Chapter 11

Inventories & Stock Reconciliation

Inventories are assets (a) held for sale in ordinary course of business, (b) in production process for such sale,(c) in the form of material and supplies to be used in production process or in rendering services. Land or property held for resale is also included in inventories. Material, maintenance supplies, consumables, loose tools to be used in production process are also included in inventories.
A trader has stock of only finished goods.
A manufacturer has stock of Raw material, semi finished goods (Work in process) and finished goods.
Stock (Inventory) valuation is an important part in finalising accounts as:-

a. Closing stock determines profitability (Higher closing stock, higher G.P. and vice –versa)
b. Stock is an important component of current assets which decides working capital and liquidity position also.

Methods:-

I. **Historical Cost Methods:-** Cost means purchase price and incidental expenses.
   a. FIFO
   b. LIFO
   c. Average Cost.
   d. Weighted Average Cost
   e. Base Stock

II. **Other Methods:-**
   a. Specific Identification Method.
   b. Adjusted Selling Price Method

FIFO Method : Goods are issued on the basis that the goods which have been received first go out first. Stock is valued at the latest purchase price.

LIFO Method : Goods are issued on the basis that the goods which have been received last are issued first. Stock is valued at the earliest purchase price.

Average price Method : Total cost is divided by total quantity and issues & Closing Stock is valued accordingly

Cost Per unit = $\dfrac{\text{Total rates}}{\text{Total No. of lots}}$

Weighted Average Price Method

Weighted Average Cost = $\dfrac{\text{Total cost of goods available}}{\text{Total Quantity of goods available}}$

* **Statement of stock to be prepared in chronological order**

		Amt
Opening stock	Qty × Rate	XX
Add: Purchase	Qty × Rate	XX
		XX
Less:- Issues	Qty × Rate	(-) XX
		XX

e.g.

Q.1 From the following information find the value of closing stock under LIFO , FIFO and Weighted average method

Example

1/2/2006 Opening stock 200 units @ ₹9

4/2/2006 Purchases 2000 units @ ₹10

5/2/2006 Sold 1200 units

10/2/2006 Purchases 800 @ ₹11

Q.2 Find out value of cl. Stock and cost of goods sold on 30th April under (a) FIFO Mehtod (b) LIFO Method (c) Weighted Average Method

1st April	Purchase	200 Units	@ ₹ 10
7th April		300 Units	@ ₹ 12
10th April	Sales	275 Units	@ ₹ 20
17th April		300 Units	@ ₹ 14
25th April	Sales	200 Units	@ ₹ 22
27th April	Sales	200 Units	@ ₹ 25
29th April		500 Units	@ ₹ 15

Inventory (Stock) Record System:-

Periodic Inventory System:- It is also called as physical inventory system. At the end of the period actual physical stock taking is conducted to ascertain Quantity available.

Perpetual inventory system:- Continuous record of receipts and issued on daily basis. Physical stock is compared with record at the end of the period. Stock register indicates value of Cost of Goods Sold as well as closing stock.

Stock Reconciliation : Reconciliation is required when the stock counting is done not on the last date but is done before or after the last date.

Stock as on counting date (before last date)		xx
+ Purchases between counting date to last date	xx	
+ Sales between counting date (at cost)	xx	xx
- Sales between counting date (at cost)	xx	
- Purchase Returns counting date	xx	xx
Actual stock on last date		

Stock as on counting date (after last date)		**xx**
+ Sales between (last date – counting date) at cost	xx	
+ Purchase Returns (last date – counting date) at cost	xx	xx
- Sales Returns	xx	
- Purchases	xx	xx
Actual stock on last date		**xx**

MULTIPLE CHOICE QUESTIONS

1. Perpetual inventory method .... a running record of inventories at hand.

   (a) provides (b) does not provide (c) rules out (d) None

2. If the market price of the stock is less than its cost price then it is valued at market price to.........

   (a) incorporate the prospective loss (b) adhere to the convention of conservatism

   (c) both (d) None

3. In case the actual price is lower than standard price it means valuing inventory at a price.........than cost.

   (a) higher (b) lower (c) Average (d) None

4. The valuation of inventory under FIFO method being based, on cost, the unrealised profits .... into the financial results.

