11 May 24

AS-2 INVENTORIES

Inventories are assets held
i) for sale in ordinary course of business (Finished goods, Stock in Trade)
Eg:- TATA MOTORS → vehicles
Furniture dealer → Furniture
Electronic store → TV
ii) in process of production for such sale (Work in Process)
Eg:- TATA MOTORS - As on 31st March, vehicles still being mgt. ∴ WIP - work in process)
iii) Consumption in production of goods or services or sale (Raw materials, consumables, spare parts.)
Note:- If a machinery spare has a useful life of more than 12 months it will be classified as PPE

VALUATION principle - Economic benefit from inventories is derived by selling it. Hence if there is decline in market value (MV) & cost cannot be fully recovered then expected loss should be provided for (conservation).
∴ ~~Intent~~ Inventories are valued at cost & NRV whichever is lower
Note this principle applies to FG, WIP & ~~RM~~ Stock in Trade
- RM are not held for sale they are utilised in the production of FG. Hence they are normally valued at cost. However if FG in which RM is to be incorporated is expected to be sold at loss then RM should be valued at cost or MV whichever is lower

Cost of Inventories

It comprises of
i) Purchase cost - Purchase Price
- Non Refundable duties & Taxes
- Transportation (carriage Inwards)

- Unloading charges
- & other Exp directly related to purchase
- (-) Trade Discount & Rebate (Cash Discount need not be adj.)

ii) Conversion cost - Cost of converting Rm into FG (or WIP)
all Mfg Exp other than Rm
Eg:- Wages of manufacturing employees (Related to factory)
Factory Rent, Depreciation, Electricity .....

Mfg Exp → Direct - directly identifiable with product
→ Indirect - Eg:- Rent, Electricity, Supervision ...
manufacturing overhead

Note:- NRV of scrap & by product should be deducted from Total Cost incurred

iii) Any other Exp attributable to bring inventories to present location & condition.

Exclusion - i) Selling & Distribution (S&D) Exp
ii) General Admin. Exp
iii) Storage Cost (unless it is req for mfg)
iv) Abnormal Losses

NET REALISABLE VALUE (NRV) - Diff. b/w SP & Exp yet to be incurred
NRV of FG = SP - Selling Exp
NRV of WIP = SP - Selling Exp - Mfg Exp yet to be incurred
Eg:- SP of FG = 300
Selling Exp = 15% of SP = 45
NRV = 300 - 45 = 255

Eg:- Cost already incurred = 150
Mfg cost to be incurred = 100
NRV of WIP = 300 - 45 - 100
= ~~255~~ 155

Note:- Valuation of inventories to be done on item by item basis & not on overall basis

Eg:-

	Cost	NRV	value
A -	100	90 →	90
B -	200	250 →	200
	300	340 →	290

Importance of Inventory valuation

1) Determination of Income
Closing stock ↑ - Profit ↓
Closing stock ↓ - Profit ↑
Opening stock ↑ - Profit ↓
Opening Stock ↓ - Profit ↑

2) Ascertainment of financial Position
Inventory is an asset to be disclosed in Balance Sheet

3) Liquidity Analysis
Liquidity is ability to pay short term debt.
Inventory forms part of Current Assets which measure liquidity

4) Statutory Compliance - Schedule III disclosures

Inventory record systems

2 methods (CS)

1) Periodic Inventory System - under this method closing stock is computed by physically counting it periodically (it can a month, or quarter or half year or year)

- The cost of Goods Sold (COGS) will be balancing figure

Eg:- Opening Stock (OS) = 100 units
Purchases (P) = 1000 units
1100 units → sold – COGS
1100 units → closing stock (CS)

under periodic Inventory system,
CS is computed
(Bal fig) COGS = OS + P - CS

2) Perpetual Inventory System - under this method, a record of every purchase & consumption is maintained. Hence COGS can be directly determined & CS will be balancing figure

Under perpetual Inventory system
COGS is computed
OS + P - COGS = CS (Bal fig)

