.
13. **(H & S)**
The details of every item are kept in inventory records, commonly referred to as store records.
The records could be in the value-only or quantity form (known as the priced ledger).
The computed balance and the details of the receipt and issue are recorded instantly.
As a result, the balance of all inventory items is always available. In financial accounting, the year-end balance is used for the final accounts.
14. **(H & S)**
The value of physical stock as on 31.3.2020 is ₹ 2, 61, 200
Statement of Valuation of Physical Stock as on 31st March, 2020

PARTICULARS	₹	₹
Value of stock as on 9th April, 2020		2, 50, 000
ADD : Cost of sales during the intervening period: Sales made between 31.3.2020 and 9.4.2020	17, 200	
LESS : Gross profit @25% on sales	(4, 300) *	12, 900
		2, 62, 900
LESS : Purchases actually received during the intervening period: Purchases from 1.4.2020 to 9.4.2020	1, 200	

9. (3)
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Inventory is disclosed in Financial Statements on assets side under current assets.
11. (3)
LIFO method is based on an irrational assumption that inventory entered last in the stores are issued or consumed first, so Accounting Standards does not permit the adoption of LIFO method.
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Small businesses usually adopt this straightforward policy. Unless otherwise stated, we can always presume that inventory/closing stock is assessed by physical counting and then valuation for the annual financial account.
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The records could be in the value-only or quantity form (known as the priced ledger).
The computed balance and the details of the receipt and issue are recorded instantly.
As a result, the balance of all inventory items is always available. In financial accounting, the year-end balance is used for the final accounts.

14. (H & S)
The value of physical stock as on 31.3.2020 is ₹ 2, 61, 200
Statement of Valuation of Physical Stock as on 31st March, 2020

PARTICULARS	₹	₹
Value of stock as on 9th April, 2020		2, 50, 000
ADD : Cost of sales during the intervening period: Sales made between 31.3.2020 and 9.4.2020	17, 200	
LESS : Gross profit @25% on sales	(4, 300) *	12, 900
		2, 62, 900
LESS : Purchases actually received during the intervening period: Purchases from 1.4.2020 to 9.4.2020	1, 200	



6

Goods not received up to 9.4.2020	(500)	(700)
		2, 62, 200
Purchases during March, 2020 received on 4.4.2020		(1, 000)
Value of physical stock as on 31.3.2020		2, 61, 200

$$*17,200 \times \frac{25}{100}$$

$$\left(\frac{1}{3} \text{ of cost or } 33\frac{1}{3}\% = \frac{1}{4} \text{ of sales or } 25\% \right)$$

15. (H & S)
The value of stock 31.3.2020 is ₹ 6, 72, 000
Statement of Valuation of Stock as on 31st March, 2020

PARTICULARS	₹	₹
Value of stock as on 1st April, 2019		7, 00, 000
ADD : Purchases during the period from 1.4.2019 to 31.3.2020	34, 60, 000	
Manufacturing expenses during the above period	7, 00, 000	41, 60, 000
LESS : Cost of sales during the period: Sales	52, 20, 000	
Gross profit (WN1)	10, 32, 000	41, 88, 000
Value of stock as on 31.3.2020		6, 72, 000

Working Notes
CALCULATION OF GROSS PROFIT

PARTICULARS	₹
Gross profit on normal sales	10,12,000
$(52,20,000 - 1,60,000) \times \frac{25}{125}$ *	
Gross profit on the abnormal item { 1, 60, 000 - (2, 00, 000 - 60, 000)}	20, 000
	10, 32, 000

*25% on cost.

(a) True/False

1. The value of ending inventory under a simple average price method is realistic as compared to LIFO.
2. The value of the stock is shown on the assets side of the Balance Sheet as fixed assets.
3. Under inflationary conditions, FIFO will not show the lowest value of the cost of goods sold.
4. Under LIFO, the valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
5. Valuation of inventory, at cost or net realisable value, whichever is less is based on the principle of conservatism.
6. Finished goods are normally valued at cost or market price, whichever is higher.