   (a) enter (b) do not enter (c) both (d) None

5. In periods of rising prices, the profit under LIFO method is indicated at......... amount.

   (a) reduced (b) increased (c) average (d) None

6. The value of ending inventory under simple average price method, may be......... because, no consideration is given to the quantities held at each price.

   (a) absurd (b) realistic (c)True (d) None

7. The value of stock is shown on the assets side of the balance sheet as......... asset.

   (a) fixed (b) current (c) both (d) None

8. Closing stock = 0pening stock + Purchases- ?

   (a) sales (b) cost of goods sold (c) Administration expenses (d) None

9. Standard cost is -

   (a) Predetermined cost (b) Current replacement cost

   (c) Historical cost. (d) none

10. The valuation of closing inventory under FIFO method tends to be nearer to -

    (a) Current market price (b) Standard cost

    (c) Oldest purchases (d) none

11. Under FIFO method, the inventory is kept at

    (a) Highest possible price (b) Lowest possible price

    (c) Average price. (d) Latest purchase price

12. Under inflationary conditions, which of the methods will not show lowest value of cost of goods sold?
(a) FIFO (b) LIFO (c) Weighted Average (d) b and c

13. While finalizing the current year's profit, the company realized that there was an error in the valuation of closing stock of the previous year. In the previous year, closing stock was valued more by ₹50,000. As a result.
(a) Previous year's profit is overstated and current year's profit is also overstated.
(b) Previous year's profit is understated and current year's profit is overstated
(c) Previous year's profit is understated and current year's profit is also understated.
(d) Previous year's profit is overstated and current year's profit is understated.

14. Under inflationary conditions, which of the methods will not show lowest value of closing stock?
(a) FIFO (b) LIFO (c) Weighted Average (d) a and c

15. The inventory of finished goods is valued at _________
(a) Cost or market price whichever is lower
(b) Cost or market price whichever is higher
(c) Cost or net realisable value whichever is lower
(d) Cost or current replacement price whichever is lower

16. Damaged inventory is valued at
(a) Cost or market price whichever is lower
(b) Cost or market price whichever is higher
(c) Cost or net realisable value whichever is lower
(d) at net realisable value

17. When FIFO method is followed, during period of rising prices _______
(a) reported profits fall due to higher cost of goods
(b) reported profits rise due to lower cost of goods sold
(c) inventory is valued at old cost in the balance sheet
(d) none of these

18. Which of the following is True?
(a) The value of ending inventory under simple average price method is realistic
(b) Usually profit or loss will not arise out of pricing the issues on the basis of simple average price method
(c) The value of stock is shown on the asset side of the balance sheet as fixed assets
(d) Opening stock plus purchases minus cost of goods sold is the value of closing stock

19. Under inflationary conditions, which of the methods will show lowest value of cost of goods sold?
(a) FIFO (b) LIFO (c) Weighted Average (d) None of the above