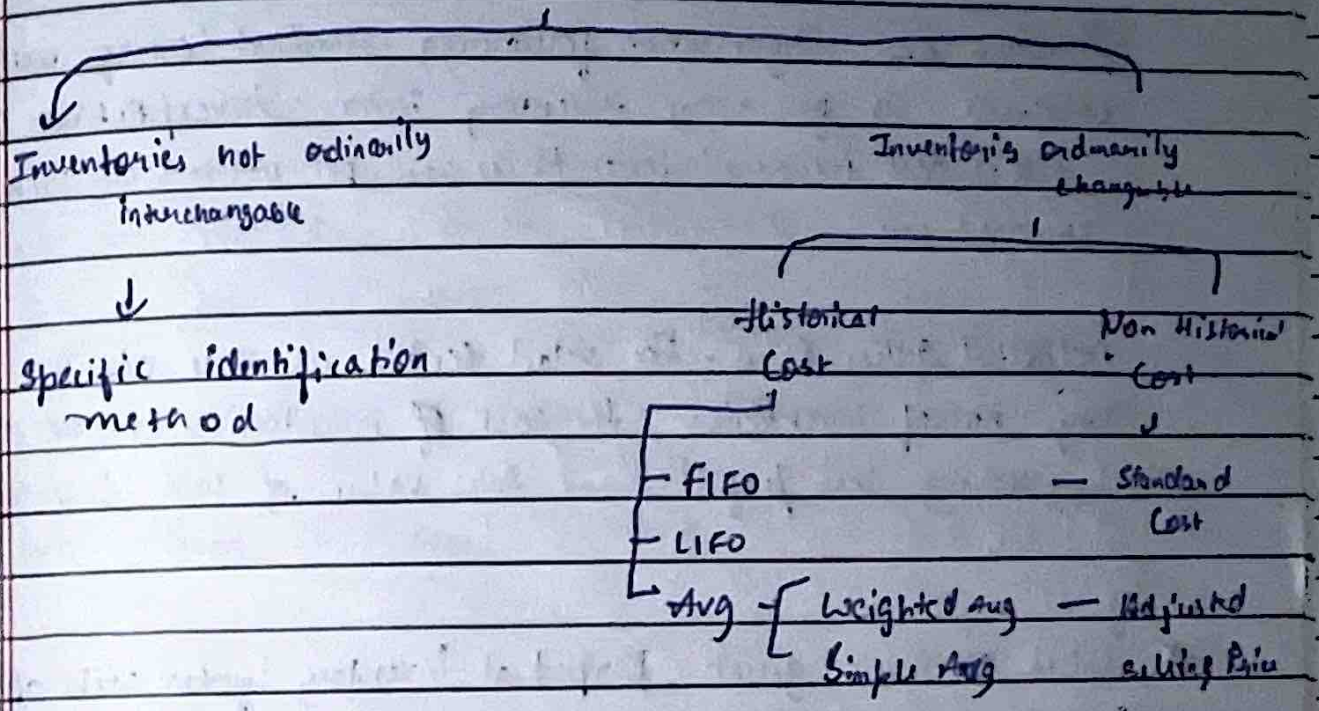
- INVENTORY VALUATION METHOD (COST FORMULAE)

Objective is to identify cost of materials consumed & cost of closing stock

Eg:- If purchases are:
1000 kg at ₹8
2000 kg @ ₹10
3000 kg @ ₹11

If quantity consumed is 4500 kg
closing stock = 1500 kg

- Valuation will help in identifying cost of 4500 kg & cost of 1500 kg



Specific identification Method - If inventories are purchased for a specific project cost of materials consumed will be determined using specific price at which it was purchased

FIFO [First In First Out] - It is assumed that Inventories purchased first are consumed first.
∴ Closing Stock will be out of most recent purchases

LIFO (Last In First Out) - It is assumed that consumption would be out of most recent purchases
∴ Closing stock will be out of purchase made first.

Average Method - The price at which materials should be charged (consumed) will be based on avg. prices
- If Quantities are ignored & only an avg. of prices are taken it is termed as simple avg.
-

Standard cost - Organisation following standard costing will have standards set for every inventory items. Irrespective of actual cost incurred, inventories can be valued at such Standard cost.

Adjusted Selling Price - For retail sectors as there can be a large no. of inventories, the cost of inventories can be determined by reducing Gross profit from sales value of such inventories.

