Inventory Valuation

INVENTORY VALUATION [AS-2]

Inventory
↓
Stock of ___? [Depends on Business]

→ Trading Business
↓
Stock-in-Trade
[Finished Goods]

→ Manufacturing Business
↓
Raw Material
Finished Goods
Work-in-Progress
Loose tools
Stores & spares

→ Inventory means Assets :

a] held for Sale (Fin. Goods), in the ordinary course of business,
b] held in the process of production (WIP) for such sale,
c] held in the form of Raw Material for consumption,
including Stores & spares and loose tools.

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For understanding:

Trading A/c

↓

Gross profit

→ Selling Price − Cost of Goods Sold

↓

Raw Material ← Cost which is directly associated with the product.
Labour cost
Freight / Carriage inward

Factory cost

Ex-

Potato 1000kg - ₹20,000
+ freight inward - ₹500
+ Flavours - ₹1000
+ Mfg. exp - ₹5000
+ Packing Mat - ₹500
1000 Packets - ₹27000

↓

800 Packets @50 - ₹40,000

Gross Profit - ~~₹13000~~

P&L A/c

↓

Net profit

To keep the business running.

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Trading A/c

Dr			Cr.	
	Opening Stock	xxx		
1000 Packets	Potato 1000Kg -	₹20,000	By Sale [800 Packets]	40,000
	freight inward -	₹500		
	Flavours	₹1000	By closing Stock	5400
-200 Packet	Mfg. exp	₹5000		
	Packing Mat -	₹500	[27000/1000 x 200]	
	To Gross profit	18400		
		45400		45400

Inventory Valuation

→ Significance of Inventory Valuation:

1. Determination of Profit/Loss:

If,
- Closing Stock is overstated – Profit will be overstated
- Opening Stock is overstated – Profit will be understated
- Closing Stock is understated – Profit will be understated
- Op Stock is understated – Profit will be overstated

2. Ascertainment of financial position [Balance Sheet]

- Inventory is a current Asset. In case Inventory is not properly valued, the Balance Sheet will not disclose true & fair financial position.

3. Statutory Compliance:

→ Companies are required to disclose valuation of Inventories, as per Co. Act, 2013

4 Liquidity Analysis:

Liquidity Ratios — Current Ratio — Current Asset / Current Liab.
Quick Ratio

→ **Basis of Inventory Valuation:**

As per Prudence concept → Valued at Lower of Cost or NRV.

NRV → Net Realizable value

Ex- 1. 200 packet of Namkeen

Cost - 5400
NRV - 4000
} Anticipated Loss

↓

Cl. Stock 4000

Ex-2 200 packets of Namkeen

Cost - ₹5400
NRV - ₹9000
} Anticipated Profit X

↓

Cl. stock - ₹5400

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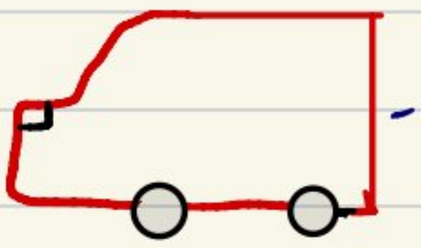
→ Meaning of Cost

Agent - Buying commission
Ashna - ₹1000

1kg cotton @ ₹20
1000 kg cotton - 20,000
(-) Trade discount (2000)
Purchase A/c ← 18000
← + GST @ 12-1. 2160 .. Refundable Tax
20160

Not a cost. its an Asset.

Transport Agency
Koral



₹1000
Freight Inward

Toll Tax [Non Refundable]
- ₹500

1. Cost of Purchase - 1000
+ 18000
+ 1000
+ 500
+ 500
Cost of 1000 kgs. 21.000

2. Cost of Conversion - Manuf. cost

↓

Factory cost

Labour cost - Wages

Machine - Dep.

Rent, power.

3 Other cost

↳ Designing cost

.....