20. 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 of the above

21. If opening stock is overstated

(a) the profit will increase (b) the profit will decrease

(c) the profit will not change (d) none of these

22. If closing stock is overstated ________

(a) the profit will increase and current assts will decrease

(b) the profit will decrease and current assets will increase

(c) both the profit & current assets will increase

(d) both the profit & current assets will decrease

23. Physical Inventory system is also know as :

(a) Perpetual Inventory System b) Periodic Inventory System

(c) Inventory record System d) None

24. What are the consequences of under valuation of closing stock ? :

(a) Under reporting of profit (b) Creation of hidden reserves

(c) Reduction of tax liability (d) All the above

25. Which of these is not an objectives of inventory valuation ?

(a) To determine true profit and loss

(b) To show true financial position of the business

(c) To properly value closing stock

(d) To evade tax liability

26. As per AS-2, the historical cost of inventories should normally be determined by using _____

(a) FIFO and LIFO Method

(b) LIFO and Weighted Average Cost Method

(c) FIFO and Weighted Average Cost Method

(d) FIFO and Simple Average Cost Method

27. If opening stock is understated

(a) the profit will increase (b) the profit will decrease

(c) the profit will not change (d) none of these

28. Cost of goods sold is equal to:

(a) Closing Stock + Purchases – Opening Stock

(b) Closing Stock + Opening Stock – Purchases

(c) Sales – Closing Stock

(d) Purchases – Closing Stock + Opening Stock

29. When closing inventory will be overstated it will result in :
(a) Net income for the period to be overstated
(b) Cost of goods sold to be understated
(c) Both (a) and (b)
(d) None of these

30. S Ltd. Follows perpetual inventory system. On March 31 of every year, the company undertakes physical stock verification. On March 31,2009, the value of stock as per the records differed from the value as per the physical stock. On scrutiny, the following differences were noticed.
Goods purchased for ₹10,000 were received and included in the physical stock but no entry was made in the books.
Goods costing ₹30,000 were sold and entered in the books but the stock is yet to be delivered.
Goods worth ₹5,000 are returned to the suppliers but is omitted to be recorded.
If the inventory is valued in the books at ₹1,50,000, the value of the physical inventory is
(a) ₹1,11,000 (b) ₹1,89,000 (c) ₹1,85,000 (d) ₹1,59,000

31. A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw materials during the week are as follows:
1.12.2008 opening stock 50 units value ₹2,200.
2.12.2008 purchase 100 units @ ₹47.
4.12.2008 issued 50 units.
5.12.2008 purchase 200 units @ ₹48.
The value of inventory at the end of the week and the unit weighted average costs is
(a) ₹14,200 – 47.33 (b) ₹14,300 – 47.67
(c) ₹14,000 – 46.66 (d) ₹14,400 – 48.00

32. April 01 Opening stock 50 units @ ₹44 per unit
April 02 Purchases 100 units @ ₹47 per unit
April 07 Issued 50 units
The value of inventory at the end of the week **under Weighted Average Method** is
(a) ₹4,600 (b) ₹4,550 (c) ₹4,700 (d) ₹4,400

33. April 01 Opening stock 50 units @ ₹44 per unit
April 02 Purchases 50 units @ ₹47 per unit
April 07 Issued 50 units
The value of inventory at the end of the week **under LIFO Method** is
(a) ₹4,700 (b) ₹4,550 (c) ₹4,600 (d) None of these

34. O Ltd maintains the inventory records under perpetual system of inventory. Consider the following data pertaining to inventory of O Ltd. Held for the month of March 2005.

Date	Particulars	Quantity	Cost Per unit (₹)
Mar. 1	Opening Inventory	15	400
Mar. 4	Purchases	20	450
Mar. 6	Purchases	10	460

If the company sold 32 units on March 24,2005, closing inventory under FIFO method is

(a) ₹5,200 (b) ₹5,681 (c) ₹5,800 (d) ₹5,950

35. The following data has been provided by Omega Ltd :

Item No.	Units	Cost per unit	Realization value per unit
A	2	10	11
B	10	5	4
C	2	2	2

The value of inventory on items will be :

(a) ₹40 (b) ₹64 (c) ₹66 (d) ₹60

36. The books of B Ltd. Revealed the following information

Particulars	₹
Opening inventory	6,00,000
Purchases during the year 2008 – 2009	34,00,000
Sales during the year 2008 – 2009	48,00,000

On March 31, 2009, the value of inventory as per physical stock – taking was ₹3,25,000. The company's gross profit on sales has remained constant at 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) ₹75,000 (b) ₹25,000 (c)₹1,00,000 (d) ₹1,50,000