(b) MCQ

7. Which inventory costing formula calculates the value of closing inventory considering that inventory most recently purchased has not been sold?
(1) FIFO (2) LIFO
(3) Weighted average cost (4) None of the above
8. Valuing inventory at cost or net realisable value is based on which principle ?
(1) Consistency (2) Conservatism
(3) Going concern (4) None of the above
9. Under inflationary trend, which of the method will show the highest value of inventory
(1) FIFO (2) Weighted average
(3) LIFO (4) none of the above
10. Which of the following methods does not consider the historical cost of inventory?
(1) Weighted average (2) FIFO
(3) Retail price method (4) None of the above

(c) SUB

11. Write a short note on:
Adjusted Selling Price method of determining cost of stock.
12. Short note on:
Stock Taking



Answer Key

- | | |
|------------|-------------|
| 1. (True) | 8. (2) |
| 2. (False) | 9. (1) |
| 3. (False) | 10. (3) |
| 4. (False) | 11. (H & S) |
| 5. (True) | 12. (H & S) |
| 6. (False) | |
| 7. (1) | |

Hints & Solutions

1. **(True)**
In the simple average price method of valuing inventory, the former cost and latest cost of purchases are taken for valuation of inventory. But in the LIFO method for valuing inventory, the latest cost is considered, so we can say that the simple average is realistic as compared to LIFO.
2. **(False)**
We show the value of stock in the Balance Sheet as Current assets, not as a fixed asset. As it is realisable within twelve months.
3. **(False)**
Under inflationary conditions, LIFO and weighted average method will not show the lowest value of the cost of goods sold.
4. **(False)**
The assumption that costs are charged against revenue in the order in which they occur is taken in the FIFO method.
5. **(True)**
When we adopt the conservatism concept then anticipated profit should not be taken into account, but we consider all prospective losses. So we take cost or net realisable value whichever is less for the valuation of inventory.
6. **(False)**
We do not account for anticipated profit at the time of valuation of finished goods, so finished goods are always valued at cost or market price whichever is lower.
7. **(1)**
Under the FIFO method we calculate the value of closing inventory considering that inventory first purchased has been sold first.
8. **(2)**
Under the principle of conservatism we do not consider anticipated profit, but any future loss is taken in account.
9. **(1)**
Under FIFO method we value inventory on the basis that inventory first purchased has been sold first, so under this method in inflationary trend inventory will show highest value.
10. **(3)**
Under retail price method, we do not consider historical cost of inventory.



11. **(H & S)**
The retail price method is another term for the adjusted selling price method of inventory valuation.
It is often used in retail or a business where the inventory consists of items whose individual costs are not easily ascertainable.
While measuring inventories of numerous fast-changing items with similar margins for which it is difficult to use other costing methods, this method should be used.
The appropriate percentage of gross margin is subtracted from the inventory's sales value to obtain the cost.
Inventory that has marked down from its original selling price is taken into account when calculating the percentage.
For each retail market, an average percentage is applied.
Based on the parameters, the estimated gross margin of profit may be calculated for individual goods, groups of items, or departments.
12. **(H & S)**
The process of physically counting and inspecting each item in an inventory is known as stock taking.
It is a crucial component of the inventory control system.
It may be transported at predetermined intervals or unexpectedly, that is, at any point without sending the store staff advance notice.
It is feasible to verify all products at once or to only select a handful constantly.
Items that are important or valuable will be validated more frequently than others.
To verify the accuracy of stock records, stock-taking is also done in perpetual inventory systems.
Stocktaking is undertaken at the end of the fiscal year in a periodic inventory system.

(a) True/False

1. Damaged inventory should be valued at cost or market price, whichever is lower.
2. Finished goods are normally valued at cost or market price whichever is higher.
3. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.
4. Understatement of closing inventory will result in an understated net income.
5. Where unit costs tend to fall as production falls, LIFO is undesirable.
6. The selected cost flow assumption must be consistent with the actual movement of the goods.

