26|7|23

Chapter-4 Inventory Valuation

Date

Inventory for-

(1) Manufacturer - Raw material, Finished goods, Work in progress, Consumables & stores

(2) Trader - Goods

(3) Service provider - Any goods used in providing services. Ex- stationary.

Historical Cost → Calculation

S.No	Particulars	Amount	Amount
(i)	Cost of purchase		
	Purchase price	XXX	XXX
	Add: Duties & Taxes	XXX	
	Freight Inward	XXX	
	Other expenses, directly attribute to acquisition	XXX	
	Less: Trade Discounts	XXX	
	Duty drawbacks / Refund of Duties	XXX	
	Subsidies / grants etc	XXX	XXX
(ii)	Conversion Cost		
	Direct production cost	XXX	
	Add: Production overheads	XXX	XXX
(iii)	Other costs incurred in normal course of business in bringing the inventory in present condition & location	XXX	XXX
	Historical cost of Inventory		XXX

Adjusted Selling price Method :-

step-1: Assume closing stock is sold

step-2: Find G/P & G/P Margin

step-3: ~~Basic~~ Reduce G/P margin from selling price of Inventory to ascertain Cost.

Date

Techniques of Inventory Valuation - jinke substitute hote hai
(for goods that are ordinarily interchangeable)

Historical Cost Method

we assume flow of goods:
- LIFO
- FIFO
- Simple avg price
- Weighted avg price

Non-Historical cost Method
- Adjusted selling price

Important points for reconciliation of stock —

1. Check whether the starting point is value as per physical stock or Book stock?
If nothing is mentioned in question always assume starting point as physical value or stock.

2. Check what is being asked to find? Value of physical stock or Book stock.
If nothing is mentioned assume ~~starting point~~ as book stock.

3. Check whether the ques is for forward Reconciliation or Backward reconciliation?
   - If forward reconciliation - transactions because of which stock will increase shall be added & transactions because of which stock will decrease shall be subtracted.
   - If Backward reconciliation - transactions because of which stock will increase shall be subtracted & transactions because of which stock will decrease shall be added.

4. Inventory to be valued at Cost or NRV whichever is lower.

5. Goods sent on consignment though not available physically with Consignor is shown in balance sheet of ~~[illegible]~~ Consignor.

physically - X
Book Value - ✓

ASP

	Forward	Backward	
Sales	−	+	movement of goods
Sales Return	+	−	
Purchase	+	−	
Purchase Return	−	+	

Date

6. Goods sent on approval basis though not available physically with sender is shown in balance sheet of sender. physically − X
Book Value − ✓

7. Goods received in the capacity of consignee though available physically with consignee but not to be shown in Balance sheet of consignee. Physically − ✓
Book Value − X

8. Goods received in the capacity of Buyer on sale on approval basis though available physically with receiver but not to be shown in Balance sheet of Reciever. physically − ✓
Book Value − X

9. Profit is expressed as: 1/2 of Cost → 1/3 of Sales
1/3 of Cost → 1/4 of Sales
1/4 of Cost → 1/5 of Sales
1/5 of Cost → 1/6 of Sales

10. Gross profit Margin is always calculated as % of sales.

11. Sales & Sales Return includes profit whereas Purchase & Purchase return is always specified at cost. So whenever sales or sales return is given we need to find its cost.

Important Formulas :-

(1) Cost of goods sold = open stock + Purchases + Direct expenses − closing stock
OR
Sales − Gross profit

(2) Gross profit = Selling price − cost of goods sold

(3) Selling price = Cost of goods sold + Gross profit

(4) Cost of goods available for sale = Opening stock + purchases

(5) Stock Turnover Ratio = $\frac{\text{Cost of goods sold}}{\text{Average stock}}$

(6) Average stock = $\frac{\text{opening stock} + \text{closing stock}}{2}$