37. Opening Inventory ₹1,00,000 Purchases ₹4,00,000, Sales ₹3,00,000. Selling price - $33\frac{1}{3}$ % on cost. Goods costing ₹25,000 destroyed by fire. The estimated cost of closing inventory is:

(a) ₹1,75,000 (b) ₹2,75,000 (c) ₹2,50,000 (d) ₹2,00,000

38. Consider the following for CAS Ltd. for the year 2006-07:

Cost of goods available for sale ₹2,00,000

Total sales ₹1,60,000

Opening stock of goods ₹ 40,000

Gross profit margin 25%

Closing stock of goods for the year 2006-07 was

(a) ₹1,60,000 (b) ₹1,20,000 (c) ₹80,000 (d) ₹72,000

39. Average Stock = ₹12,000. Closing stock is ₹3,000 more than opening stock. The value of closing stock =

(a) ₹12,000 (b) ₹9,000 (c) ₹10,500 (d) ₹13,500

40. Find out value of Closing Stock :

Opening Stock ₹70,000

Purchase ₹4,16,000

Sales ₹5,22,000

Gross Profit earned 25% of cost

(a) ₹68,400 (b) ₹36,000 (c) ₹94,500 (d) None of these

41. The total cost of goods available for sale with a company during the current year is ₹12,00,000 and the total sales during the period are ₹13,00,000. If the gross profit margin of the company is 33 1/3% on cost, the closing inventory during the current year is

(a) ₹4,00,000 (b) ₹3,00,000 (c) ₹2,25,000 (d) ₹2,60,000

42. E Ltd., a dealer in second – hand cars has the following five vehicles of different models and makes in their stock at the end of the financial year 2004 - 2005

Car	Fiat	Ambassador	Esteem	Maruti	Zen
Cost	90,000	1,15,000	2,75,000	1,00,000	2,10,000
Net realizable value	95,000	1,55,000	2,65,000	1,25,000	2,00,000

The value of stock included in the balance sheet of the company as on March 31, 2005 was

(a) ₹7,62,500 (b) ₹7,70,000 (c) ₹7,90,000 (d) ₹8,70,000

43. C Ltd. Recorded the following information as on March 31,2005

	₹
Stock as on April 01,2004	80,000
Purchases	1,60,000
Sales	2,00,000

It is noticed that goods worth ₹30,000 were destroyed due to fire. Against this, the insurance company accepted a claim of ₹20,000.

The company sells goods at cost plus 33 1/3%. The value of closing inventory, after taking into account the above transactions is,

(a) ₹10,000 (b) ₹30,000 (c) ₹1,00,000 (d) ₹60,000

44. Consider the following for A Co. for the year 2005 - 06

Cost of goods available for sale	₹1,00,000
Total sales	₹80,000
Opening stock of goods	₹20,000
Gross profit margin	₹20,000

Closing stock of goods for the year 2005 – 06 was

(a) ₹80,000 (b) ₹60,000 (c) ₹40,000 (d) ₹36,000

45. Opening Inventory ₹1,00,000, Purchases ₹4,00,000, Sales ₹3,00,000. Selling price – $33\frac{1}{3}$ % on cost. The estimated cost of closing inventory is:

(a) ₹2,00,000 (b) ₹3,00,000 (c) ₹2,75,000 (d) None of these

46. Opening Inventory ₹1,00,000, Purchases ₹4,00,000, Sales ₹3,00,000. Selling price -$33\frac{1}{3}$% on cost. Goods costing ₹25,000 destroyed by fire. Market value of closing inventory is 20% less than cost. In the financial statements closing inventory will appear at:

(a) ₹1,40,000 (b) ₹2,20,000 (c) ₹2,00,000 (d) ₹1,60,000

47. CAS Ltd. recorded the following information as on March 31, 2007:

	₹
Stock as on April 1, 2006	1,60,000
Purchases	3,20,000
Sales	4,00,000

It is noticed that goods worth ₹60,000 were destroyed due to fire. Against this, the insurance company accepted a claim of ₹40,000.

