CHAPTER – 5

INVENTORY VALUATION

TABLE OF CONTENTS

1. PRELIMINARY

1. **Meaning of Inventory:** Inventory means those goods which are purchased with the intention of resale. They are held in the ordinary course of business either to be traded ahead or to be consumed in production of end product i.e. Finished Goods or for rendering services.

2. **Types of Inventories:**

TYPES OF INVENTORIES

For a Traders

E.g. A Car Dealer
- Cars
- Accessories
- Spare Parts
- Brochures & other Advertising Material
- Car Cleaning Material

For a Manufacturer

E.g. A Car Manufacturer
- Raw Material like Upholstery, Sound System, Tyres, etc.
- WIP
- Finished Goods i.e. Completed Cars.

For a Service Provider

E.g. A Teacher
- Consumables like Paper, White Board Marker, Stationery Items, etc.

3. **Reasons for Inventory Valuation:**

•	Determination of Income	(b)	Ascertainment of Financial Position
(c)	Liquidity Analysis	(d)	Statutory Compliances

2. INVENTORIES IN TRADING ACCOUNT & ITS RELATIONSHIP WITH PROFITABILITY

Inventory i.e. Closing Stock and Opening Stock are very important part of entire financial statements. ***Inventory is one of the only item in entire financial statement, that can affect both 'Financial Performance' as well as 'Financial Position' of an entity***, because it (Closing Stock) appears in both Trading Account (which shows financial performance) and Balance Sheet (which shows financial position) of an entity.

Proforma of a Trading Account:

TRADING ACCOUNT

For the Year Ended _______

Dr. **Cr.**

PARTICULARS		AMOUNT	PARTICULARS		AMOUNT
To Opening Stock		xxxx	By Sales	xxxxxx	
To Purchases	xxxxx		(-) Returns	(xxx)	xxxxx
(-) Returns	(xxx)	xxxxx	By Drawings*		xxx
To Direct Expenses		xxx	By Goods Distributed as free sample*		xxx
To Gross Profit #		xxx	By Goods lost by Fire/Theft*		xxx
			By Closing Stock		xxxx
TOTAL		**XXXXX**	**TOTAL**		**XXXXX**

* They are optional transactions, which may/may not be there.

Gross Profit/Gross Loss. Gross Loss will appear on Trading Account credit side.

From the above Trading Account, we can derive some equations as under:

Since,

Total of Dr. side = Total of Cr. Side

Op. Stock + Net Purchases + Direct Exp. + Gross Profit = Net Sales + Closing Stock

Op. Stock + Net Purchases + Direct Exp. + Gross Profit – Net Sales = Closing Stock

COST OF GOODS SOLD = Op. Stock + Net Purchases + Direct Exp. – Closing Stock

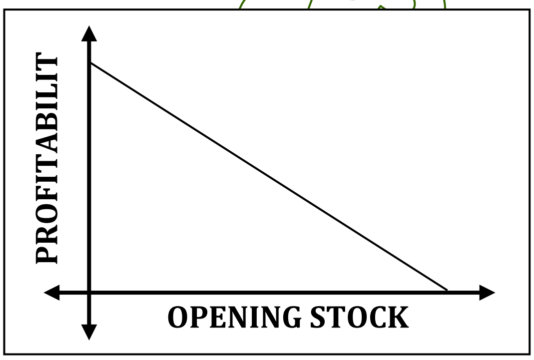
Or

Net Sales - Gross Profit

COST OF GOODS AVAILABLE FOR SALE = Op. Stock + Net Purchases + Direct Expenses

RELANTIONSHIP OF INVENTORIES WITH PROFITABILITY:

