



AS 2 - VALUATION OF INVENTORIES

Overview :

- ▶ Objective & Scope
- ▶ Meaning of Inventory
- ▶ Valuation of Inventory
- ▶ Absorption Costing - For Fixed Overheads
- ▶ Highlights of CENVAT Credit & Excise Duty
- ▶ Joint Product & By Product
- ▶ Cost Formulae
- ▶ Net Realisable Value
- ▶ Disclosures

CONCEPT 1 : OBJECTIVES & SCOPE OF AS 2

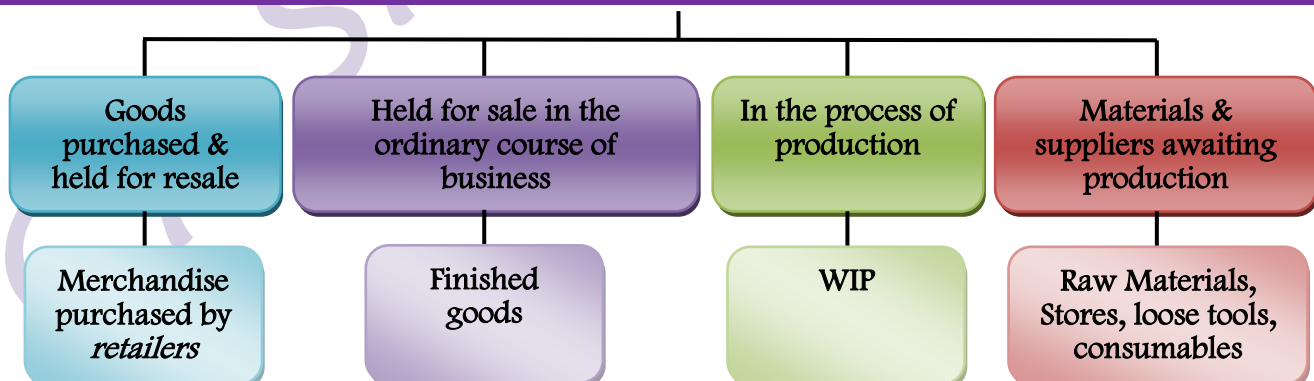
Objective :

- * Inventory is said to be "Bread & Butter" for every business concern.
- * The reasons emphasized for valuing stock includes :
 - [a] Stock constitutes one of the major parts of total assets employed
 - [b] It determines the amount of profit by valuing closing stock
 - [c] It even shows the financial position of a company, which reflects in the balance sheet.
 - [d] Inventories are subject to obsolescence, spoilage etc

Scope :

- * AS 2 excludes within its scope the following :
 - [a] WIP arising out of construction contracts (AS 7).
 - [b] WIP arising out of service providers (AS 9)
e.g. service contracts of CA firm.
 - [c] Financial instruments like shares, debentures.
 - [d] Livestock, agriculture & forest products & mineral oil & gases to the extent they are measured at net realisable value in according with well established practices in these industries.

CONCEPT 2 : MEANING OF INVENTORY





CONCEPT 3 : VALUATION OF INVENTORY

Calculation of Cost of Purchases

Particulars	₹
1] Purchase Price	
2] Add : Duties & taxes (Except those which are refundable from the tax department)	
3] Freight Inward	
4] Any other expenses directly attributable to the acquisition	
5] Less : Trade Discounts & not Cash Discounts Rebates, Duty Drawbacks or any other similar item Duties & taxes recovered from taxing authorities	

Cost of conversion
Refer next Chart

Other Cost
(Concept 6)

Cost of conversion

Cost incurred for bringing the inventory to its present condition & location (includes)

Direct Material

Direct Labour

Direct Expenses

Overheads

Variable production OH

Fixed Production OH

According to production volume allocated

Constant irrespective of level of Production allocated

Based on actual units produced

Based on Normal Capacity Levels

Absorption Costing ~ For Fixed Overheads

	If Actual Production > Normal	If Actual Production < Normal
FPOH Absorption	100%	Actual Units*Recovery Rate
Inefficiency debited to P&L	Nil	FPOH incurred ~ FPOH absorbed
Valuation of CS	Based on FPOH/ Actual units	Based on FPOH/ Normal units

CONCEPT 4 : HIGHLIGHTS OF CENVAT CREDIT & EXCISE DUTY (GUIDENCE NOTE)