(b) MCQ

7. Perpetual Inventory System –
 - (1) There is no requirement to maintain a Purchases account.
 - (2) A Cost of Goods sold account is used.
 - (3) For a sale to be recorded, two entries are required.
 - (4) All of the above
8. Which among the following items should be included in a company's inventory at the end of the fiscal year?
 - (1) Items in transit that were transported "freight on board" Destination
 - (2) Goods in transit acquired at a "f.o.b. shipping point"
 - (3) Items sold to a customer and held for the buyer to call for at his or her discretion
 - (4) Items received on consignment from another company
9. In reference to inventories, which of the following is a product cost?
 - (1) Selling expenses
 - (2) Interest charges
 - (3) Raw materials
 - (4) Abnormal wastage
10. Which of the following cannot be individually recorded during the computation of the Cost of goods sold when using the Periodic inventory system?
 - (1) Discounts applied to cash purchases made during the span of time
 - (2) Trade discounts for purchases made during the time
 - (3) The expense of importing goods that were purchased throughout the period
 - (4) Product allowances and returns from purchases made during the time



11. Which of the following statements is true?

- (1) Product costs contain manufacturing overhead expenses
- (2) Selling expenses are product expenses
- (3) Selling expenses are product expenses
- (4) Interest charges on recurring stocks are considered product costs

12. M/s. Subhalaxmi Traders find out the following historical cost and net realisable value for various types of inventories. Find out value of Closing Stock in accordance with AS-2 (Revised) - Valuation of Inventories issued by ICAI.

Inventory Categories	01	02	03	04	05	06	
Historical Cost	17,400	20,100	18,200	16,500	15,400	21,400	= 1, 09, 000
Net Realisable Value	12,200	27,400	19,100	17,200	16,800	20,900	= 1, 13, 600

13. The following are the details of a spare part of Sriram Mills :

1-1-2016	Opening Stock	Nil
1-1	Purchases	100 units @ ₹30 per unit
15-1	Issued for consumption	50 units
1-2	Purchases	200 units@ ₹40 per unit
15-2	Issued for consumption	100 units
20-2	Issued for consumption	100 units
1-3	Purchases	150 units@ ₹50 per unit
15-3	Issued for consumption	100 units

Find out the value of stock as on 31-3-2016 if the company follows:

- (1) First in First Out basis
- (2) Last in First Out basis
- (3) Weighted Average basis

14. A manufacturer has the following record of purchase of a condenser which he uses while manufacturing radio sets: Purchases were as follows

Date	Quantity (Units)	Price per (Unit)
Dec-4	900	5.00

- (1) Product costs contain manufacturing overhead expenses
- (2) Selling expenses are product expenses
- (3) Selling expenses are product expenses
- (4) Interest charges on recurring stocks are considered product costs

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Historical Cost	17,400	20,100	18,200	16,500	15,400	21,400	= 1, 09, 000
Net Realisable Value	12,200	27,400	19,100	17,200	16,800	20,900	= 1, 13, 600

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1-1-2016	Opening Stock	Nil
1-1	Purchases	100 units @ ₹30 per unit
15-1	Issued for consumption	50 units
1-2	Purchases	200 units@ ₹40 per unit
15-2	Issued for consumption	100 units
20-2	Issued for consumption	100 units
1-3	Purchases	150 units@ ₹50 per unit
15-3	Issued for consumption	100 units

Find out the value of stock as on 31-3-2016 if the company follows:

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 - (2) Last in First Out basis
 - (3) Weighted Average basis
14. A manufacturer has the following record of purchase of a condenser which he uses while manufacturing radio sets: Purchases were as follows

