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INVENTORIES

Inventory can be defined as assets held

- ◆ for sale in the ordinary course of business, or
- ◆ in the process of production for such sale, or
- ◆ for consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares, servicing equipment and standby equipment.

Inventories should be generally valued at the lower of cost or net realizable value

Cost of inventories should comprise

1. all cost of **purchase**,
2. costs of **conversion** (primarily for finished goods and work - in progress) and
3. other costs incurred **in bringing** the inventories to their present location and condition.

Exclusions from cost of inventories: Following expenses are generally not included in the costs of inventories:

- (a) **abnormal** amounts of wasted materials, labour or other production overheads:
- (b) **storage costs**, unless those costs are necessary in the production process prior to further production stage;
- (c) **administrative overheads** that do not contribute to bringing the inventories to their present location and condition;
- (d) **selling and distribution costs**
- (e) **Interest and Finance costs**

Net realizable value: This is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

INVENTORY RECORD SYSTEMS

Periodic inventory system is a method of ascertaining inventory by taking an actual physical count (or measure or weight) of all the inventory items on hand at a particular date on which inventory is valued.

Perpetual inventory system is a system of recording inventory balances after each receipt and issue.

S. No.	Periodic Inventory System	Perpetual Inventory System
1	This system is based on physical verification.	It is based on book records.

2	This system provides information about inventory and cost of goods sold at a particular date.	It provides continuous information about inventory and cost of sales.
3	This system determines inventory and takes cost of goods sold as residual figure.	It directly determines cost of goods sold and computes inventory as balancing figure.
4	Cost of goods sold includes loss of goods as goods not in inventory are assumed to be sold.	Closing inventory includes loss of goods as all unsold goods are assumed to be in Inventory.
5	Under this method, inventory control is not possible.	Inventory control can be exercised under this system.
6	This system is simple and less expensive.	It is costlier method.
7	Periodic system requires closure of business for counting of inventory.	Inventory can be determined without affecting the operations of the business.

FIFO / LIFO / Simple Average / Weighted Average

A manufacturer has the following record of purchases of a condenser, which he uses while manufacturing radio sets:

Date	Quantity (units)	Price per unit
Dec. 4	900	50
Dec. 10	400	55
Dec. 11	300	55
Dec. 19	200	60
Dec. 28	800	47
Total Quantity	2,600	
Date	Quantity (units)	
Dec. 5	500	
Dec. 20	600	
Dec. 29	500	
Total	1,600	

Adjusted selling price method

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) ₹ 15,75,500

Trade discount 3% and GST 11%

Packaging and transportation charges ₹ 87,500

Sales during the year ₹ 22,45,500

Sales price of closing inventories ₹ 2,35,000

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

Determination of cost of purchases:	
Goods received from suppliers	15,75,500
<i>Less: Trade discount 3%</i>	-47,265
	15,28,235
Add: GST 11%	1,68,106
	16,96,341
Add: Packaging and transportation charges	87,500
	17,83,841
Determination of estimated gross profit margin:	
Sales during the year	22,45,500
Closing inventory at the selling price	2,35,000
	24,80,500
<i>Less: Purchases</i>	<i>-17,83,841</i>
	6,96,659
Gross profit margin	28.09%
Inventory valuation: C A D F M Y	
Selling price of closing inventories	2,35,000
<i>Less: Gross profit margin 28.09%</i>	<i>-66,012</i>
	1,68,988

INVENTORIES TAKING

A trader prepared his accounts on 31st March, each year. Due to some unavoidable reasons, no stock taking could be possible till 15th April, 2022 on which date total cost of goods in his godown came to ₹ 50,000. The following facts were established between 31st March and 15th April, 2022.

- (i) Sales ₹ 41,000 (including cash sales ₹ 10,000).
- (ii) Purchases ₹ 5,034 (including cash purchases ₹ 1,990).
- (iii) Sales return ₹ 1,000.
- (iv) On 15th March, goods of the sale value of ₹ 10,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April, approving the rest; the customer was billed on 16th April.
- (v) The trader had also received goods costing ₹ 8,000 in March, for sale on consignment basis. 20% of the goods had been sold by 31st March, and another 50% by the 15th April. These sales are not included in above sales.

Goods are sold by the trader at a profit of 20% on sales.

You are required to ascertain the value of inventory as on 31st March, 2022.

Statement of Valuation of Stock on 31st March, 2022

	₹	₹
Value of stock as on 15th April, 2022		50,000
Add: Cost of sales during the period from 31st March, 2022 to 15 th April, 2022:		
Sales (₹ 41,000-₹ 1,000)	40,000	
Less: Gross profit (20% of ₹ 40,000)	<u>8,000</u>	32,000
Cost of goods sent on approval basis (80% of ₹ 6,000)		<u>4,800</u>
		86,800
Less: Purchases during the period from 31st March, 2022 to 15th April, 2022	5,034	
Unsold stock out of goods received on consignment basis (30% of ₹ 8,000)	2,400	7,434
		<u>79,366</u>

X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, 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 31.3.2022 and 9.4.2022 as per the sales day book are ₹ 17,200. Purchases between 31.3.2022 and 9.4.2022 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, 2022 but goods received only on 4th April, 2022 amounted to ₹ 1,000. Rate of gross profit is 33-1/3% on cost.