Methods to Determine Cost of Inventory

- **Historical cost Method**
  - **SIM** → Specific Identification Method.
  - **FIFO** — First in First out
  - Simple Average Method
  - **LIFO** — Last in first out
  - Weighted Average Method.
- **Non-Historical Cost Method**
  - Adjusted Selling Price
  - Standard cost

1. Specific Identification Method

HM Limited.

	Machine #1	Machine #2	Machine #3
	2 crore	5 crore	10 crore
	2 qty	3 qty	1 qty

Cl. stock - 4 crores
15 cr.
10 cr
29 crores

→ This method is generally used where items are not interchangeable & are expensive.

ILLUSTRATION 1

SIM

Surekha Ltd deals in 3 products P, Q & R, which are neither similar nor interchangeable. At the end of a financial year, the Historical Cost and NRV of items of Closing Stock are given below. Determine the value of Closing Stock.

Items	***Historical Cost (in ₹ Lakhs)***	***Net Realisable Value (in ` Lakhs)***
P	*38*	*42*
Q	*29*	*29*
R	*17*	*14*

Ans-

Items	Historical cost (₹ in Lakhs)	NRV (₹ Lakhs)	Cl. Stock (₹ Lakhs)
P	38	42	38
Q	29	29	29
R	17	14	14
			81

→ Cl. stock is valued at lower of cost & NRV, whichever is Lower.
→ Inventory to be written down to NRV on item by item basis.

2. FIFO - First in First out

Ex-

Date	Qty		Pu	₹
2/1/24	100	-	100	10,000
10/1/24	50		120	6000
15/1/24	20		110	2200
	170			

Sold 130 units on 18/1/24

Closing stock - 40 units - 18/1/24

20 x 120 | 20 x 110

₹4600

ILLUSTRATION 2

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
	2,600	

1,600 units were issued during the month of December till 18th December. Calculate the value of closing inventory.

Q. Inv - 200 unit @60 = 12000
800 unit @47 = 37600
49600

ILLUSTRATION 11

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

1-1-2022	*Opening Inventory*	*Nil*
1-1-2022	*Purchases*	*100 units @ ₹ 30 per unit*
15-1-2022	*Issued for consumption*	*50 units*
1-2-2022	*Purchases*	*200 units @ ₹ 40 per unit*
15-2-2022	*Issued for consumption*	*100 units*
20-2-2022	*Issued for consumption*	*100 units*

Find out the value of Inventory as on 31-3-2022 if the company follows First in first out basis.

Date	Receipts			Issued			Cl. Stock		
	Units	Rate	Amt	Units	Rate	Amt	Units	Rate	Amt
1.1.2022	Bal.						xxx	xxx	xxx
1.1.2022	100	30	3000				100	30	3000
15.1.2022				50	30	1500	50	30	1500
1.2.2022	200	40	8000				50	30	1500
							200	40	8000
15.2.2022				50	30	1500			
				50	40	2000	150	40	6000
20.2.2022				100	40	4000	50	40	2000

Value of Inv. as on 31.3.2022 is ₹2000 [50 units @ ₹40]

3. LIFO - Last-in-first-out

→ As per this method, goods which are purchased most recently are sold / issued first & therefore, closing stock consist of goods which were purchased earlier.

→ Accounting Standards does not permit the usage of LIFO Method.

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*
	2,600	

Record of issues

Date	***Quantity (units)***
Dec. 5	*500*
Dec. 20	*600*
Dec. 29	*500*
Total	*1,600*

Valuation of Inventory

Date	Receipts			Issued			Cl. Stock		
	Units	Rate	₹	Units	Rate	₹	Units	Rate	₹
Dec 4	900	50	45000				900	50	45000
Dec 5				500	50	25000	400	50	20,000
Dec 10	400	55	22000				400	50	20,000
							400	55	22000
Dec 11	300	55	16500				400	50	20,000
							400	55	22000
							300	55	16500
Dec 19	200	60	12000				400 - 400	50	20,000
							300 - 400	55	22000
							× 300	55	16500
							× 200	60	12000
Dec 20				200	60	12000			
				300	55	16500			
				100	55	5500	400	50	20,000
							300	55	16500
Dec 28	800	47	37600				✓ 400	50	20,000
							✓ 300	55	16500
							500 ✓ 800	47	37600
							L 300		
Dec 29				500	47	23500	400	50	20,000
							300	55	16500
							300	47	14100