Guidance Note

CENVAT Credit should not form

Part of cost of Raw Material

Reduced from cost of Material

CENVAT Credit (INPUT) : Asset Side

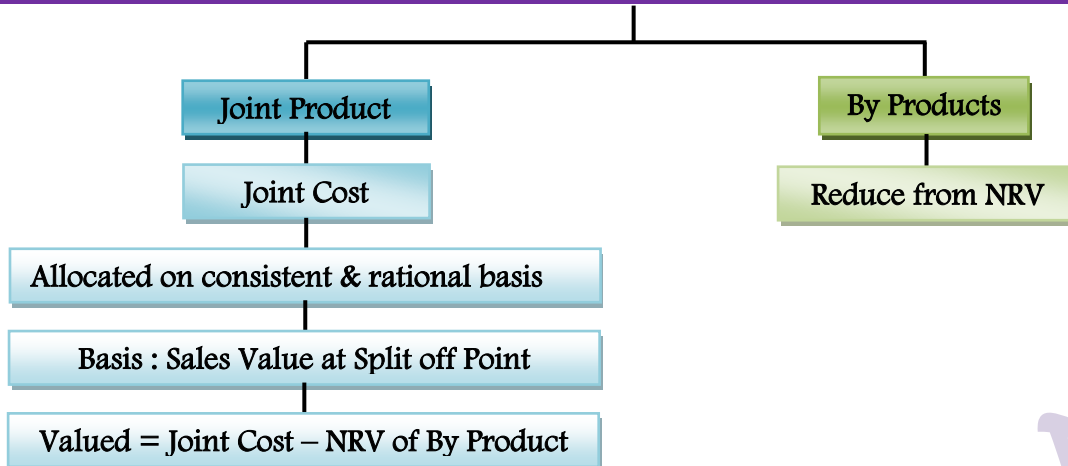
Excise Duty should form the part of cost of production

E.D. payable on FG is a direct cost of

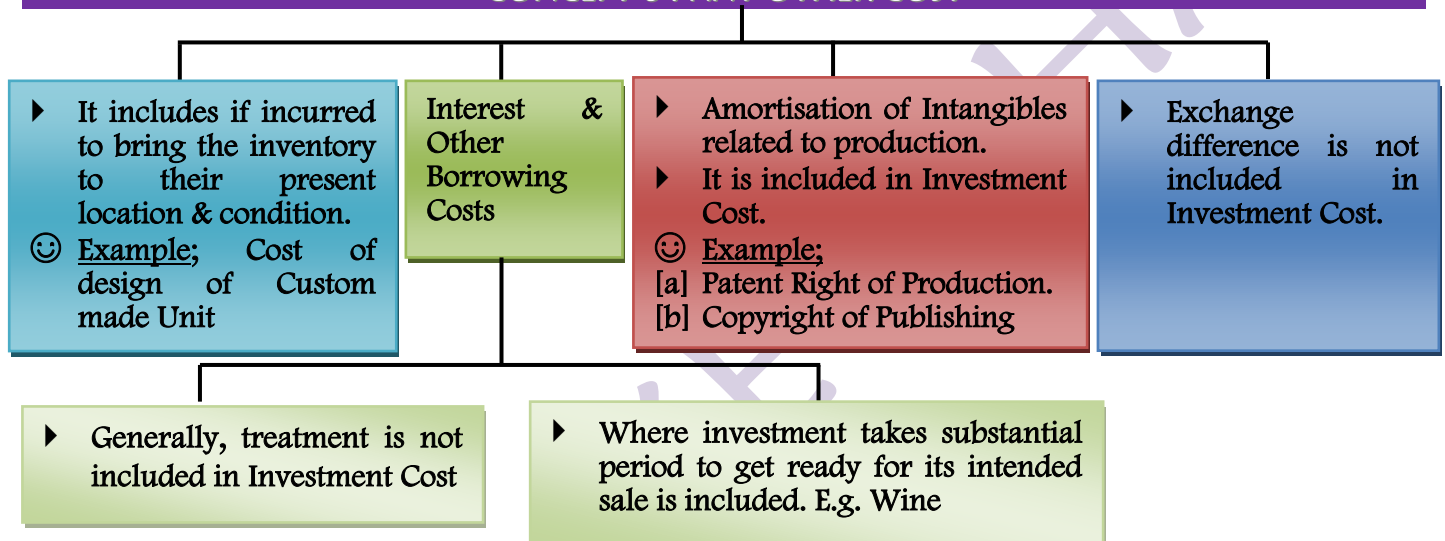
E.D. payable on FG is included in the value of FG as per AS 2 though E.D. is paid only on clearance of goods