Ascertain the value of physical stock as on 31.3.2022.

1. Statement of Valuation of Physical Stock as on 31st March, 2022

		₹
Value of stock as on 9th April, 2022		2,50,000
<i>Add:</i> Cost of sales during the intervening period		
	Sales made between 31.3.2022 and 9.4.2022	17,200
<i>Less:</i>	Gross profit @25% on sales	(4,300) 12,900
		2,62,900
<i>Less:</i>	Purchases actually received during the intervening period:	
	Purchases from 1.4.2022 to 9.4.2022	1,200
<i>Less:</i>	Goods not received upto 9.4.2022	(500) 700
		2,62,200
<i>Less:</i>	Purchases during March, 2022 received on 4.4.2022	1,000
Value of physical stock as on 31.3.2022		2,61,200

- (c) Sky Ltd. keeps no stock records but a physical inventory of stock is made at the end of each quarter and the valuation is taken at cost. The company's year ends on 31st March, 2018 and their accounts have been prepared to that date. The stock valuation taken on 31st March, 2018 was however, misleading and you have been advised to value the closing stocks as on 31st March, 2018 with the stock figure as on 31st December, 2017 and some other information is available to you:
- (i) The cost of stock on 31st December, 2017 as shown by the inventory sheet was Rs. 80,000.
 - (ii) On 31st December, stock sheet showed the following discrepancies:
 - (a) A page total of Rs. 5,000 had been carried to summary sheet as Rs. 6,000.
 - (b) The total of a page had been undercast by Rs. 200.
 - (iii) Invoice of purchases entered in the Purchase Book during the quarter from January to March, 2018 totalled Rs. 70,000. Out of this Rs. 3,000 related to goods received prior to 31st December, 2017. Invoices entered in April 2018 relating to goods received in March, 2018 totalled Rs. 4,000.
 - (iv) Sales invoiced to customers totalled Rs. 90,000 from January to March, 2018. Of this Rs. 5,000 related to goods dispatched before 31st December, 2017. Goods dispatched to customers before 31st March, 2018 but invoiced in April, 2018 totalled Rs. 4,000.
 - (v) During the final quarter, credit notes at invoiced value of Rs. 1,000 had been issued to customers in respect of goods returned during that period. The gross margin earned by the company is 25% of cost.

You are required to prepare a statement showing the amount of stock at cost as on 31st March, 2018. **(12 + 4+4 = 20 Marks)**

A C A D E M Y

- (a) Physical verification of stock in a business was done on 14th June, 2020. The value of the stock was ₹96,00,000. The following transactions took place between 14th June to 30th June, 2020:
- (i) Out of the goods sent on consignment, goods at cost worth ₹ 4,80,000 were unsold.
 - (ii) Purchases of ₹ 8,00,000 were made out of which goods worth ₹ 3,20,000 were delivered on 5th July, 2020.
 - (iii) Sales were ₹27,20,000, which include goods worth ₹ 6,40,000 sent on approval. Half of these goods were returned before 30th June, 2020, but no information is available regarding the remaining goods.
 - (iv) Goods are sold at cost plus 25%. However goods costing ₹ 4,80,000 had been sold for ₹ 2,40,000.

You are required to determine the value of stock on 30th June, 2020.



Statement of Valuation of Stock on 30th June, 2020

		₹
Value of stock as on 14 th June, 2020		96,00,000
<i>Add:</i> Unsold stock out of the goods sent on consignment	4,80,000	
Purchases during the period from 14 th June, 2020 to 30 th June, 2020	4,80,000	
Goods in transit on 30 th June, 2020	3,20,000	
Cost of goods sent on approval basis (80% of ₹ 3,20,000)	<u>2,56,000</u>	<u>15,36,000</u>
		1,11,36,000
<i>Less:</i> Cost of sales during the period from 14 th June, 2020 to 30 th June, 2020		
Sales (₹ 27,20,000-₹ 3,20,000)	24,00,000	
<i>Less:</i> Gross profit	<u>1,92,000</u>	
		<u>22,08,000</u>
Value of stock as on 30 th June, 2020		<u>89,28,000</u>

Working Notes:

1.	Calculation of normal sales:	₹	₹
	Actual sales		27,20,000
	Less: Abnormal sales	2,40,000	
	Return of goods sent on approval	<u>3,20,000</u>	<u>5,60,000</u>
			<u>21,60,000</u>
2.	Calculation of gross profit:		
	Gross profit or normal sales		4,32,000
	20/100 x ₹ 21,60,000		
	Less: Loss on sale of particular (abnormal) goods		2,40,000
	(4,80,000 less 2,40,000)		
	Gross profit		<u>1,92,000</u>