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
	2600	

Value the closing stock under different methods Issues were made as follows

Date	Quantity (Units)
Dec-5	600
Dec-12	400
Dec-29	600



Answer Key

- | | |
|------------|-----------------------|
| 1. (False) | 9. (3) |
| 2. (False) | 10. (2) |
| 3. (False) | 11. (1) |
| 4. (True) | 12. (With Discussion) |
| 5. (False) | 13. (With Discussion) |
| 6. (False) | 14. (With Discussion) |
| 7. (4) | |
| 8. (2) | |

1. **(False)**
According to Accounting Standard, when inventory is damaged, obsolete, or overvalued in comparison to the market, it must be written down to net realisable value.
2. **(False)**
As per Accounting Standard 2, finished goods are generally valued at the lower of cost or market price.
3. **(False)**
Warehouse rent should not be included in the cost of finished inventory, they are generally included in the selling and distribution expenses.
4. **(True)**
Net income will be understated if closing inventory is understated.
The cost of goods sold, an expense will be overstated if the closing inventory is understated.
As an outcome, net income will be understated.
Because expenses decrease net income, an overabundance of expenses would amount to an understatement of net income.
5. **(False)**
LIFO is unfavorable when output increases and unit costs tend to decline.
The current inventory items are valued for COGS and sold first when sales are recorded using the LIFO approach.
In other terms, the older, less costly goods would be sold later.
The prevailing Cost of goods sold under LIFO would be greater in an inflationary economy since new inventory is more costly.
This would result in fewer earnings or net earnings for the company throughout that time.
But, because of the decreased profit or earnings, the business would incur fewer taxes.
The LIFO system sells the priciest products first, anticipating an uptick in pricing.
As a result, inventory value is reduced but the cost of goods sold is increased.
The LIFO approach has the highest costs.
6. **(False)**
The cost flow assumption need not correspond to the actual physical movement of the goods to meet the standards in accounting. The process by which costs are deducted from a business's inventory and reported as the cost of goods sold is known as a cost flow assumption. Because the flow of costs out of inventory is not required to correlate with how the goods are physically removed from inventory, FIFO, LIFO, and average are assumptions.



7. **(4)**
Through the use of point-of-sale systems, perpetual inventory systems monitor the sale of goods in a timely manner.
The perpetual inventory approach does not make an effort to keep track of counts of tangible goods. Perpetual inventory systems differ from periodic inventory systems in that periodic inventory counts are used in keeping records.
Perpetual inventory systems use digital point-of-sale technology to promptly and continuously track sales. Only when a physical count and a point-in-time count are required, periodic inventory systems can monitor sales. The cost of goods sold is continuously updated with a perpetual inventory system rather than intermittently with the equivalent physical inventory.
8. **(2)**
Goods in transit acquired at a "f.o.b. shipping point" must be included in a company's inventory as of the balance sheet date.
The term "goods in transit" refers to items that have been purchased by the business but are not physically available in the storehouse.
This already purchased goods is the company's property; its shipment is simply awaiting the deposits.
9. **(3)**
Product costs are expenses paid for manufacturing a good that is meant to be sold to consumers.
Direct materials (DM), direct labor (DL), and manufacturing overhead (MOH) are part of product costs.
The total cost of all individual components that are presently available in stock but are yet to be employed in the manufacturing of work-in-progress or finished goods is known as the inventory of raw materials.
10. **(2)**
Periodic inventory is an accounting inventory approach that calculates stock and cost of goods sold after the period of accounting rather than on a regular basis.
A recurring reduction from a company's usual, specific price is known as a trade discount.
A business can modify the final cost depending on the volume or position of each consumer while using trade discounts.
Neither the buyer nor the seller keep the records of trade discounts in the books of account.



12. (H & S)

According to AS-2 (Revised), inventories must be valued at the lower of historical cost and Net Realisable value. Cost and net realisable value comparisons can be done individually on an item-by-item basis or in aggregate, i.e. group-wise of similar and interchangeable items.

However, global comparisons should be avoided. That is, it is not permitted to add the total cost of all dissimilar items to their total net realisable value. As a result of this category-by-category comparison, we can calculate the value of inventories as follows.