The company sells goods at cost plus $33\frac{1}{3}$%. The value of closing inventory, after taking into account the above transaction is,

(a) ₹20,000 (b) ₹60,000 (c) ₹2,00,000 (d) ₹1,20,000

48. Opening Inventory ₹1,00,000, Purchases ₹4,00,000, Sales ₹3,00,000, Selling price - $33\frac{1}{3}$% on cost. Value of closing inventory as per physical verification ₹2,00,000. The estimated cost of missing inventory is:

(a) Nil (b) ₹1,00,000 (c) ₹75,000 (d) None of these

49. Sales during the month ₹3,00,000, Selling price = $33\frac{1}{3}$% on cost. Cost of goods available for sale on beginning of the month ₹5,00,000, Closing inventory is

(a) ₹2,00,000 (b) ₹3,00,000 (c) ₹2,75,000 (d) None of these

Q.50. Consider the following data of P Ltd. And find out closing stock as on 31st March by weighted average method.

Date	
1.3.09	opening balance 500 kg @ ₹ 22.80.
2.3.09	purchase: 400 kg @ ₹ 24.
10.3.09	purchase: 600 kg @ ₹ 25.
25.3.09	sold 1000 units.

a) ₹11,967. b) ₹12,500 c) ₹12,000 d) ₹11,400.

Q 51. A company dealer in cosmetics, records its stock at FIFO.

Date		
01.09.09	opening stock	150 units @ ₹ 20.
03.09.09	sales	100 units
04.09.09	purchase	200 units @ ₹ 25
10.09.09	sales	150 units
14.09.09	purchase	100 units @ ₹ 22

If w.e.f. Sept. 1st 2009, company decides to change method of valuation to LIFO, then what will be the effect of it on valuation as on 1st Sept. 09?

a. Increase in closing stock by ₹ 250.
b. Increase in closing stock by ₹ 500.
c. Decrease in closing stock by ₹ 250.
d. Decrease in closing stock by ₹ 500.

Q 52. Consider the following data pertaining to credit purchase made by K Ltd., a dealer electronic goods, for the month of March 2009.

Date	Particular	No. of units	Rate per unit (₹)	Trade discount
March 01	Black & white TVs	50	3,000	10%
	Colour TVs	10	6,000	10%
March 09	Tape Recorders	10	1,000	10%
	Two – in – one	10	1,500	10%
March 09	Audio Cassettes	100	30	5%

On March 22, 2009 the company purchased from LM Stationers on credit for office use 10 dozens of carbon papers at the rate of ₹ 35 per dozens and 10 dozens of ball pens at the rate of ₹ 25 per dozen.

At the time of making payment on march 31, 2009 the suppliers have allowed a cash discount of 10% on the above purchase.

The total of purchase for the March 2009, was

(a) ₹ 2,14,350 (b) ₹ 2,38,000
(b) ₹ 1,92,915 (d) ₹ 2,38,600

53. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 21st March, goods of the sale value of ₹1,00,000 were sent on sale or return basis to a customer, the period of approval being two weeks.

The cost of inventory as per books is:

(a) ₹4,80,000 (b) ₹4,16,000 (c) ₹4,28,800 (d) None of these

54. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 21st March, goods on the sale value of ₹1,00,000 were sent on sale on return basis to a customer, the period of approval being two weeks. He approved 80% of the goods on 31st March.

The cost of inventory as per books is:

(a) ₹4,80,000 (b) ₹4,16,000 (c) ₹4,28,000 (d) None of these

55. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 21st March, goods on the sale value of ₹1,00,000 were sent on sale on return basis to a customer, the period of approval being two weeks. He returned 20% of the goods and approved 80% of the remaining on 31st March.

The cost of inventory as per books is :

(a) ₹4,80,000 (b) ₹4,16,000 (c) ₹4,28,000 (d) None of these

56. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 27th March, goods of the sale value of ₹1,00,000 were sent on sale or return basis to a customer, the period of approval being two weeks. He returned 20% of the goods on 31st March and approved the rest.