Eg:

* unless otherwise given, perpetual inventory system will apply & hence every purchase, every consumption should be recorded

	Purchases	Consumption	
1 April	1000 kg @ 8		
5 April	2000 kg @ 10	6 April	1200 kg
10 April	3000 kg @ 11	11 April	1500 kg
		12 April	2500 kg

FIFO method

Date	Receipts			Issues			Balance		
	Qty	Price	Total	Qty	Price	Total	Qty	Price	Total
1.4	1000	8	8000	-	-	-	1000	8	8000
5.4	2000	10	20000	-	-	-	1000	8	8000
							2000	10	20000
6.4	-	-	-	1000	8	8000	1800	10	18000
				200	10	2000			
10.4	3000	11	33000	-	-	-	1800	10	18000
							3000	11	33000
11.4	-	-	-	1500	10	15000	300	10	3000
							3000	11	33000
12.4	-	-	-	300	10	3000	800	11	8800
				2200	11	24200			
				5200		52200			

LIFO

Date	Receipts			Issues			Balance		
	Qty	Price	Total	Qty	Price	Total	Qty	Price	Total
1.4	1000	8	8000	-	-	-	1000	8	8000
5.4	2000	10	20000	-	-	-	1000	8	8000
							2000	10	20000
6.4	-	-	-	1200	10	12000	1000	8	8000
							800	10	8000
10.4	3000	11	33000	-	-	-	1000	8	8000
							800	10	8000
							3000	11	33000
11.4	~~1500~~	-	-	1500	11	16500	1000	8	8000
							800	10	8000
							1500	11	16500
12.4	-	-	-	1500	11	16500	800	8	6400
				800	10	8000			
				200	8	1600			
				5200		54600			

Average

i) Weighted - $\frac{(1000 \times 8) + (2000 \times 10) + (3000 \times 11)}{6000} = 10.1\bar{6}$

closing stock = 6000 - 5200 = 800

∴ value = 800 × 10.1667 = ~~8133.36~~ 8133.6

ii) Simple - $\frac{8 + 10 + 11}{3} = 9.\bar{6} \simeq 9.67$

∴ value = 800 × 9.67 = ~~7733.33~~ 7736

Average

1) weighted

1st Purchase = 8

(5.4) 2nd Purchase = $\frac{(1000 \times 8) + (2000 \times 10)}{3000}$ = 9.33

1st issue = 1200kg × 9.33 = 11199.99 ≈ 11200

Balance = 28000 − 11200

= 16800 (Q 1000 P 8) + (Q 800 P 10)

(10.4) 3rd Purchase = $\frac{(1000 \times 8) + (800 \times 10) + (3000 \times 11)}{4800}$ = 10.2083

(11.4) 2nd issue = 1500 × 10.2083 = 15312.49

weighted average

Date	Receipts			Issue			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
1.4	1000	8	8000	-	-	-	1000	8	8000
5.4	2000	10	20000	-	-	-	3000	9.333	28000
6.4	-	-	-	1200	9.33	11200	1800	9.333	16800
10.4	3000	11	33000	—	—	—	4800	10.375	49800
11.4	-	-	-	1500	10.375	15563	3300	10.375	34237
12.4	-	-	-	2500	10.375	25938	800	10.375	8299
				5200		52701			

NOTE: SIMPLE AVG is used only under Periodic System

Purchases = 61000

	Consumption (COGS)	C/S
FIFO	52200	8800
LIFO	54600	6400
Weighted Avg	52701	8299

i) If the prices are on continuous rise (Inflationary prices). consumption under LIFO method will be based on the most recent purchases made at higher prices, resulting in lower prices

→ The co. is going to realise lower profits in subsequent yrs. thus. LIFO will result in more realistic profit

ii) If prices of materials are volatile weighted Avg method will even out the fluctuations

Periodical Inventory system

	Purchase		Consumption	
1.4	1000 kg	@ 8	6.4	1200 @
5.4	2000 kg	@ 10	11.4	1600 @
10.4	3000 kg	@ 11	12.4	2300 @
	6000 kg	61000		Closing stock = 800

