INVENTORY VALUATION

Inventory is classified as tangible current assets. Technically speaking inventories are those

A] Held for sale in the ordinary course of business (finished goods)

B] In the process of production for such sale (work in progress)

C] In the form of materials or supplies to be consumed in the production process or in the rendering services (raw materials)

But does not include machinery spares.

In case of manufacturer, inventory includes all the above whereas in case of traders inventory normally means the finished goods.

According to principle of prudence or conservatism concept, inventories normally valued at cost price or market price whichever is less.

Method of valuation of inventories:

FIFO (First in first out) method

LIFO (Last in First Out) method

Simple average method (SAM)

Weighted average method (WAM)

Accounting standard 2:

Inventories covered under Accounting standard 2 which specifies the methods of computation of cost of inventories and the methods in which inventories should be shown in the financial statement.

According to AS 2, inventory cost means and includes

A] Cost of purchase

B] Cost of conversion and

C]Other cost incurred in bringing the inventories to their present location and condition.

AS 2 says inventories should be valued at cost price or net realisable value whichever is less and method permitted by AS 2 is FIFO or WAM.

Inventory record system:

Periodic inventory system (Physical verification)

Perpetual inventory system (based on book records)

MULTIPLE CHOICE QUESTIONS

Q1] a minimum quantity of stock always held as precaution against out of stock situation is called

A] Zero stock B] Risk stock C] Base stock D] None

Q2] Closing stock is valued at

A] Cost price B] cost price or Market price whichever is lower

C] Market price D] cost price or Market price whichever is higher

Q3] Inventory covered under

A] AS 1 B] AS 3 C] AS 5 D] AS 2

Q4] A businessman purchased goods for Rs.25 lakh and sold 70% of such goods during the year ended 31st March 2014. The market value of remaining goods was Rs.5 lakh. He valued the closing stock at market rather than book value. What is the book value of stock and the principle followed here is

A] 750000/- and money measurement B] 700000 and Cost concept

C] 750000/- conservatism or prudence D] 700000 and periodicity

Q5] which method of inventory valuation is permitted by AS 2

A] FIFO B] Simple average C] LIFO D] HIFO

Q6] an overvaluation of current year's opening inventory will

A] Current year's income overstated B] current year's income understated

C] Previous year's income understated D] Have no effect

Q7] Closing stock +? – Purchase = opening stock

A] sales B] Cost of goods sold C] Gross profit D] Loss of stock

Q8] the principle of cost price or market price whichever is lower is not applicable in case of

A] Plantation products B] work in progress C] Raw material D] stores

Q9] According to AS 2, inventory covers

A] WIP arising under construction contract B] Investment held as stock

C] Goods purchased and held for resale D] Inventories of livestock

Q10] If the profit is 25% of the cost price then it is

A] 25% of the sale price B] 33% of the sale price

C] 20% of the sales price D] 15% of the sales price

Q11] Consider the following data pertaining to a company for the month of March 2010 Opening stock Rs.22000/- closing stock Rs.25000/- and purchases less return Rs.110000/- Gross profit margin on sales 20%. The sales of the company during the month are

A] Rs.141250 B] Rs.135600 C] Rs.133750 D] Rs.128400

Q12] If gross profit is Rs.100000/- and Gross profit ratio is 25%. Find the value of sales

A] Rs.100000 B] Rs.200000 C] Rs.500000 D] Rs.400000

Q13] opening stock Rs.40000 closing stock Rs.50000 purchase Rs.550000, return outward Rs.5000 return inward Rs.20000 and carriage inward rs.5000. If gross profit is 20% on sales, the gross sales be

Rs.695000 B] Rs.675000 C] Rs.540000 D] Rs.668750

Q14] According to AS 2 cost of inventories should comprise

A] All costs of purchase B] All cost of purchase and selling expenses

C] All cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition

D] All cost of purchase and freight outward

Q15] the following are the details supplied by Agni limited in respect of its raw material for the month of December 2009.