The cost of inventory as per books is:

(a) ₹4,00,000 (b) ₹3,36,000 (c) ₹4,48,000 (d) None of these

57. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 27th March, goods on the sale value of ₹1,00,000 were sent on sale on return basis to a customer, the period of approval being two weeks. He approved20% of the goods on 31st March.

The cost of inventory as per books is:

(a) ₹4,00,000 (b) ₹3,36,000 (c) ₹4,48,000 (d) ₹3,84,000

58. The cost of inventory as per physical verification as on 24th March, 2007 was ₹4,00,000. Goods are sold at a profit of 25% on cost.

On 27th March, goods costing ₹2,00,000 were received for sale on consignment basis. 80% of these goods had been sold on 31st March.

On 27th March, goods of the sale value of ₹2,00,000 were sent on consignment basis. 80% of these goods has been sold on 31st March.

The cost of inventory as per books is:

(a) ₹4,00,000 (b) ₹3,36,000 (c) ₹4,48,000 (d) ₹2,72,000

59. The cost of stock as per physical verification as on 24th March amounted to ₹2,00,000. Purchases as Per Purchase Book after stock taking till 31st March amounted to ₹2,00,000 and included the following:

(i) ₹10,000 for goods received till 23rd March.

(ii) ₹20,000 for goods received on 1st April.

Sales as per Sales Book after stock taking, till 31st March amounted to ₹2,00,000 and included the following :

(i) ₹10,000 for goods delivered till 23rd March.

(ii) ₹20,000 for goods delivered on 1st April.

Goods are sold by the trader at a profit of 25% on cost.

The value of stock as per books is _______

(a) ₹2,40,000 (b) ₹2,38,000 (c) ₹2,36,000 (d) ₹2,34,000

60. On April 7, 2007, i.e. a week after the end of the accounting year 2006-07, a company undertook physical stock verification. The value of stock as per physical stock verification was found to be ₹70,000.

The following details pertaining to the period April 1, 2007 to April 7, 2007 are given:

I. Goods costing ₹10,000 were sold during the week

II. Goods received from consignor amounting to ₹8,000 included in the value of stock

III. Goods earlier purchased but returned during the period amounted to ₹2,000

IV. Goods earlier purchased and accounted but not received ₹12,000

After considering the above, the value of stock held as on March 31, 2007 was

(a) ₹54,000 (b) ₹38,000 (c) ₹86,000 (d) ₹1,02,000

61. X who was closing his books on 31.3.2007 failed to take the actual stock which he did on 9th April, when it was ascertained by him to be worth ₹50,000.

It was found that sales are entered in the Sales Day Book on the same day of dispatch and the returns inward in the return book as and when the goods are received back. Purchases are entered in the Purchase Day Book once the invoices are received. Observations ______

(i) Sales between 31st March and 9th April as per Sales Book are ₹1,720. Rate of gross profit is $33\frac{1}{3}$ % on cost.

(ii) Purchases during the same period as per Purchase Book are ₹120.

(iii) Out of above purchases, goods amounting to ₹50 were not received until after the stock was taken.

(iv) Goods invoiced during the month of March, but goods received only on 4th April, amounted to ₹100.

The value of physical stock on 31st March is

(a) ₹51,220 (b) ₹51,120 (c) ₹31,190 (d) ₹48,530

62. Cost of stock as per books is ₹2,38,000

Goods purchased for ₹10,000 received but omitted to be recorded

Goods costing ₹20,000 were sold & delivered but omitted to be recorded

Goods costing ₹5,000 were returned by customers but omitted to be recorded

Goods costing ₹3,000 were returned to suppliers but omitted to be recorded.

The value of physical inventory is ________

(a) ₹2,26,000 (b) ₹2,30,000 (c) ₹2,46,000 (d) None of these