OPENING STOCK & PROFITABILITY

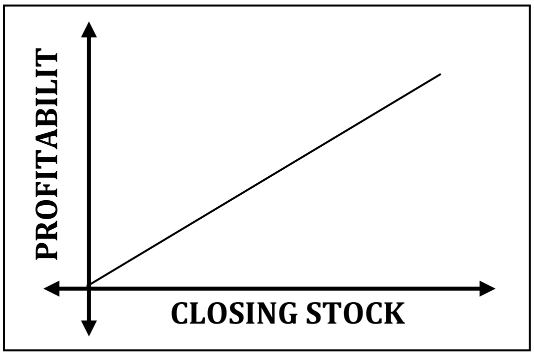


High Op. Stock = Low Profit

Low Op. Stock = High Profit

"INVERSE RELATIONSHIP"

CLOSING STOCK & PROFITABILITY

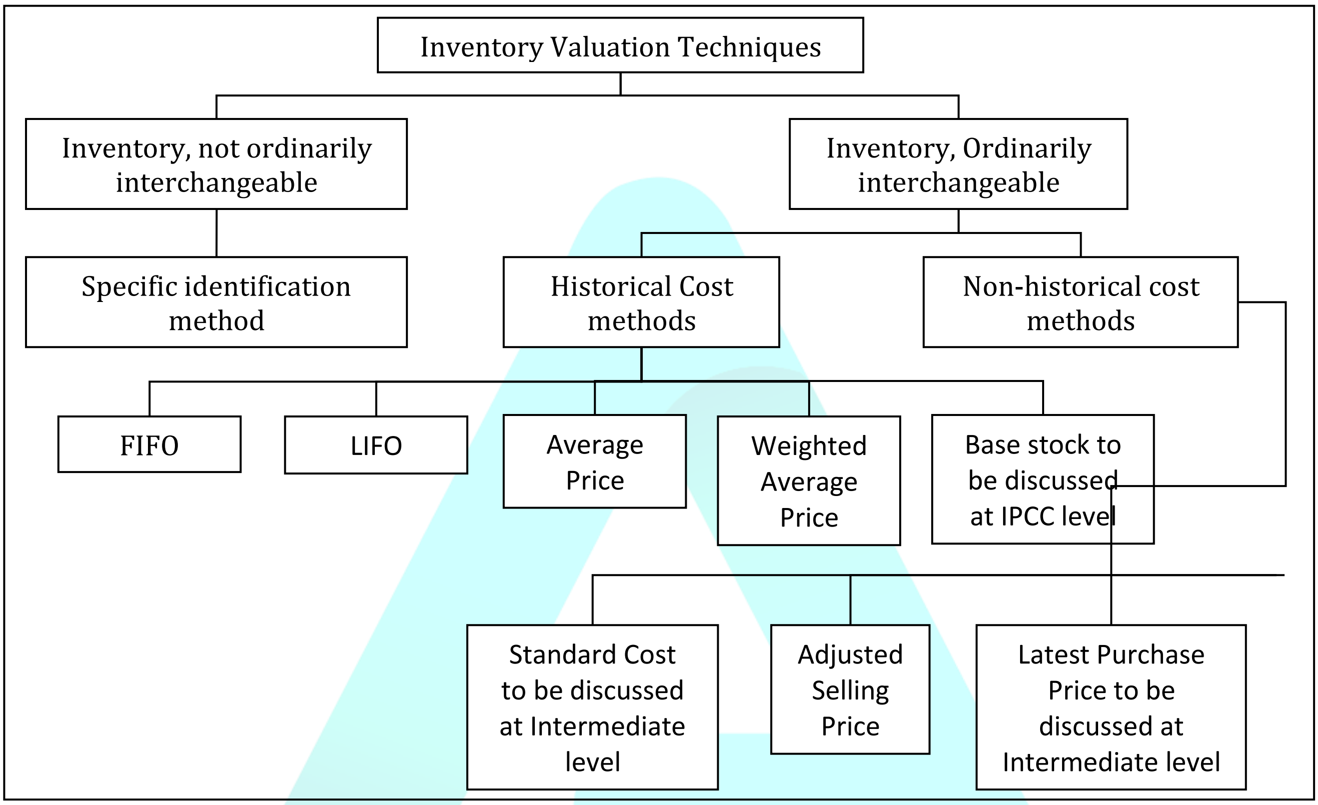


High Closing Stock = High Profit

Low Closing Stock = Low Profit

"DIRECT RELATIONSHIP"

3. TECHNIQUES AND METHODS OF INVENTORY VALUATION



1. First in first out method (FIFO):

Under this method goods which are received first, are issued first. As such inventories comprise of latest purchase or manufacture lots and valuation will be at current cost.