Date	Receipt	Rate per unit	Units issued
01/12/2009	2000(opening)	5	
07/12/2009	1000	6	
10/12/2009			2500
15/12/2009	2000	6.5	
31/12/2009			2200

On 31/12/2009 a shortage of 100 units was found

Q15] Find the value of closing stock using LIFO principle

A] Rs.1900 B] Rs.2400 C] Rs.2000 D] Rs.1000

Q16] using the data, the value of issues in the month of December 2009 using LIFO principle is

A] Rs.35000 B] Rs.27500 C] Rs.20000 D] Rs65000

Q17] Using the date given in problem the value of closing stock using FIFO principle

A] Rs.1600 B] Rs.1500 C] Rs.1300 D] Rs.2000

Q18] the value of closing stock on weighted average cost basis is

Opening stock 50 units @ Rs.30 per unit, purchases 200 units @ rs.40 per unit issued for consumption 100 units

A] Rs.5700 B] Rs.3000 C] Rs. 4000 D] Rs.3500

Q19] State with reference to AS 2 how will you value the inventories in the following case

Item	Historical cost	NRV	Item	Historical cost	NRV
A	20000	30000	B	12000	10000
C	12000	18000	D	32000	26000
E	28000	26000	F	15000	16000

What will be the value of closing stock?

A] 120000 B] 125000 C] Rs.109000 D] None

Q20] which of the following is not classified as inventory in the financial statement

A] Finished goods B] Work in progress

C] Stores and spares D] none of the above

Q21] Sales for the year ended 31st March 2013 amounted to Rs.10 lakh. Sales included good sold to Mr. Ravi for Rs.50000/- at a profit of 20% on cost. Such goods are still lying in the go-down at the buyer's risk. Therefore, such goods should be treated as part of

A] Sales B] Closing stock C] Goods in transit D] sales return

Q22] If sales is Rs.200000/- and the rate of gross profit on cost of goods sold is 25% then the cost of goods sold will be

A] Rs.200000 B] Rs.150000 C] Rs.160000 D] none

Q23] Rent paid on 1st October 2010 for the year to September 2011 was Rs.12000/- and rent paid on 1st October 2011 for the year to September 2012 was Rs.13000/- What is the amount of rent to be shown in the profit and loss account for the year ended 31st December 2012?

A] Rs.12000 B] Rs.16000 C] Rs.13000 D] Rs.15000

Q24] Opening stock Rs.180000/-, closing stock Rs.90000/- purchase made during the year Rs.330000/-on credit. During the month of March, a sum of Rs.350000/-was paid to the suppliers. The goods are sold at 25% above the cost. The sales for the year were

A] Rs.412500 B] Rs.525000 C] Rs.90000 D] Rs.315000

Q25] Opening stock Rs.600000/- purchases during the year Rs.3400000/ and sales during the year Rs.4800000/-. At the end of the year, the value of inventory as per physical stock-taking was Rs.325000/-. The company's gross profit margin on sales has remained constant @25%. The management of the company suspects that some inventory might have been pilfered by a new employee. What is the estimated cost of missing inventory?

A] Rs.75000 B] Rs.25000 C] Rs.100000 D] Rs.150000

Raman who was closing his books on 31st March 2011 failed to take the actual stock which he did on 9th April, when it was ascertained by him to be worth Rs.25000/-. Observations: 1] sales between 31st March to 9th April as per sales book are Rs.1720/-. Rate of Gross profit $33^{1/3}$ % on cost 2] purchase during the same period Rs.120/-

Q26] how would you adjust the observation no 1?

A] Rs.1720 less B] Rs.1290 less C] Rs.430 add D] Rs.1290 add

Q27]how would you adjust the observation no 2?

A] Rs.120 add B] Rs.120 less C] Rs.50 less D] Rs.170 less

Q28]what would be the value of physical stock on 31st March?

A] Rs.23830 B] Rs.23160 C]Rs.26600 D] Rs.26170

Consider the following methods of inventory valuation

1] SAM 2] FIFO C] LIFO D] WAM

Q29] which of these methods do not match current cost with current revenues?

A] 1 and 3 B] 1,2 and 3 C] 1,2 and 4 D] 2,3 and 4

Q30] A firm closes their financial books on 31st March. Stock taking completed after two weeks i.e. 15th April, the value arrived was Rs.25000. During the two weeks purchases were Rs.1000 and sales were of Rs.4000. Gross profit ratio of the firm is 30%. Ascertain the value of closing stock as on 31st March

A] Rs.25000 B] Rs.26800 C] Rs.27200 D] Rs.20000

1] C	2] B	3] D	4] C	5] A	6] B	7] A	8] A	9] C	10] C
11] C	12] D	13] A	14] C	15] D	16] B	17] C	18] A	19] C	20] D
21] A	22] C	23] C	24] B	25] A	26] D	27] B	28] D	29] A	30] B