Inventory Categories	Lower of historical cost & net realisable value
01	12,200
02	20,100
03	18,200
04	16,500
05	15,400
06	20,900
	1,03,300

Accordingly, value of closing stock is ₹ 1, 03, 300/ –

14. (H & S)

Stores card/ Stores ledger FIFO METHOD
Item - Spare parts -Method of Valuation of issues – FIFO

Date	particulars	V.N	Receipt			Issue			Balance		
			Qty	Rate	Amt.	Qty	Rate	Amt.	Qty	Rate	Amt.
2016	1.1 Opening bal.								—	—	—
	1.1 Purchase		100	30	3000				100	30	3000
	15.1					50	30	1500	50	30	1500
	1.2 Issue		200	40	8000				50	30	1500
	Purchase								200	40	8000
	15.2					100	50×30	1500	150	40	6000
	Issue						50×40	2000			
	20.2					100	100×	4000	50	40	2000
	Issue						40				
	1.3		150	50	7500				50	40	2000
	Purchase								150	50	7500
	15.3					100	50×40	2000			
	Issue						50×50	2500	100	50	5000
	Total		450		18500	350		13500	100		5000

Inventory Valuation:

	Qty	Value
Purchases	450	18500
Consumption	350	13500
Closing Stock (Cost by FIFO method)	100	5000



LIFO METHOD
Item - Spare parts -Method of Valuation Of issues – LIFO

Date	Particulars	V.N	Receipt			Issue			Balance		
			Qty	Rate	Amt.	Qty	Rate	Amt.	Qty	Rate	Amt.
2016	1.1 Opening bal. Purchase								—	—	—
	1.1		100	30	3000				100	30	3000
	15.1 Issue					50	30	1500	50	30	1500
	1.2		200	40	8000				50	30	1500
									200	40	8000
	15.2 Issue					100	40	4000	50	30	1500
									100	40	4000
	20.2					100	40	4000	50	30	1500
	1.3 Purchase		150	50	7500				50	30	1500
									150	50	7500
	15.3 Issue					100	50	5000	50	30	1500
									50	50	2500
	Total		450		18500	350		14500	100		4000

Inventory Valuation:

	Qty	Value
Purchases	450	18500
Consumption	350	14500
Closing Stock (Cost by LIFO method)	100	4000

WEIGHTED AVERAGE METHOD

Item - Spare parts -Method of Valuation of issues - Weighted Average method

LIFO METHOD

Item - Spare parts -Method of Valuation Of issues – LIFO

Date	Particulars	V.N	Receipt			Issue			Balance		
			Qty	Rate	Amt.	Qty	Rate	Amt.	Qty	Rate	Amt.
2016	Opening bal. Purchase								—	—	—
1.1			100	30	3000				100	30	3000
15.1	Issue					50	30	1500	50	30	1500
1.2			200	40	8000				50	30	1500
									200	40	8000
15.2	Issue					100	40	4000	50	30	1500
									100	40	4000
20.2						100	40	4000	50	30	1500
1.3	Purchase		150	50	7500				50	30	1500
									150	50	7500
15.3	Issue					100	50	5000	50	30	1500
									50	50	2500
	Total		450		18500	350		14500	100		4000

Inventory Valuation:

	Qty	Value
Purchases	450	18500
Consumption	350	14500
Closing Stock (Cost by LIFO method)	100	4000

WEIGHTED AVERAGE METHOD

Item - Spare parts- Method of Valuation of issues - Weighted Average method

Date	Particulars	V.N	Receipt			Issue			Balance		
			Qty	Rate	Amt.	Qty	Rate	Amt.	Qty	Rate	Amt.
1.1	Opening bal. Purchase								—	—	—
1.1			100	30	3000				100	30	3000
15.1	Issue					50	30	1500	50	30	1500
1.2	purchase		200	40	8000				2500	38	9500
15.2	Issue					100	38	3800	150	38	5700
20.2	Issue					100	38	3800	50	38	1900
1.3	purchase		150	50	7500				200	47	9400
15.3	Issue					100	47	4700	100	47	4700
	Total		450		18500	350		13800	100		4700