FIFO → 800 kg will be out of last purchase

Cl. stock = 800 × 11 = 8800

consumption = Purchase − Cl. stock

61000 − 8800 = 52200

LIFO → 800 kg will be out of first purchase

Cl. stock = 800 × 8 = 6400

Consumption = 61000 − 6400 = 54600

Weighted Average → wt. price = $\frac{61000}{6000}$ = 10.1667

Cl stock = 800 × 10.1667 = 8133

Consumption = 61000 − 8133

= 52 867

Simple Average

S.A Price = $\frac{9+10+11}{3}$ = 9.66

Cl. Stock = 800 × 9.66 = 7733

Consumption = 61000 - 7733 = 53267

QUESTIONS

1) (a) Perpetual Inventory System

(a) FIFO

Date	Purchases/Receipt			Issues			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
4.12	900	50	45000	-	-	-	900	50	45000
5.12	-	-	-	500	50	25000	400	50	20000
10.12	400	55	22000	-	-	-	400	50	20000
							400	55	22000
11.12	300	55	16500	-	-	-	400	50	20000
							700	55	38500
19.12	200	60	12000	-	-	-	400	50	20000
							700	55	38500
							200	60	12000
20.12	-	-	-	400	50	20000	500	55	27500
				200	55	11000	200	60	12000
28.12	800	47	37600	-	-	-	500	55	27500
							200	60	12000
							800	47	37600
29.12	-	-	-	500	55	27500	200	60	12000
							800	47	37600
	2600		133100	1600		83500	1000		49600

b) LIFO

Date	Purchase			Issue			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
4.12	900	50	45000				900	50	45000
5.12				500	50	25000	400	50	200000
10.12	400	55	22000	–	–	–	400	50	20000
							400	55	22000
11.12	300	55	16500	–	–	–	400	50	20000
							700	55	38500
19.12	200	60	12000	–	–	–	400	50	20000
							700	55	38500
							200	60	12000
20.12	–	–	–	200	60	12000	400	50	20000
				400	55	22000	300	55	16500
26.12	800	47	37600	–	–	–	400	50	20000
							300	55	16500
							800	47	37600
29.12	–	–	–	500	47	23500	400	50	20000
							300	55	16500
							300	47	14100
	2600		133100	1600		82500	1000		50600

c) weighted average

Date	Purchase			Issue			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
4.12	900	50	45000	-	-	-	900	50	45000
5.12	-	-	-	500	50	25000	400	50	20000
10.12	400	55	22000	-	-	-	800	52.5	42000
11.12	300	55	16500	-	-	-	1100	53.18	58500
19.12	200	60	12000	-	-	-	1300	54.2307	70500
Dec 20	-	-	-	600	54.230	32538	700	54.23	37962
28.12	800	47	37600	-	-	-	1500	50.37467	75562
29.12	-	-	-	500	50.37467	25187	1000	50.37467	50375
	2600		133100	1600		82725	1000		50375

Periodic Inventory System

Closing Stock = 2600 - 1600 = 1000

(a) FIFO

Closing stock will be from last purchases

= (800 x 47) + (200 x 60) = 37600 + 12000

= 49600

Consumption = 133100 - 49600

= 83500

(b) LIFO

Closing stock will be from first purchases

(900 x 50) + (100 x 55) = 45000 + 5500 =

= 50500

Consumption = 133100 - 50500

= 82600

(1) Weighted Average

Weighted Average Price = $\frac{133100}{2600}$ = 51.1923

Closing Stock = 1800 X 51.1923

= 51192

Consumption = 133100 - 51192

= 81908

2) Simple Average method

Simple Average Price = $\frac{50+55+55+60+47}{5}$ = 53.4

Closing stock = 1000 x 53.4 = 53400

Consumption = 133100 - 53400

= 79700

3) Inventory Valuation

Date	Receipts			Issue			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
1.1.16	100	30	3000				100	30	3000
15.1.16				50	30	1500	50	30	1500
1.2.16	200	40	8000				50	30	1500
							200	40	8000
15.2.16				50	30	1500	150	40	6000
				50	40	2000			
20.2.16				100	40	4000	50	40	2000
	300		11000	250		9000	50		2000

∴ Value of inventory as on 31-3-2016 is ₹ 2000 as per FIFO

4)

Date	Receipts			Issues			Balance		
	Qty	P	Total	Qty	P	Total	Qty	P	Total
1/1/21	10	300	3000				10	300	3000
15/1/21				5	300	1500	5	300	1500
1/2/21	20	400	8000				25	380	9500
15/2/21				10	380	3800	15	380	5700
20/2/21				10	380	3800	5	380	1900
	20		11000	25		9100	5		1900