CONCEPT 5 : JOINT PRODUCT & BY PRODUCT



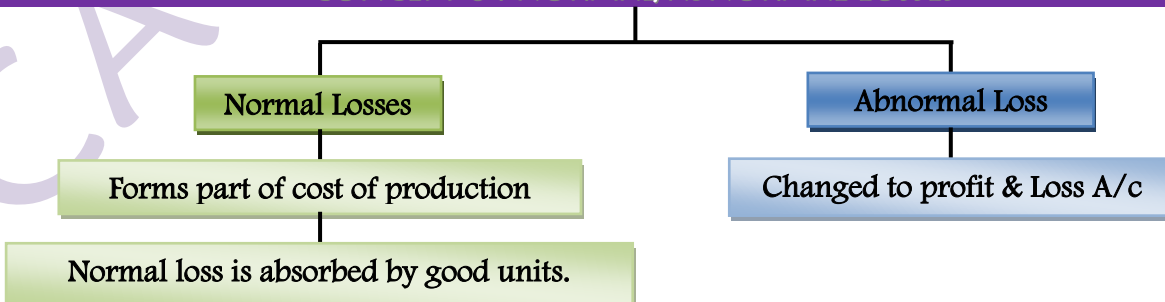
CONCEPT 6 : ANY OTHER COST



CONCEPT 7 : EXCLUSION FROM COST OF INVENTORIES

- [a] Abnormal amount of wasted materials, labour or other production costs
- [b] Interest & storage cost
- [c] Administrative overheads (only that part of expenses, which do not contribute to bringing the inventories to its present condition & location)
- [d] Selling & distribution overheads (advertisements, after sales services etc)

CONCEPT 8 : NORMAL/ABNORMAL LOSSES



CONCEPT 9 : COST FORMULAE





A] Specific Identification Method :

- ▶ Practicable only for those items which are purchased for specific goods
- ▶ For similar & interchangeable goods, this method is inconvenient.
- ▶ Physical tracing is required.
- ▶ E.g. Price Tag

B] FIFO Method :

- ▶ Closing Stock is recorded at latest purchase price.
- ▶ In inflation (rising prices), closing stock is recorded at highest price, so profit is higher.
- ▶ In deflation, closing stock is recorded at lower price, so profit is lower.

C] Weighted Average Method :

- ▶
$$\frac{\text{Total Cost}}{\text{Total units} + \text{Fresh units}}$$
- ▶ This method considers changes in prices.

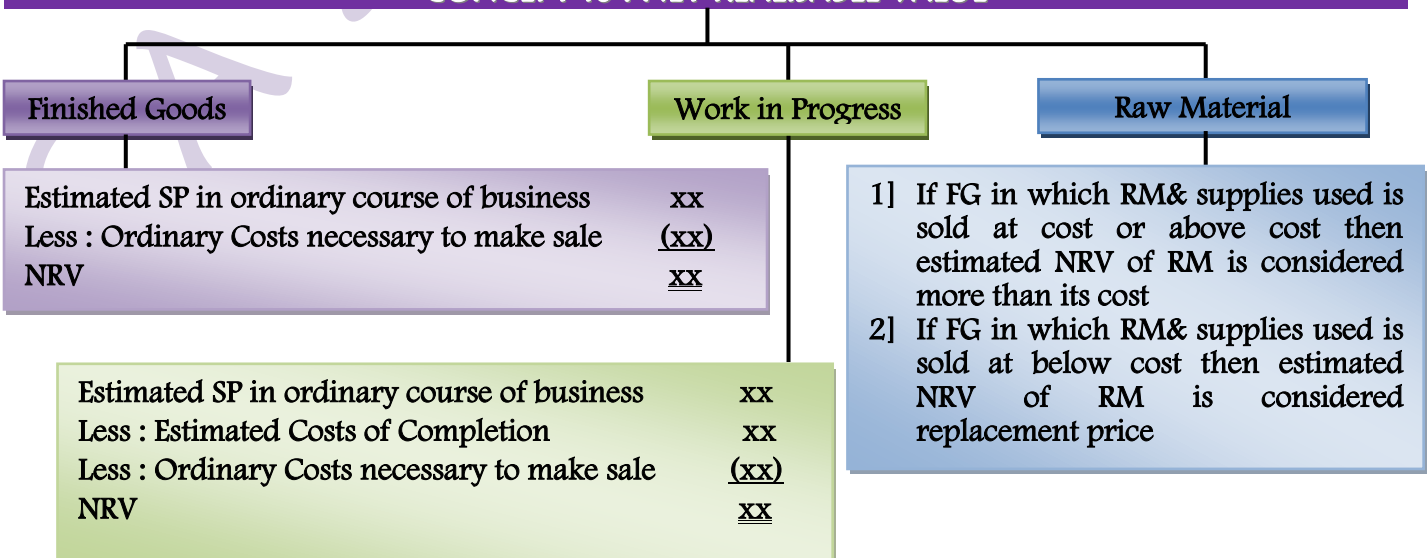
D] Standard Costing :