Advantages -

1. Simple to understand, easy to operate.
2. Useful method during the period of falling prices.
3. Logical method with reference to usage of goods.
4. Easily applied when inventories are not too large and prices are fairly steady.

Disadvantages -

1. Large number of purchases at different prices complicate the entries in store ledger and increase clerical errors.
2. During rising prices, lower costs are absorbed by production, thereby higher profit is reflected.
3. Comparison between two jobs become difficult if the similar jobs are charged with different prices.

FIFO Method is followed in either of the two ways:

i. Periodical (i.e. end of a specified period)
ii. Perpetual (i.e. continuous)

Example 1:

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

01.01.2018	Opening stock	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	50 units
01.03.2018	Purchases	150 units @ Rs. 50 per unit
15.03.2018	Issued for consumption	50 units

Find out the value of stock as on 31.3.2018, if the company follows:

1. First in First Out basis - Periodical Valuation
2. First in First Out basis - Perpetual Valuation

Solution:

1. Periodical:

Stock Reconciliation for the quarter ended 31st March 2018: Units

Opening Stock	100
Add: Purchases	350
	450
Less: Issued during the month	250
Closing Stock	**200**

Stock will comprise of latest purchases i.e.

Date	**Qty**	**Rate**	**Amount (Rs.)**
01.3.2018	150	50	7,500
15.2.2018	50	40	2,000
		Total	**9,500**

2. Perpetual:

Date	**Receipts**			**Issues**			**Balance**		
	Units	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**
01.01.2018							100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50 200	30 40	1,500 8,000
15.02.2018				50 50	30 40	1,500 2,000	50	40	6,000
20.02.2018				50	40	2,000	100	40	4,000
01.03.2018	150	50	7,500				100 150	40 50	4,000 7,500
15.03.2018				50	40	2,000	50 150	40 50	2,000 7,500
								Total Stock Valuation	**9,500**

Conclusion: Stock Valuation under Periodical FIFO and Perpetual FIFO method remains the same.

2. Last in first out Method (LIFO):

Under this method, goods received out of latest lot, are issued first i.e., reverse order of FIFO. As such, inventories are valued at the oldest prices.

Advantages:

1. Simple to understand, easy to operate.
2. Useful method during rising prices.
3. Easily applied when inventories are not too large and prices are fairly steady.
4. Cost of material charged to jobs represent more or less the current replacement price.

Disadvantages:

1. In conditions of rising prices, the Inventories are undervalued.
2. During falling prices, lower costs are absorbed by production with high inventory valuation.
3. Large number of purchases at different prices complicate the entries in Store Ledger and increases clerical errors.
4. Comparison between two jobs becomes difficult, if the similar jobs are charged with different prices.

Note: According to revised AS 2 'Valuation of Inventories', LIFO Method of inventory valuation is not recommended.

LIFO method may be followed in either of the two ways.

i. Periodical (i.e. end of a Specified period)
ii. Perpetual (i.e. Continuous)

Example 2:

Refer Example 1.

Find out the value of stock as on 31.3.2018, if the company follows:-

1. Last in First Out basis - Periodical Valuation
2. Last in First Out basis - Perpetual Valuation

Solution:

1. Periodical:

Stock Reconciliation for the quarter ended 31st March 2018: Units

Opening Stock	100
Add: Purchases	350
	450
Less: Issued during the month	250
Closing Stock	**200**

Stock will comprise of oldest purchases i.e.