∴ Inventory's value = 1900

5) Sales = 200000

Purchases = 200000

Closing Inventory at selling Price = 50000

∴ Total sales value = 250000 GP = 50000

Purchase value = 200000

~~GP margin = $\frac{50000}{250000} \times 100 = 20\%$~~

~~Value of Inventories = 80% × 50000 = 40000~~

GP margin = $\frac{50000}{200000} \times 100 = 25\%$

~~value of Inventories = 50000 − 25% = 37500~~

COGS can't be computed because cost of closing stock is not known

5) Sales = ₹200000

closing Inventory at selling Price = ₹50000

∴ Total selling value will be ₹250000 [If closing stock was also sold]

Total cost of Purchases = ₹200000 (OS + P − (S) = (0 + 2L + 0))

Gross Profit = 250000 − 200000 = 50000

Gross Profit Percentage on sale = $\frac{50000}{250000} \times 100 = 20\%$ on sale

Closing stock at selling price : ₹50000

Closing Inventory = 50000 − 20% on 50000

= 50000 − 10000

= ₹40000

6) Goods received from supplier (after 3% TD & VAT sales Tax) : 1575500

$n - \frac{3n}{100} + \frac{11n}{100} = 1575500$

$\frac{106}{100} n = 1575500$

$n =$

Trading

To OS	0	By Sales	2L
To P	2L	By CS	40K
To GP	40K		

7)

Items	Historical cost	NRV	Inventory value
P	38	42	38
Q	29	29	29
R	17	14	14
			81

∴ value of closing stock 81 00 000

- GROSS PROFIT - It is diff b/w sales value & cost of goods sold (manufacturing)

i) If Purchase Price : 20 Selling Price = 25

Gross Profit will be 5

* By default GP is expressed as percentage of sales

In given case GP ratio : $\frac{5}{25} \times 100 = 20\%$

If GP is expressed as % of cost it will be $\frac{5}{20} \times 100 = 25\%$

* Inventories should be valued at lower of cost and NRV

→ This should be done on a item by item basis

ii) For a mfg unit, Purchase Price = 20, Other Mfg Exp = 30

Total cost = ₹50, SP = ₹75

GP will = ₹25

$GP\ ratio = \frac{25}{75} \times 100 = 33\frac{1}{3}\%$

GP as % of cost will be $\frac{25}{50} \times 100 = 50\%$

iii) Sales = 10L GP = 20% (default on sales)

GP = 10L × 20% = 2L

COGS = 10 − 2 = 8L

iv) COGS = 15L GP = 20% on cost

GP = 15L × 20% = 300000

S = 15L + 300000 = 1800000

v) GP = 25% on cost

Sales = 10L

If	Cost	GP	Sales
	100	25	125
	?		10L

$GP = 10L \times \frac{25}{125} = 2L$

∴ Cost = 10L − 2L = 8L

vi) GP is 20% on Sales

COGS = 15L

If

SP	GP	Cost
100	20	80
	?	15L

GP = $15L \times \frac{20}{80} = 375000$

Cost = 15L − 375000 = 1125000

vii) If GP is 40% on cost

Sales = 25L —— GP = ?

If

C	GP	S
100	40	140
	?	25L

$GP = 25L \times \frac{40}{140} = 714285.7$

$\approx$ 714286

Cost = 1785714

Note:- Trade Discount should be adjusted from cost of purchases
Taxes will be added assuming they are non refundable
Taxes will be levied on amount net of Trade Discount
Packing & Transportation charges are expenses directly attributable & hence added to cost of purchases

6) Cost of Purchases

Basic Purchase price	15,75,500
(−) Trade Discount @ 3%	47265
Purchase Price (Net of discount)	1528235
(+) Taxes @ 11%	168106
	1696341
(+) Packing & Transportation charges	87500
	1783841

Total sales value = 2245500 + 235000

= 2480500

Gross profit ratio = $\frac{2480500 - 1783841}{2480500} = \frac{696659}{2480500} \times 100$

= ~~28.09%~~ 28.085 %.