- ▶ Not an actual cost.
- ▶ But considers "Estimated cost"
- ▶ Result of closing stock is not actual but approximate.
- ▶ It is used widely in industries having non-repetitive process like manufacturer of automobile, boilers, heavy electrical equipment.
- ▶ Standard Costing is to be updated & revised periodically.

E] Retail Price Method :

- ▶ Large number of innumerable different items in the stock (E.g. cutlery retail shop).
- ▶ Unit cost of such items is very low.
- ▶ Detailed records of such stock are not kept.
- ▶ All the items are having similar margins.
- ▶ It is impossible to use any other method.
- ▶ Steps of Retail Price Method:
 - Step I : Goods available for sale
 - Step II : Calculation of SP of (sales + closing stock)
 - Step III : GP (if all units sold)
 - Step IV : Calculation of closing stock at cost

CONCEPT 10 : NET REALISABLE VALUE



**CONCEPT 11 : CONTAINERS AND EMPTIES**

- ▶ These are neither goods for sale in the ordinary course of business, nor goods in the production process, nor materials or supplies for consumption.
- ▶ According to the Expert Advisory Committee of ICAI, these are the items of inventory.
- ▶ However, containers & empties having useful life more than one year are treated as depreciable assets.

CONCEPT 12 : DISCLOSURES IN FINANCIAL STATEMENTS

- ▶ Accounting Policy used including the cost formulae.
- ▶ Carrying amount of inventories viz. WIP, Raw Materials etc.

MODULE EXAMPLES**Example 1 :**

Cost of a partly finished unit at the end of 2009-10 is ₹150. The unit can be finished next year by a further expenditure of ₹100. The finished unit can be sold at ₹250, subject to payment of 4% brokerage on selling price. Compute value of inventory.

Example 2 :

ABC Ltd. has a plant with the capacity to produce 1 lac unit of a product per annum and the expected fixed overhead is ₹18 lacs. Fixed overhead on the basis of normal capacity is ₹18 (18 lacs/1 lac).

Case 1 : Actual production is 1 lac units.

Case 2 : Actual production is 90,000 units.

Case 3 : Actual production is 1.2 lacs units.

Example 3 :

A trader purchased certain articles for ₹85,000. He sold some of articles for ₹1,05,000. The average percentage of gross margin is 25% on cost. Opening stock of inventory at cost was ₹15,000.

Compute cost of closing inventory.

Example 4 :

The cost, net realisable value and inventory value of two items that a company has in its inventory are given below :

	Cost ₹	Net Realisable Value ₹
Item 1	50,000	45,000
Item 2	20,000	24,000
Total	70,000	69,000

Calculate value of inventory as per AS – 2 “Valuation of Inventory”.

MODULE EXAMPLES - SOLUTIONS**☺ Example 1 :**

As per AS 2 “Valuation of Inventories”, inventories should be valued at lower of cost and net realizable value. Thus, in the given case, the value of unfinished unit will be lower of :

[a] Cost = ₹150

[b] Net realisable value(step 1) = ₹140

➡ **Conclusion :** Value of closing stock = ₹140.