Date	**Qty**	**Rate**	**Amount (Rs.)**
01.1.2018	100	30	3,000
01.2.2018	100	40	4,000
		Total	**7,000**

2. Perpetual:

Date	**Receipts**			**Issues**			**Balance**		
	Units	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**
01.01.2018							100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50 200	30 40	1,500 8,000
15.02.2018				100	40	4,000	50 100	30 40	1,500 4,000
20.02.2018				50	40	2,000	50 50	30 40	1,500 2,000

Date	Receipts			Issues			Balance		
	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
01.03.2018	150	50	7,500				50	30	1,500
							50	40	2,000
							150	50	7,500
15.03.2018				50	40	2,000	50	30	1,500
							50	40	2,000
							100	50	5,000
Total Stock Valuation									**8,500**

Conclusion: Stock Valuation under Periodical LIFO and Perpetual LIFO method differs.

3. Average Cost Method:

Under this method, all items in the stores are mixed up in such a way that consumption of materials or sale of finished goods cannot be recognised from any particular lot of purchase. As a result, closing inventories are valued at the average cost of all the lots. The average cost may be - i) Simple Average Cost; ii) Weighted Average Cost

(i) Simple Average Cost: Under this method, average of different prices are only considered without having regard to the quantities involved. The simple average cost is calculated by adding the different prices and thereafter divided by the total number of purchases. Under this method, issue price and rate applicable to inventory valuation differs. Hence this method is usually not followed.

Simple average method may be followed in either of the following two ways -

i. Periodical (i.e. end of a Specified period)

ii. Perpetual (i.e. Continuous)

Example 3:

Refer Example 1.

Find out the value of stock as on 31.3.2018, if the company follows:-

1. Simple Average Method - Periodical Valuation
2. Simple Average Method - Perpetual Valuation

Solution:

1. Periodical:

Stock Reconciliation for the quarter ended 31st March 2018: Units

Opening Stock	100
Add: Purchases	350
	450
Less: Issued during the month	250
Closing Stock	**200**

Stock will be valued at Average Price i.e.

$$\frac{₹\ 30 + ₹\ 40 + ₹\ 50}{3} = \text{Rs. } 40$$

Stock Valuation 200 Units x Rs. **40 =** Rs. **8,000**

2. Perpetual:

Date	Receipts			Issues			Balance	
	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Amount (Rs.)
01.01.2018							100	3,000
15.01.2018				50	30	1,500	50	1,500
01.02.2018	200	40	8,000				250	9,500
15.02.2018				100	*35	3,500	150	6,000
20.02.2018				50	#40	2,000	100	4,000
01.03.2018	150	50	7,500				250	11,500
15.03.2018				50	**40	2,250	200	9,250
Total Stock Valuation								**9,000**

* Stock comprise of opening stock and purchases of 1.2.2018. Hence average rate

$$= \frac{30+40}{2} = \text{Rs. } 35$$

Stock comprise of purchases on 1.2.2018. Hence rate is Rs. 40

** Stock comprise of purchases of 1.2.2018 and purchases of 1.3.2018. Hence average rate

$$= \frac{40+50}{2} = \text{Rs. } 45$$

Conclusion: Stock Valuation under Periodical Simple Average and Perpetual Simple Average differs.

(ii) Weighted Average Method (Periodical): Under this method, rate of average cost is calculated by taking into consideration both, the prices and quantities acquired on monthly / Periodical i.e. Quarterly or Half yearly, Yearly basis as may be decided upon.

$$= \frac{N_1R_1 + N_2R_2 + ----+N_nR_n}{N_1 + N_2 + ----+N_n}$$

N_1 = Opening Stock

R_1 = Rate applicable to opening stock

$N_{2/3/n}$ = Purchased in a month / period

$R_{2/3/n}$ = Rate applicable to Purchased Quantity

$N_{2/3/n}R_{2/3/n}$ = Value of total purchases in a month / period

The method is superior than the ordinary Simple Average Method, since it takes into account both, the prices and the quantities. This method proves useful where there is heavy fluctuation in the prices.