→ Value of Cl. Inventory of 1000 units is ₹50600

4. Simple Average Method

Ex- 1/12/23 — 100 units @ 25
15/12/23 — 500 units @ 30
26/12/23 — 200 units @ 20
800

600 units Sold

→ Average price - $\left[\frac{25+30+20}{3}\right]$, ₹25

Closing Stock - 200 units @25
... ₹5000

ILLUSTRATION 4

In the same example of a manufacturer of radio sets given earlier, let us calculate the value of closing inventory using Average Price Method:

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*
	2,600	

$\frac{267}{5} = 53.4$

1000 × 53.4 = 53400

1600 units were issued during the month of Dec.

Average price - $\left[\frac{50+55+55+60+47}{5}\right]$

= 53.4

Value of closing Inv. of 1000 units = 1000 @ 53.4

= ₹53400

5. Weighted Average Price Method

→ The problem with Simple Average price Method is that it does not consider quantities purchased.

* Weighted Average Price Method

Units	Price	₹ - Total cost
100	20	2000
200	30	6000
400	10	4000
700		12000

Weighted Avg. price - $\frac{12000}{700}$ = ₹17.14

Cl. stock - 200 units @ ₹17.14

= ₹3428

→ Weighted Avg price = $\frac{\text{Total cost of goods available for Sale}}{\text{Total no. of units}}$

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11.5

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*
	2,600	

Record of issues

Date	***Quantity (units)***
Dec. 5	*500*
Dec. 20	*600*
Dec. 29	*500*
Total	*1,600*

Date	Receipts			Issued			Cl. Stock		
	Units	Rate	₹	Units	Rate	₹	Units	Rate	₹
Dec4	900	50	45000				900	50	45000
Dec5				500	50	25000	400	50	20,000
Dec10	400	55	22000				800	52.5	42000
Dec11	300	55	16500.				1100	53.18	58500
Dec19	200	60	12000				1300	54.23	70500
Dec20				600	54.23	32538	700	54.23	37962
Dec28	800	47	37600				1500	50.37	75562
Dec29				500	50.37	25185	1000	50.37	50377

Value of 1000 units = ₹50377

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→ Adjusted Selling Price Method

↳ Retail Inventory Method

Example:

Op Stock -	₹100,000	
Purchases -	₹300,000	400,000
Direct exp -	₹50,000	
Cost of goods available for Sale →	₹450,000	< 200,000 / 600,000

GP = 150,000

Sales - ₹400,000 - Selling

Closing Stock - ₹200,000 - Sale price → 50,000

SP - Profit

Cost ?

1. = 150,000 / 600,000 × 100

= 25 1.

1. Total cost of goods - ₹450,000

↓

Total Selling price of goods - ₹600,000

Profit - ₹150,000

Gross Margin (G.M.) on Sales $= \frac{\text{Profit}}{\text{SP}} = \frac{150,000}{600,000} \times 100$

$= \boxed{25\%}$

$$\text{Cost} = \text{SP} - \text{Profit}$$

Closing Stock (cost) = Cl. Stock (SP) - Profit

$= 200,000 - \frac{25}{100} \times 200,000$

$= ₹150,000$

→ This method is appropriate where there are large no. of items & it is impractical to use any Historical cost method.

Step-1 Calculate cost of Goods available for Sale
- Op Stock
+ Purchases
+ Direct exp.

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Step 2: Calculate Total sale value of goods available

Sales during the year
+ Closing stock [selling price]

Step 3: Calculate Gross Margin [G.M.] on sales.