Step 1 : Calculation of NRV

Sr. No.	Particulars	₹
i]	Net selling price	250
ii]	Less : Estimated cost of completion	100



iii]	Less : Brokerage (4%*250)	10
iv]	Net realisable value	140

➤ Note : The above answer is given on the assumption that partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

☺ Example 2 :

➤ Provisions of AS :

As per AS 2 'Valuation of Inventories', the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads is based on normal capacity of the production facilities.

Amount of Closing Stock & Amount to be written off in P&L

Case	Fixed Cost	Production (in Units)		Consider in Denominator with reason
		Normal	Actual	
1	₹18,00,000	1,00,000	1,00,000	Cost/Unit = ₹18,00,000/1,00,000 Units=₹18/Unit Actual Production = Normal Production So Cl Stock = ₹ 18 * 1,00,000 Units = ₹18,00,000 Consider Normal Production in Denominator Amount to be written off to P&L=18,00,000-(1,00,000*18)=0
2	₹18,00,000	1,00,000	90,000	Cost/Unit = ₹18,00,000/1,00,000 Units=₹18/Unit Actual Production < Normal Production So Cl Stock = ₹ 18 * 90,000 Units = ₹16,20,000 Consider Normal Production in Denominator Amount to be written off to P&L=18,00,000-(90,000*18)=1,80,000
3	₹18,00,000	1,00,000	1,20,000	Cost/Unit = ₹18,00,000/1,20,000 Units=₹15/Unit Actual Production > Normal Production So Cl Stock = ₹ 15 * 1,20,000 Units = ₹18,00,000 Consider Actual Production in Denominator Amount to be written off to P&L=18,00,000-(1,20,000*15)=0

☺ Example 3 :

Trading A/c at Selling Price

Particulars	₹	Particulars	₹
To Op Stock (15,000+25%)	18,750	By Sales (Given)	1,05,000
To Purchases (85,000+25%)	1,06,250	By Cl Stock * (At SP)	20,000
Total ₹	1,25,000	Total ₹	1,25,000

➤ As per AS 2 'Valuation of Inventories' Closing Stock is valued at lower of Cost & NRV.

➤ Thus, in present case, closing stock will be valued at cost.

➤ Value of Closing Stock :

Cost	Profit	Selling Price
100	25	125
16,000	4,000	20,000

➤ Value of Closing Stock ₹16,000

☺ Example 4 :

As per AS – 2 "Valuation of Inventory" value of inventory is based on the principle of "Cost or NRV (Net realizable value) whichever is lower"

Hence, inventory value of various items is,

Particulars	Inventory value
Item 1	45,000 [NRV < Cost] Therefore valued at NRV
Item 2	20,000 [Cost < NRV] Therefore valued at NRV



ANNUAL REPORTS (EXTRACTS)

WABCO INDIA LTD.

INVENTORIES

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials : Cost includes cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined on weighted average basis.

Finished goods, work in progress & contract work in progress: Cost includes cost of direct materials & labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs. Cost is determined on weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the

estimated costs necessary to make the sale.

INVENTORIES (lower of cost and net realisable value)	March 31, 2018	March 31, 2017
Raw materials *	6,134.45	4,971.05
Work-in-progress	428.53	334.62
Finished goods	5,664.49	8,206.83
Stores and spare parts	1,010.95	1,021.94
Total inventories	13,238.42	14,534.44
Includes goods in transit	2,821.22	3,489.86

During the year ended March 31, 2018: INR 109.57 lakhs (March 31, 2017: INR 93.64 lakhs) was recognised as an expense for inventories carried at net realisable value.

ASIAN PAINTS LTD.

INVENTORIES

INVENTORIES [lower of cost and net realisable value]

Sr. No.	Particulars	As at 31.03.2018	As at 31.03.2017
[a]	Raw materials	570.26	516.78
	Raw materials-in-transit	157.90	81.16
		728.16	597.94
[b]	Packing materials	39.59	36.32
[c]	Work-in-progress	95.60	74.80
[d]	Finished goods	1,016.17	1,231.50
	Finished goods-in-transit	2.91	1.80
		1,019.08	1,233.30
[e]	Stock-in-trade (acquired for trading)	190.83	182.41
	Stock-in-trade (acquired for trading) in-transit	33.85	2.97
		224.68	185.38
[f]	Stores, spares and consumables	71.32	66.10
	Stores, spares and consumables-in-transit		0.25
		71.32	66.35
	Total	2,178.43	2,194.09

The cost of inventories recognised as an expense during the year is disclosed in Note 24.