Inventory Valuation:

	Qty	Value
Purchases	450	18500
Consumption	350	13800
Closing Stock (Cost by weighted method)	100	4700



15. (H & S)

Item- Condenser FIFO Method

Date	Particulars	V.No	Receipts			Issue			Balance		
			Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
01-Dec	Opening bal										
04-Dec	Purchase		900	5	4500				900	5	4500
05-Dec	Issue					600	5	3000	300	5	1500
10-Dec	Purchase		400	5.5	2200				300	5	1500
									400	5.5	2200
11-Dec	Purchase		300	5.5	1650				300	5	1500
									700	5.5	3850
12-Dec	Issue					400	300*5 100*5.5	1500 550	600	5.5	3300
19-Dec	Purchase		200	6	1200				600	5.5	3300
									200	6	1200
28-Dec	Purchase		800	4.75	3800				600	5.5	3300
									200	6	1200
									800	4.75	3800
29-Dec	Issue					600	5.5	3,300	200	6	1200
									800	4.75	3800
	Total		2600		13350	1600		8350	1000		5000

	Quantity	Value
Purchases	2600	13,350
Consumption	1600	8,350
Closing stock (by FIFO Method)	1,000	5,000

LIFO Method

Date	Particulars	V.No	Receipts			Issue			Balance		
			Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt

28-Dec	Purchase					600	5.5	3,300	800	4.75	3800
29-Dec	Issue								200	6	1200
	Total		2600		13350	1600		8350	1000		5000

	Quantity	Value
Purchases	2600	13,350
Consumption	1600	8,350
Closing stock (by FIFO Method)	1,000	5,000

LIFO Method

Date	Particulars	V.No	Receipts			Issue			Balance		
			Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
01-Dec	Opening bal										
04-Dec	Purchase		900	5	4500				900	5	4500
05-Dec	Issue					600	5	3000	300	5.5	1500
									300	5	1500
10-Dec	Purchase		400	5.5	2200				400	5.5	2200
									300	5	1500
11-Dec	Purchase		300	5.5	1650				700	5.5	3850
									300	5	1500
12-Dec	Issue					400	5.5	2,200	300	5.5	1650
									300	5	1500
									300	5.5	1650
19-Dec	Purchase		200	6	1200				200	6	1200
									300	5	1500
									300	5.5	1650
									200	6	1200
28-Dec	Purchase		800	4.75	3800				800	4.75	3800
									300	5	1500
									300	5.5	1650
									200	6	1200
29-Dec	Issue					600	4.75	2,850	200	4.75	950
	Total		2600		13350	1600		8050	1000		5300



	Quantity	Value
Purchases	2600	13,350
Consumption	1600	8,050
Closing stock (by LIFO Method)	1,000	5,300

Weighted Average Method

Date	Particulars	V.No	Receipts			Issue			Balance		
			Qty	Rate	Amt	Qty	Rate	Amt	Qty	Rate	Amt
01-Dec	Opening bal										
04-Dec	Purchase		900	5	4500				900	5	4500
05-Dec	Issue					600	5	3000	300	5	1500
10-Dec	Purchase		400	5.5	2200				700	5.286	3,700
11-Dec	Purchase		300	5.5	1650				1000	5.35	5350
12-Dec	Issue					400	5.35	2,140	600	5.35	3210
19-Dec	Purchase		200	6	1200				800	5.5125	4410
28-Dec	Purchase		800	4.75	3800				1600	5.131	8210
29-Dec	Issue					600	5.131	3,079	1000	5.131	5131

	Quantity	Value
Purchases	2600	13,350
Consumption	1600	8,219
Closing stock (by LIFO Method)	1,000	5,131