Total Sale value [Step 2]	
(-) Total cost of goods [Step 1]	
Gross Margin	XXX

> Gross Margin [%] on Sales = $\frac{\text{Gross Margin}}{\text{Total Sale value [Step 2]}} \times 100$

Step 4: Closing Stock [cost]

Closing Stock [Selling price]	
(-) Gross Margin	
[Cl. stock (Sell. Price) x Gross Margin %]	

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ILLUSTRATION 7

From the following information, calculate the non historical cost of closing inventories using adjusted selling price method:

	₹
Sales during the year	*2,00,000*
Cost of purchases	*2,00,000*
Opening inventory	*Nil*
Closing inventory at selling price	*50,000*

1. Selling price of goods available = 250,000
2. Cost of goods av. for sale = 200,000

Gross Margin 50,000

% on Sales = $\frac{50,000}{250,000} \times 100$

= 20%

Cost of Cl Inv = $50,000 - \frac{20}{100} \times 50,000$

= ₹40,000

ILLUSTRATION 6

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% – Non-Refundable		
Packaging and transportation charges – Direct cost	₹	*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.

		₹
1. Selling price of goods available for Sale [Sales - ₹2245500; Cl. st. (SP) - ₹235000]		2480500
2. Cost of goods av. for Sale		
Goods rec. from Suppliers	1575500	
(–) Trade disc.	(47265)	
	1528235	
Add: GST @11%	168106	
	1696341	
Add: Packaging & transp	87500	(1783841)
		696659
Gross Marg. %		696659 × 100 / 2480500
		= 28.09%

Closing stock (cost) = 235000 − (28.09/100) × 235000 (SP, Profit)

= 168989

Example - Op stock - ₹100.000
Purchases - ₹400.000
Direct exp - ₹50.000
Sales during the year - ₹500.000 → Selling Price
Gross Margin 20%

CoGS = 400.000

→ Cost of Goods available for Sale :

Op Stock -	100,000
Purchases -	₹400.000
Direct exp -	50.000
	5.50.000

Less: Cost of Goods Sold

Sales -	500.000
(-) Gross Profit -	(100.000)
	400.000

Closing Stock 150.000

Ex-2

Op stock - ₹100.000
Purchases - ₹400.000
Direct exp - ₹50.000
Sales during the year - ₹500.000 → Selling Price
Gross Margin 20%

Costing ₹20.000, Sold for ₹40.000 → Abnormal Transaction.

1.	Cost of goods av. for sale		
	Op stock	100.000	
	Purch	400.000	
	Direct exp	50.000	550.000
(-)	Cost of Goods sold [WN]		(388000)
	Cl. stock		162000

WN	Sales during the year		500.000
(-)	Gross Profit		
	Normal Sales - 460.000 x 20%	= 92000	
	Abnormal Sales - 40.000 - 20.000	= 20.000	(112000)
			388000

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Imp

ILLUSTRATION 8

From the following particulars ascertain the value of Inventories as on 31st March, 2022:

	₹
Inventory as on 1.4.2021	*1,42,500*
Purchases	*7,62,500*
Manufacturing Expenses	*1,50,000*
Selling Expenses	*60,500*
Administrative Expenses	*30,000*
Financial Charges	*21,500*
Sales	*12,45,000*

At the time of valuing inventory as on 31st March, 2021, a sum of ₹ 17,500 was written off on a particular item, which was originally purchased for ₹ 50,000 and was sold during the year for ₹ 45,000. Barring the transaction relating to this item, the gross profit earned during the year was 20 % on sales.

	Cost of goods av. for Sale (WN1)	1055000
(-)	Cost of Goods Sold (WN2)	(992500)
	Cl. Stock	62500

WN1 Cost of goods av. for Sale

op stock	142500
+ Purch.	762500
+ Mfg. exp	150,000
	1055000

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WN2 Cost of Goods Sold

Sales -	1245000
(-) Gross Profit	
[Normal sales - 1200,000 x 20% = 240.000	
AB Sales - 45000 - 32500 = 12500]	(252500)
	992500

INVENTORY TAKING → Physicol Counting of Stock.