Cost of inventories = 235000 − 235000 × 28.09%

= 235000 − ~~65988~~ 66011.5

= ~~169012~~ ~~168988.5~~ = 235000 − 66012

≈ ~~168989~~ 168988

∴ value of closing stock = 168988

Cost of inventories = 235000 − 28.085% of 235000

= 235000 − 65999.75

= 235000 − 66000

= 169000

Note:- GP of 25% on cost will apply only to normal sales

Actual sales of ₹52,20,000 includes abnormal sales also

INCORRECT ANSWER

Dr	Trading		Cr
To opening Stock	700000	By Sales	5220000
To Purchases	3460000	By Closing Stock	694000
To Mfg Exp	700000		
To GP ($52.22 \times \frac{25}{125}$)	1044000		
	5904000		5904000

Incorrect as GP is incorrect.

If	Cost	GP	Sales
	100	25	125
		?	57.2L

$? = 52.2 \times \frac{25}{125}$

CORRECT ANSWER

Dr. Trading Account Cr.

	Total	Normal	Abnormal		Total	Normal	Abnormal
To Opening Stock				By Closing Stock			
To Purchases	3460000	5460000					
To Mfg Exp							
To GP							

Dr. Trading A/c Cr.

	Total	Normal	Abnormal		Total	Normal	Abnormal
To Purchases	3460000	3460000	–	By Sales	5220000	5060000	160000
To Mfg Exp	700000	700000	–	By Closing Stock	672000	672000	–
To Opening Stock	700000	560000	140000			(Bal fig)	
To GI	1032000	1012000	20000				
	5892000				5892000		

GI on normal sales $= 5060000 \times \frac{25}{125} = 1012000$

∴ Inventories as on 31.3.2017 = 672000

9)

To Opening Stock	110000	32500	By Sales	1200000	45000
To Purchases	762500		By Closing Stock	62500	–
To Mfg Exp	150000				
To GP	240000	12500			
	1307500			1307500	

∴ value of closing stock as on 31 Mar 2017 is 62500

10)

To Opening Stock	110000	37500	By Sales	910000	40000
To Purchases	885000		By Closing Stock	402000	
To Mfg Exp	135000				
	182000				
To GP	2500				
	1352000			1352000	145 2500

as on 31.3.2023

GP: 910000 × 25/125

∴ closing Stock value = 402000

11)

To Opening Stock	315000	35000	By Sales	1800000	50000
To Purchases	1200000		By Closing Stock	175000	–
To Mfg Exp	100000				
To GP	360000	15000			
	2025000			2025000	

as on 31.3.2020

Closing Stock value = 175000

REVENUE RECOGNITION - Revenue can be recognised from sale of goods if & only if :-

i) Risk & Reward incidental to ownership are transferred to buyer (Risk in decline in value Reward is increase in value)

ii) Consideration is measurable & there is certainity of collection

⇒ In respect of consignment ~~sales~~ sales :-
the inventory transferred to consignee (Agent) cannot be considered as a sale till inventory is sold by consignee to third party.

⇒ The physical inventory will not include inventory lying with consignee, hence we should separately add it to physical stock to arrive at total inventory to be disclosed in books.

Eg :- Physical Stock = ₹5L
Goods lying with consignee = ₹2L
Inventory to be disclosed = ₹7L (5+2)

⇒ Similarly if we are acting as an agent for another party such inventories though included in physical stock cannot be disclosed in books

Eg :- Physical Stock = ₹5L
Goods of other party lying with us : ₹2L
Inventory to be disclosed : ₹3L

⇒ Goods sold on approval Basis
→ A reasonable time period is given to other party to approve the sale or return it, if no intimation is received within a reasonable time period it is assumed to be sold
∴ Revenue can be recognised only if approval is received or reasonable time period has lapsed

Stock Taking / Physical Verification
⇒ Under periodic inventory system, closing stock is determined by physically counting it.
→ Under perpetual inventory system inventory can be derived from records however physical verification will still be carried out to check accuracy of records

→ If physical verification cannot be carried out on Balance sheet date adjustments should be made for movement of Inventories / transactions which occur btwn balance sheet date & stock verification date

Eg:- Stock verification was carried out on 10th Apr

Physical inventory on 10.4 ⇒ ₹5L

G.P ratio - 20%.

Purchases b/w 31/3 - 10/4 ⇒ ₹2L

Sales b/w 31/3 - 10/4 ⇒ ₹3.5L

Sol:- COGS = ₹350000 - 20% on 350000 = 350000 - 70000

= 280000

	- 280000 (COGS)	
x	+ 200000 (Purchase)	5L

x - 2.8L + 2L = 5L

x = ₹5,80,000

Do not write in exam

2) Inventory as on 1st Apr 2017 — ₹500000

Purchases b/w 31/3 & 15/4 - ₹50340

Sales - ₹410000

Sales Return 10000

G.P Ratio 20%.