Advantages:

1. Useful during the periods of heavy fluctuations in prices.
2. Clerical errors are reduced, as issue is made at a single price.
3. New Issue price requires to be calculated only when new purchases are made.

Disadvantages:

1. When frequent purchases are made, more clerical work is involved.
2. Costs are averaged, hence profit or loss reveals misleading result.

Example 4:

Refer Example 1.

Find out the value of stock as on 31.3.2018, if the company follows:-

Weighted Average Method - Periodical Valuation

Solution:

1. Periodical:

Stock Reconciliation for the quarter ended 31st March 2018:	**Units**
Opening Stock	100
Add: Purchases	350
	450
Less: Issued during the month	250
Closing Stock	**200**

Stock will be valued at weighted Average Price i.e.

$$\frac{(100 \times 30) + (200 \times 40) + (150 \times 50)}{100 + 200 + 150} = \text{Rs. } 41.11$$

Stock Valuation 200 Units x Rs. **41.11 =** Rs. **8,222**

2. Weighted Average Method (Perpetual): Under this method, rate of average cost is calculated by taking into consideration both, the prices and quantities acquired from time to time.

Weighted Average rate = $\frac{N_1R_1 + N_2R_2}{N_{1+N_2}}$

N_1 = Quantity in Stock

R_1 = Rate applicable to opening stock

N_2 = Quantity Purchased

R_2 = Rate applicable to purchased quantity

The above referred formula is on the basis of recording receipts and issues daily in the stock ledger (Perpetual Inventory Recording System).

Date	Receipts			Issues			Balance		
	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
01.01.2018							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				50	38	1,900	100	38	3,800
01.03.2018	150	50	7,500				250	45.20	11,300
15.03.2018				50	45.20	2,260	200	45.20	9,040
Total Stock Valuation									**9,040**

Conclusion: Stock Valuation under Periodical Weighted Average and Perpetual Weighted Average differs.

4. Specific Identification Method:

Pricing under this method is based on actual physical flow of identified goods. Goods are identified with reference to lot numbers, chassis number for vehicles, Sr. No. for Equipment etc. This method is generally used to identify cost of inventories of items that are not ordinarily interchangeable.

Example 5:

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

01.01.2018	Lot A	Opening stock	100 units @ Rs. 30 per unit
15.01.2018		Issued for consumption out of lot A	50 units
01.02.2018	Lot B	Purchases	200 units @ Rs. 40 per unit
15.02.2018		Issued for consumption out of lot B	100 units
20.02.2018		Issued for consumption out of lot A	30 units
01.03.2018	Lot C	Purchases	150 units @ Rs. 50 per unit
15.03.2018		Issued for consumption out of lot C	50 units

Find out the value of stock as on 31.3.2018, if the company follows: Specific Identification Method.

Solution:

1. Periodical:

Stock Reconciliation for the quarter ended 31st March 2018:

Particulars	**Lot A Units**	**Lot B Units**	**Lot C Units**
Opening Stock	100	-	-
Add: Purchases	-	200	150
	100	**200**	**150**
Less Issued during the month	80	100	50
Closing Stock	**20**	**100**	**100**
Rate (Rs.)	30	40	50
Stock valuation (Rs.)	**600**	**4,000**	**5,000**

Total Stock valuation: Rs. **9,600**

2. Perpetual:

Date	**Receipts**			**Issues**			**Balance**		
	Units	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**	**Units**	**Rate (Rs.)**	**Amount (Rs.)**
01.01.2018							100	30	3,000
15.01.2018				50	30	1,500	50	30	1,500
01.02.2018	200	40	8,000				50 200	30 40	1,500 8,000
15.02.2018				100	40	4,000	50 100	30 40	1,500 4,000
20.02.2018				30	30	900	20 100	30 40	600 4,000
01.03.2018	150	50	7,500				20 100 150	30 40 50	600 4,000 7,500
15.03.2018				50	50	2,500	20	30	600

Date	Receipts			Issues			Balance		
	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)
							100	40	4,000
							100	50	5,000
								Total Stock Valuation	**9,600**

Conclusion: Stock Valuation under Periodical Specific Identification Method and Perpetual Specific Identification Method is the same.