Before the end of Accounting Year

25th March - ₹100.000 - Physical count
+ Purchases - ₹30.000 - Invoice
[26th Mar - 31st Mar]

Invoice
Sales - 50.000 ✓
GP (10.000) (40.000) - COGS

Stock as on 31st Mar ₹90.000

Stock Taking	xxx
+ Purchases	xxx
- COGS	(xxx)
Stock as on 31/3	xxx

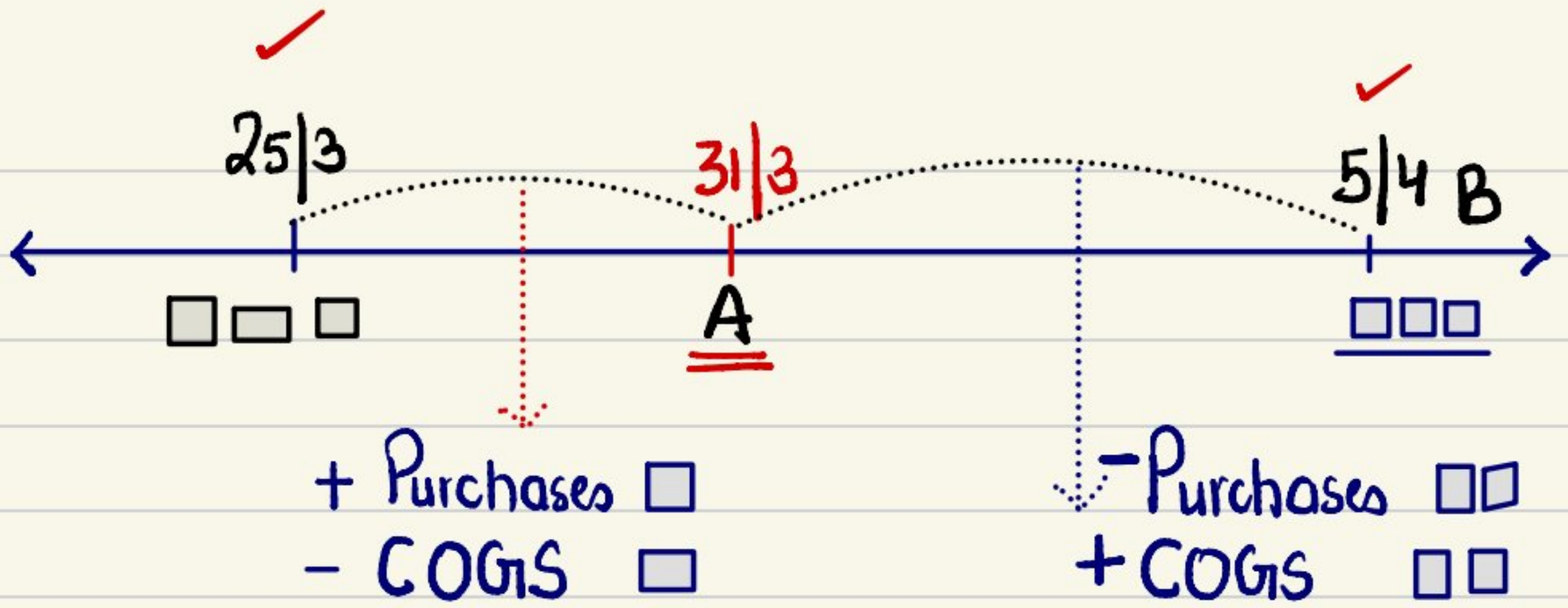
After the end of Accounting year

5th April - ₹120.000
Purchases - (₹25000)
[1st Apr - 5th Apr]

Sales - 40.000
GP (10.000) + 30.000

Stock as on 31st Mar 125000

Stock Taking	xxx
Less: Purchases	(xxx)
Add: COGS	xxx
Stock as on 31/3	xxx



Stock as on A - xxx
+ Purchases xxx
- COGS (xxx)
Stock as on B xxx

Example: Physical Stock as on 10th Apr. 2023 - ₹1,40,000
Foll. info is available which relates to period b/w 1st Apr & 10th Apr. 2023:

a] Purchases - ₹50,000 [Incl. cash purch. ₹15000]
b] Sales - ₹80,000
Sales Ret - ₹10,000 } 70,000

Goods are sold at a profit Margin of 20%.