COGS = (410000 - 10000) - (410000 - 10000) × 20%.

= 400000 - 20% of 4L

= 320000

① Inventory as on 31/3 = 500000 + 320000 - 50340

= 769660

∴ Inventory as on 31st March = ₹769660

12)

	- ₹ 3.2L (COGS)	
1	+ 50340 (Purchase)	5L
31/3		15/4

13) Inventory as on 15 April 50000

(+) ~~Sales~~ COGS of net sales b/w 31/3 - 15/4 32000

(+) ~~Purchase~~ Sales 41000

(-) Return 1000

Net Sales 40000 { GP 20% on sales = 8000 ; COGS = 32000

(+) ~~Sale on sale or return~~ .

~~Sales~~ (-) Purchase (5034)

(+) Goods sold on approval basis 4800

(-) Goods received on consignment basis (2400)

Inventory as on 31/3/2018 79366

(iv) Goods sold on Approval basis is 10000

GP ratio is 20% on Sales

~~Net Sales~~ Cost = 8000 (10000 - 20% on 10000)

As on 31/4/18 there is no approval ~~received~~ goods entire 8000 should form part of inventory - 40% of these were returned before 15/4 hence are already forming part of inventory as on 15/4 hence we have to separately add only 60%.

60% x 8000 = 4800

(v) In respect of consignment sales we cannot include inventory lying with us as we are agents as on 15/4 70% of inventory received is already sold. Hence only 30% is forming a part of physical stock as on 15th Apr

This 30% of inventory should not be included ~~in~~

8000 x 30% = 2400

+ Purchase 5034

31/3 — COGS 32000 15/4

+4800 (60% of cost)

- 2400 (30% of inventory of consignee)

iv)

Note :- Sales & Sales Return are being recorded only when inventories are ~~dispatched~~ physically transferred. Accounting matches with movement of inventories

However in respect of purchases accounting is done on date invoice is received. We may not physically receive the goods

- B/w 31/3 & 9/4 purchases accounted are 1200 but inventory received is only 700

Only 700 is ~~the~~ forming part of (₹250000) physical stock as on 9/4

- Requirement is to compute physical stock as on 31.03

Purchases of 1000 made in month of March were received ~~in~~ on 1st April hence it will form part of physical stock on 9th April but should not be included in ~~physi~~ physical stock on 31st March

Closing stock as on 30.4.16	250000
(+) COGS from 31/3/16 - 9/4/16	12900
(-) Purchases received	700
(-) March Purchase received in April	1000
Physical Stock as on 31.3.2016	261200

- If requirement was to compute Book stock as on 31.3.2016 we have to also include purchases which we did not receive (but recorded as on 31.3.2016 Book stock will be ₹ 262200 (261200 + 1000)

iii)

- Free sample 4000
- ~~Return~~ 16000 COGS

31.3.19 + Purchases Rec'd (8000) 30.4.19

125000

+20000 (Purchase not rec'd but recorded)

(v) Tough inventory purchased was ₹10K, inventory sold was only ₹8K which implies only 8000 was included in physical inventory as on 30/4

(vi) Purchases made on 28/3 were not included in stock & they are being added separately

Inventory as on 10. April 2019	115000
(+) COGS from 1st Apr to 9th Apr	16000
(+) Free samples given away from 1st Apr - 9th Apr	4000
(-) Purchases from 1/4 - 9/4 Recd & included in stock	8000
Physical stock as on 31/3/19	137000
(+) Purchases made On 28.3.19 & not included in stock	20000
Inventory as on 31/3/19	157000

18)

31.3.17 ——— 10.4.17 or 167500

- COGS 5156
+ Purchase 8100
+ Sales Return 225

(-) 600 (Reduction in cost of slow moving item)
(-) 300 (NRV is lower)

Inventory as on 10.4.17	167500
(-) COGS from 31/3 - 10/4	5156
(-) Sales Return	225
(-) Purchases	8100
	164331
(-) Reduction in cost of slow moving item	600
(-) NRV is lower / Reduction in cost on A/c of delayed delivery	300
Inventory as on 31.3.17	163431