5. Adjusted Selling Price Method:

This method is also called as 'Retail Inventory Method'. It is used widely in retail business, where inventory comprises of numerous items, the individual cost of which is not readily ascertainable. This method is appropriate for measuring large inventories having similar margins and for which it is impracticable to use other costing methods. The cost of inventory is determined by reducing from the Sale value of the inventory the appropriate percentage of gross margin. Appropriate gross margin is average percentage for each retail department. The calculation of the estimates gross margin of profit may be made for individual items or groups of items or by departments as may be appropriate to the circumstances.

Example 6:

From the following information, calculate the historical cost of inventories using adjusted selling price method.

	Rs.
Opening stock	1,50,000
Cost of purchases during the year	3,00,000
Wages	60,000
Closing stock at selling price	1,37,500
Sales during the year	5,00,000

Solution:	Rs.
Sale value of opening stock + purchases (5,00,000 + 1,37,500)	6,37,500
Cost price of goods (1,50,000 + 3,00,000 + 60,000)	5,10,000
Gross margin on sales	**1,27,500**

Gross profit ratio$= \frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{1,27,500}{6,37,500} \times 100 = 20\%$

Cost price of closing stock.

	Rs.
Closing stock at selling price	1,37,500
Less Gross margin @ 20%	27,500
Closing stock at cost price	**1,10,000**

4. SYSTEMS OF TAKING INVENTORIES

Two methods of Stock taking are in use. Stock taking may be undertaken once in a year, generally at the close of the year. Sometimes it may be done monthly or quarterly or six monthly. This system is known as **'Periodic Inventory**'. Stock taking may also be undertaken continuously throughout the year. This system is called as '**Perpetual Inventory**'.

Small business concerns use Periodic Inventory System and Perpetual Inventory System is used by Big business concerns especially when items are of high value.

Under perpetual inventory system, a storekeeper maintains a store ledger on perpetual i.e. continuous basis, where he records every single movement of the inventory items i.e. their receipts and issues to production or sales. Under this system, one is able to ascertain the quantity and value of closing stock at any given point of time.

STORES - LEDGER

Item Code :

Period : From . . . . to . . . .

Date	Receipts			Issues			Balance		
	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)	Units	Rate (Rs.)	Amount (Rs.)

5. PHYSICAL STOCK TAKING AND FURTHER RECONCILIATION OF STOCK

Many times it is not possible for a business enterprise to undertake stock taking on year ending date. The inventory verification may take place few days before or after the date of Balance - Sheet. In such a case the value of inventory to be shown in the Balance - Sheet is calculated after preparing reconciliation statement.

FORWARD RECONCILIATION - Physical Stock taking before year ending date

A	Stock Increasing Items	Rs.	B	Stock decreasing Items	Rs.
1	Purchases	at cost	1	Purchase Returns	at cost
2	Sales Returns [Sale Value-Gross Profit]	at cost	2	Sales [Sales-Gross Profit]	at cost
			3	Goods withdrawn by Proprietor	at cost
			4	Goods distributed as free samples	at cost
			5	Goods lost by fire, theft, etc.	at cost

BACKWARD RECONCILIATION - Physical Stock taking after year ending date

A	Stock Increasing Items	Rs.	B	Stock decreasing Items	Rs.
1	Purchases Returns	at cost	1	Purchase	at cost
2	Sales [Sales-Gross Profit]	at cost	2	Sales Returns [Sale Value - Gross Profit]	at cost
3	Goods withdrawn by Proprietor	at cost			
4	Goods distributed as free samples	at cost			
5	Goods lost by fire, theft, etc.	at cost			

Notes:

1. Errors in stock valuation need corrections [over valuation or under valuation].
2. Stock held on behalf of other persons (e.g., Stock held by consignee on behalf of consignor) should not be taken in own stock.
3. While preparing final accounts, stocks held by other persons on behalf of businessman should be accounted for at cost -
    i. Stock held by consignee
    ii. Stock in transit
    iii. Stock held by customers [Goods sent on sale or return or on Approval Basis]

6. PRACTICAL PROBLEMS

Q1. Periodic & Perpetual Valuation (FIFO, LIFO, WAM) **REG. PAGE NO.**

Calculate the cost of goods sold and the value of closing inventory under (i) FIFO, (ii) LIFO, (iii) Weighted Average Method.