→ Calculate value of Stock as on 31st Mar 2023.

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Ans:

	Physical Stock as on 10th Apr	140,000
Less:	Purch. from 1st Apr - 10th	(50,000)
Add:	Cost of Goods Sold	56000
	[Net Sales (80,000-10,000) · 70,000	
	(-) Gross profit (14000)]	
	Stock as on 31st Mar 23	
		146000

Trading A/c | Bal Sheet

– Diff b/w 'value of Stock' (B.V of stock) & 'value of physical stock'.

Stock Taking → 25th March - ₹250,000

Purchases - ₹100,000 → [out of total purchase, ₹10,000 not yet received]

[Invoice]

31st Mar

31st March - Value of Stock → ₹350,000

Stock
└ Ownership

Value of Physical Stock
↳ ₹340,000

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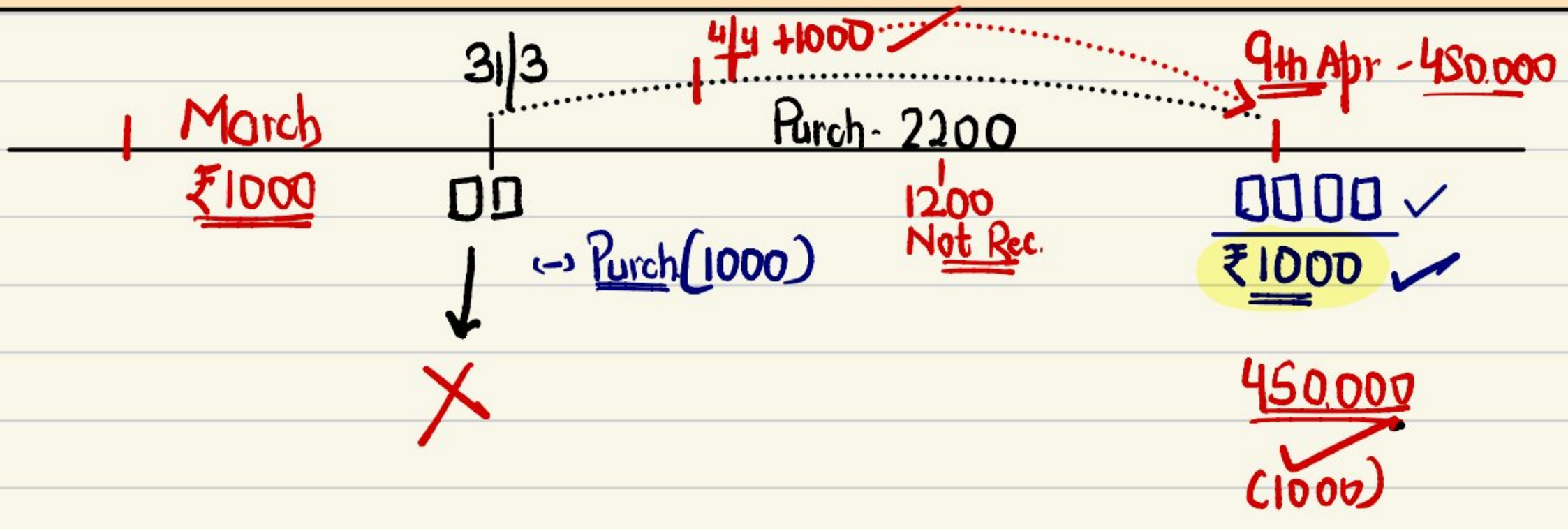
X who was closing his books on 31.3.2022 failed to take the actual stock which he did only on 9th April, 2022, when it was ascertained by him to be worth Rs. 4,50,000.

It was found that sales between 31.3.2022 and 9.4.2022 as per the sales day book are Rs. 25,000. Purchases between 31.3.2022 and 9.4.2022 as per purchases day book are Rs. 2,200, out of these goods amounting to Rs. 1,200 were not received until after the stock was taken.