Mark up price is SP

Sales = ₹6875 • Sales Return = 300

Net sales = 6875 - 300

= 6575

Cost	GP	Sales
100	33·3	133·33
?	⟵	↓ 6575

? = 6575 × 100 / 133·33

= 4931

- Trade Discount is adjusted from purchases hence Net Purchase recorded will be 8100
- Inventories are valued at cost or NRV whichever is lower
  There are 2 items where Nev is lower than cost
  The reduction in such ~~invent~~ items should be provided for

15)

	+ Purchases 400000		
23/6	~~Sales~~ - sales	240000	30/6
48 L		136000	

+ 240000 (Consignment)
~~+ 136000 (approval sales)~~

Sales — 1360000 — GP = 25% on cost

~~128000~~	320000	920000
↓	↓	↓
Value of In. 240000	256000	736000

128000 128000

Inventory as on 23/6/16	48 00 000
(+) Purchases	400000
(-) Sales	976000
(+) Goods sent on consignment, but unsold	240000
Inventory as on 30/6/16	4464000

Goods sold on approval was after 23 June. Which implies it was forming part of inventory as on 23 June
50%. is already returned till 30th June & rest 50%. approval is not yet received Entire 100%. should be included in inventory as on 30th June

- No adjustment will be required as entire 100% is already included in inventory as on 23/6/16
- Obj. is to arrive at book stock even if purchases are not yet received it should be included in closing stock
- Goods sent on consignment though lying with another party should be included in our closing stock

16) 1) Purchases for electrical fittings should be considered as fixed asset it was wrongly ~~not~~ included in purchases
We should now reduce purchases by 1000 which will increase profit by ₹1000

Trading
(-) 1000

(2) B free sample is considered as promotion cost ~~so~~ we should not affect our gross profit. It should have an impact on net profit
To rectify we should reduce it from purchases in Trading A/c & Cr. it to P&L A/c

Cr	40000
To Free samples	40000

No impact on profit (as he already reduced it from Free samples)
(3) Inventory worth ₹250000 was not included in closing stock Hence we should now stock by ₹250000 which will also increase profit by ₹250000

Closing stock
+ 2.5 L

(4) Sales of March were wrongly recorded in April - we will now increase sales of march by ₹2L which will also increase profit by 5%

– Trading
Sales
+2L

(5) Goods were sent on approval basis - Approval was not received till 31st Mar - Hence it should not be considered as sales but should form part of closing stock - It was wrongly considered as sales

cost = 75000

GP = 33⅓% on cost

Sales = 75000 + 33⅓% on 75000

= 100000

Sales
– 100000
Stock
+ 75000

Net impact on profit - Profits will reduce by ₹25000

P&L Adjustment

To free sample	40000	By Net Profit	600000
To Sales	100000	By Electrical fittings	10000
(Reversal of sales on approval)		By free sample	40000
		By Inventory not included	250000
		By Sales not recorded	200000
To Adjusted NP	1026000	By Goods lying with customer	75000
	1166000		1166000

Closing Stock	375000
(+) Inventory not included	250000
(+) Sale on approval recorded as Sale	75000
Value of stock	700000

19) As ownership is transferred at time of delivery, purchases & Sales should be recorded only when inventories are received are received or dispatched.

iii) Total Purchases recorded in book are 70000 Out of which 3K were already received in previous quater. Only 67000 relates to current quater.
Additionally, 4K is received but not included in purchases so total inflow in current quater is ₹67000 + 4000 = ₹71000

iv) Total sales recorded in current quater are ₹90K. This includes ₹1K worth goods delivered in previous quater ~~Additionally 4K~~ Only 85K relates to current quater
Additionally 4K is already dispatched but not included in sales
∴ Total outflow = 85K + 4K = ₹ 89000 worth sales

cost	GP	SP
100	25	125
?		89000

89000 × 100/125 = 71200

— COGS 71200
+ Purchase 71000
+ Sales Return 800

31.12.17
80000
(-) 1000 (wrong posting)
(+) 200 (undercast)

Inventory as on 31.12.17	80000
(+) Purchase	71000
(+) Sales Return	800
(-) sales	71200
(-) Wrong Posting	1000
(+) Undercast	200
Inventory as on 31.3.18	79800