Date 2018	Particulars	Kg.	Rate (Rs.)
1st March	Opening Balance	3000	20
3rd March	Purchases	5000	19
5th March	Sold	1000	
7th March	Sold	2400	
8th March	Purchases	2000	21
10th March	Sold	3000	
15th March	Purchases	1400	20
20th March	Sold	2500	
27th March	Sold	1500	
30th March	Purchases	2000	22.50

Q2. Periodic Valuation (FIFO, LIFO, WAM) **REG. PAGE NO.**

A firm started on 1st January, 2018 purchased raw materials during 2018 are stated below:

Jan 2	800 Kg @ Rs. 62 per Kg.
Feb 26	1200 Kg @ Rs. 57 per kg.
April 13	2500 Kg @ Rs. 59 per Kg.
July 10	3000 Kg @ Rs. 56 per kg.
Sept 18	1500 Kg @ Rs. 60 per Kg.
Nov 29	1000 Kg @ Rs. 65 per kg.

While preparing its final accounts on 31st December, 2018, the firm had 1300 Kg. of raw materials in its godown. Calculate the value of closing stocks of raw materials according to FIFO, LIFO and Weighted average methods.

Q3. Periodic Valuation (FIFO, LIFO, WAM) **REG. PAGE NO.**

The Fairdeal Stores was not maintaining a perpetual inventory system for its stock units recently. Only physical inventory was taken at the end of each month. The physical inventory at the end of December, 2017 showed 200 bags of rice at Rs. 212.25 per bag.

The following purchases were made in January, 2018

3rd	400 bags at Rs. 218.00per bag
10th	900 bags at Rs. 223.50 per bag
15th	400 bags at Rs. 220.00 per bag
28th	700 bags at Rs. 213.00 per bag
30th	300 bags at Rs. 224.00 per bag

On 31st January, 2018 the physical stock was 1200 bags. You are required to calculate the value of stock on 31st January, 2018 according to i) FIFO ii) LIFO iii) Weighted average method.

Q4. Adjusted Selling Price (No Abnormalities) **REG. PAGE NO.**

From the following particulars for the years 2017 and 2018 determine the value of the closing stock at the end of 2018 (assuming uniform GP Ratio).

PARTICULARS	2017	2018
Opening Stock	20,000	40,000
Purchases	3,20,000	5,10,000
Sales	4,00,000	6,00,000

Q5. Adjusted Selling Price (No Abnormalities) **REG. PAGE NO.**

From the following information, value the opening inventory for 2017-18.

Net sales	Rs. 12,00,000
Gross profit on sales	30%

Purchase discount @ 1%	Rs. 9,000
Ending inventory	Rs. 1,60,000
Freight in	Rs. 20,000

Q6. Adjusted Selling Price (Mild Abnormalities) **REG. PAGE NO.**

Lakshya Ltd. recorded the following information as on 31st March, 2018. Consider the following to do valuation of closing stock as on 31st March 2018:

	Rs.
Stock as on 1st April, 2017	80,000
Accounts payable as on 1st April, 2017	30,000
Accounts payable as on 31st March, 2018	40,000
Amount paid to creditors during the year	1,50,000
Sales	2,00,000

It is noticed that goods worth Rs. 30,000 were destroyed due to fire against this, the insurance company accepted a claim of Rs. 20,000. The company sells goods at cost plus 33 1/3 %.