Goods purchased during the month of March, 2022 but goods received only on 4th April, 2022 amounted to Rs. 1,000. Rate of gross profit is 25% on sales.

Ascertain the value of stock as on 31.3.2022.



	Value of physical Stock as on 9th Apr	450000
Add:	Cost of goods sold [Sales - 25000, ↳ GP (6250)]	18750
Less:	Purchases	
	→ Purch. from 1/4 to 9/4 - 2200	
	(-) Goods not Rec. (1200)	(1000)
	Value of stock as on 31.3.22	467750

PQ-1

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.

Purchase

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.

1/3 on cost

Ascertain the value of physical stock as on 31.3.2022.

31/3/22 — 4/4 — 9/4/2022

250,000

Sales

X

700

	Physical Stock as on 9th Apr	250,000
Add:	Cost of Goods Sold (Sales - 17200, (-) GP (1/4 on sales) 4300)	12900
Less:	Purch as per purch. Book - 1200 (-) Goods not rec. (500)	(700)
Less:	Goods purch in March but not rec. till 31/3	(1000)
		261200

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→ Goods Sent On Approval

Inventory taking for the year ended 31st March, 2023 was taken on 25th March, 2023, the valuation of which showed an inventory figure of Rs. 9,50,000. The following facts were established between 25th March to 31st March, 2023.

a. Sales were Rs. 8,00,000 which includes goods worth Rs. 2,40,000 sent on approval, no acceptance received till 31st March.

Cost - 180.000

b. Goods are sold at a margin of 25%.

c. Purchases were Rs. 3,00,000.

Determine the value Of stock on 31st March, 2023.

1. Value of physical stock - 25/3		950,000
Add: Purchases from 26/3 to 31/3		300,000
Less: Cost of Goods Sold		
Sales	800.000	
Less: Goods sent on app basis	(240,000)	
	560,000	
Less: Gross Profit	(140,000)	(420,000)
		830,000

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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 Rs. 50,000. The following facts were established between 31st March and 15th April, 2022.

(i) Sales Rs. 32,000 (including cash sales Rs. 7,000). 1/4 - 15/4

(ii) Purchases Rs. 5,000 (including cash purchases Rs. 1,900).

(iii) Sales return Rs. 2,000.

(iv) On 15th March, goods of the sale value of Rs. 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.

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.

31st Mar

10th Apr

40%

15th Apr

Ignore

40% of goods

Add: ✓

60% of goods X

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	Value of physical stock as on 15th Apr		50000
Less:	Purch. from 1st Apr to 15th Apr		(5000)
Add:	Cost of Goods Sold		
	Net Sales. (32000-2000)	30,000	
	(-) GP (30,000 x 20%)	6000	24000
Add:	Cost of goods Sent on App Basis		
	Value of Sales. 10,000 x 60%	6000	
	(-) GP	(1200)	4800
			73800

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Goods Sent | Received On Consignment

Delhi

Goods · ₹100,000
Sent on consignment

Comm. on Sales

Consignee

Mumbai

Shop

↓

31/3

Stock · 20,000

↓

Ownership with Tara

Ex-1 Inventory Taking on 25th Mar, 23 · ₹100,000

Case-a] Out of the goods sent on consignment, goods costing ₹10,000 are with consignee.

Stock as on 31st Mar, 24- 100,000
+ 10,000 1,10,000

Case-b] During 25th Mar - 31st Mar, 23,
Cost of Goods Sent on Consignment - ₹80,000
40% of the goods are unsold.

32000

Stock as on 25th March - 100,000
Less: COGS [80,000 x 60%] (48000)
Value of Stock as on 31/3/23 52000

31/3

32000 ✓
48000 X

(48000)

25/3

100,000
32000 ✓
48000 ✓

Ex-2 Inventory taking on 10th Apr. 2023 - Stock of Consignee ₹120,000

→ Goods Received on Consignment during March - 25000,
40% of the goods sold till 31st Mar,
another 20% by 10th Apr & remaining are unsold.
↳ 40%.

Stock as on 10th Apr -	120,000
Less: Unsold goods, received on Consignment (25000 x 40%)	(10,000)
Value of Stock as on 31st Mar	1,10,000

31|3

X
X
X

10|4
120,000
40% of Goods X
20% of Goods X
10,000 — 40% of Goods ✓

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ILLUSTRATION 9

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.

40,000 - 8000 = 32000

Consignee

31st Mar
X

50,000
(2400)

15th Apr ✓
20% of goods X
50% of goods X
2400 - 30% of goods ✓
9

40% on Apr ✓
60% of goods X

Add: -6000 - 1200 = 4800

50,000
(5034)
+ 32000
+ 4800
= 12400

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4. *Physical verification of stock in a business was done on 23rd June, 2022. The value of the stock was ₹ 48,00,000. The following transactions took place between 23rd June to 30th June, 2022:*

(i) *Out of the goods sent on consignment, goods at cost worth ₹ 2,40,000 were unsold.*

(ii) *Purchases of ₹ 4,00,000 were made out of which goods worth ₹ 1,60,000 were delivered on 5th July, 2022.*

(iii) *Sales were ₹ 13,60,000, which include goods worth ₹ 3,20,000 sent on approval. Half of these goods were returned before 30th June, 2022.*

(iv) *Goods are sold at cost plus 25%. However, goods costing ₹ 2,40,000 had been sold for ₹ 1,20,000.*

Determine the value of stock on 30th June, 2022.

	Amount (₹)
Value of Stock as on 23rd June	4800,000
Add: Goods sent on consignment, unsold	240,000
Add: Purch. from 23/6 - 30/6	400,000
Less: Cost of Goods Sold	
Total Sales -	1360,000
↳ Goods Sent on App	(320,000)
	1040,000
Less: Gross profit	
Normal Sales - 920,000 x 1/5 = 184000	
Ab. Sales - [120,000 - 240,000] [120,000] (64000)	976000

2nd Easy

ILLUSTRATION 10

1/3 on cost = 1/4 on Sales

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

81000

NRV

		Amount [₹]
	Value of Stock as on 10th Apr	1675000
Add:	Cost of Goods Sold	
	Net Sales (68750 - 3000) 65750	
	(-) Gross profit (16438)	49312
Less:	Purch. (90,000 - 10%)	(81000)
Less:	Dec in the value of old slow Moving items (11250 - 5250)	(6000)
Less:	Dec in value of goods (15500 - 12500)	(3000)

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PQ-3

+250,000 +75000 = 700,000

The Profit and loss account of Hanuman showed a net profit of ₹ 6,00,000, after considering the closing stock of ₹ 3,75,000 on 31st March, 2022. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 15,000 paid for new electric fittings for the shop.

(ii) Hanuman gave away goods valued at ₹ 40,000 as free samples for which no entry was made in the books of accounts. → No effect on profit

(iii) Invoices for goods amounting to ₹ 2,50,000 have been entered on 27th March, 2022, but the goods were not included in stock.

(iv) In March, 2022 goods of ₹ 2,00,000 sold and delivered were taken in the sales for April, 2022. – Debtor To P&L Adj

75000 + 25000 = 100,000

(v) Goods costing ₹ 75,000 were sent on sale or return in March, 2022 at a margin of profit of 33-1/3% on cost. Though approval was given in April, 2022 these were taken as sales for March, 2022. 1/4 on Sales – Sales (SP) To Debtor

Calculate the value of stock on 31st March, 2022 and the adjusted net profit for the year ended on that date.

P&L Adj. A/c

Dr. Particulars	₹	Cr. Part	₹
		by bal b/d	600,000
To Sales Reversal	100,000	by elec. fittings	15000
To Adj profit	1040,000	by stock [not incl.]	250,000
		by Debtor (Sales)	200,000
		by Stock (goods sent on App)	75000

Rough

1. Elec fitting Dr
   To P&L Adj A/c

2. P&L Adj Dr
   To P&L Adj

3. Stock Dr
   To P&L Adj A/c

4. St
   To P&L

Chapter over :)

CA Hardik Manchanda