Q7. Adjusted Selling Price (Mild Abnormalities) **REG. PAGE NO.**

Mr. James submits you the following information for the year ended 31.3.2018:

	Rs.
Stock as on 1.4.2017	1,50,500
Purchases	4,37,000
Manufacturing Expenses	85,000
Expenses on Sales	33,000
Expenses on Administration	18,000
Financial Charges	6,000
Sales	6,25,000

During the year damaged goods costing Rs. 12,000 were sold for Rs. 5,000. Barring the above transaction the Gross Profit has been @ 20% on Sales. Compute the Net Profit of Mr. James for the year ended 31.3.2018.

Q8. Adjusted Selling Price (Mild Abnormalities) **REG. PAGE NO.**

M/s X, Y and Z are in retail business, following information are obtained from their records for the year ended 31st March, 2022:

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

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

Q9. Itemised valuation of Closing Stock **REG. PAGE NO.**

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.

INVENTORY CATEGORY	HISTORICAL COST	NET REALISABLE VALUE	VALUE AS PER AS-2
A	17,400	12,200	
B	20,100	27,400	
C	18,200	19,100	
D	16,500	17,200	
E	15,400	16,800	
F	21,400	20,900	
TOTAL	**1,09,000**	**1,13,600**	

Q10. Backward Reconciliation **REG. PAGE NO.**

V's accounting year ends on 30.6.2018 but actual stock was not taken till 8.7.2018 on which date it is valued at Rs. 29,700. The following additional information is available.

(i) Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.

(ii) Purchases are entered in the purchase book on the day invoices are received.

(iii) Sales from 1.7.2018 to 8.7.2018 are Rs. 34,400.

(iv) Purchases from 1.7.2018 to 8.7.2018 are Rs. 2,640 out of which goods of Rs. 240 was not received upto 8.7.2018.

(v) Invoices for goods purchased upto 30.6.2018 were of Rs. 2,000, of which goods worth Rs. 1,400 were received between 1.7.2018 to 8.7.2018.

(vi) Rate of G.P of 331/3% on cost.

Find out the value of Stock on 30.6.2018.

Q11. Backward Reconciliation **REG. PAGE NO.**

Karam Chand closes his books of accounts for the year on 31st March, 2018. Due to certain difficulties, he could not conduct stock taking on that date. Actual stock taking was done on 7th April, 2018 when goods valued at Rs. 34,500 were found present in the godown. The following transactions had taken place during the period from 1st April, 2018 to 7th April, 2018:

1. Sales during the period were Rs. 10,590. These goods were sold at the usual rate of gross profit of 25% on cost except goods which realised Rs. 840 on the basis of 20% profit on cost.
2. Purchases during the period were Rs. 8,300 of which Rs. 1,180 worth of goods were delivered to Karam Chand only on 9th April, 2018.
3. Sales returns during the period were Rs. 600. Out of which Rs. 300 worth of returns were from the sales made at 20% gross profit mentioned above.

Prepare a statement showing clearly the value of stock on 31st March, 2018 to be shown in the final accounts prepared by Karam Chand.

Q12. Backward Reconciliation **REG. PAGE NO.**

Inventory taking for the year ended 31st March, 2022 was completed by 10th April 2022, the valuation of which showed a inventory figure of Rs. 16,75,000 at cost as on the completion date. After the end of the accounting year and till the date of completion of inventory taking, sales for the next year were made for Rs. 68,750, profit margin being 33.33 % on cost. Purchases for the next year included in the inventory amounted to Rs. 90,000 at cost less trade discount 10 %. During this period, goods were added to inventory at the mark up price of Rs. 3,000 in respect of sales returns. After inventory taking it was found that there were certain very old slow-moving items costing Rs. 11,250, which should be taken at Rs. 5,250 to ensure disposal to an interested customer. Due to heavy flood, certain goods costing Rs. 15,500 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. 12,500 on 31st March. Compute the value of inventory for inclusion in the final accounts for the year ended 31st March, 2022.

"Financial Management's Law – One of Today is better than Two of Tomorrow"

- Anshul A. Agrawal