The cost of inventories recognised as an expense includes ₹14.22 crores (Previous year ₹26.90 crores) in respect of write down of inventory to net realisable value. There has been no reversal of such write down in current and previous years.

[A] COST OF MATERIALS CONSUMED

Particulars	Year 2017-18	Year 2016-17
Raw Materials Consumed		
Opening Stock	597.94	534.34
Add: Purchases	6,041.21	5,629.73
	6,639.15	6,164.07



Less: Closing Stock	728.16	597.94
	5,910.99	5,566.13
Packing Materials Consumed		
Opening Stock	36.32	40.13
Add: Purchases	1,192.44	1,167.51
	1,228.76	1,207.64
Less: Closing Stock	39.59	36.32
	1,189.17	1,171.32
TOTAL COST OF MATERIALS CONSUMED	7,100.16	6,737.45
	742.57	646.53

[B] PURCHASES OF STOCK-IN-TRADE**[C] CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN-TRADE AND WORK IN PROGRESS**

Particulars	Year 2017-18	Year 2016-17
Stock at the beginning of the year		
Finished Goods (including goods in transit)	1,233.30	778.41
Work-in-Progress	74.80	64.47
Stock-in-trade- acquired for trading (including goods in transit)	185.38	135.02
TOTAL	1,493.48	977.90
Stock at the end of the year		
Finished Goods (including goods in transit)	1,019.08	1,233.30
Work-in-Progress	95.60	74.80
Stock-in-trade- acquired for trading (including goods in transit)	224.68	185.38
TOTAL	1,339.36	1,493.48
CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN-TRADE AND WORK-IN-PROGRESS	154.12	(515.58)

☞ **STATEMENT OF PROFIT AND LOSS**
EXPENSES

Changes in inventories of Finished goods, Stock-in-trade & work-in-progress	154.12	(515.58)
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SS - QUESTIONS**Problem 1 :**

SS Ltd. ordered 16,000 kg of certain material at ₹160 per unit. The purchase price includes excise duty ₹10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS-2 and amount of abnormal loss. (CA Final May 2011)(Marks 4)

Problem 2 :

SS Limited is engaged in manufacture of Cement. In the P/L account for the year ended 31/3/2007, it discloses its revenue from sales transactions (turnover) net of excise duty. The excise duty collected & paid on sales transaction and that related to difference between Closing and Opening stock is, however disclosed in the "Notes to Accounts". (Audit CA Final)

Problem 3 :

In a manufacturing process of SS Limited, one by-product BP emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount	Output (unit)	Closing stock as on 31-3-2012
Raw Material	15,000	1,60,000	MP1 - 6250	800
Wages		82,000	MP2 - 5000	200
Fixed Overhead		58,000	BP -1600	
Variable Overhead		40,000		



Average market price of MP1 and MP2 is ₹80 per unit and ₹50 per unit respectively, by-product is sold @ ₹25 per unit. There is a profit of ₹5,000 on sale of by-product after incurring separate processing charges of ₹4,000 and packing charges of ₹6,000. ₹6,000 was realized from sale of scrap. Calculate the value of Closing Stock of MP1 and MP2 as on 31-3-2012. (CA Final Nov 2012)

Problem 4 :

Particulars	2005	2006
Actual units produced (Kgs.)	40,000	50,000
Normal production at normal capacity (Kgs.)	48,000	48,000
Fixed production overheads (₹)	60,000	60,000
Closing Stock (Kgs.)	3,600	4,000
Cost of Closing Stock per unit excluding FPOH (₹)	@7.2/-	@7.5/-

You are required to : (i) Value Closing Stock, (if) Find the amount debited to P/L A/C.

Problem 5 :

SS Pvt. Ltd. manufactures computers, during the year ended 31st March 2005 the company manufactures 550 computers. It adopts the policy of valuing finished stock of goods at a standard cost of ₹1,80,000 per computer. Details of cost is as follows :

Materials & stores ₹400 lakhs, Direct labour ₹250 lakhs, VPOH 150 lakhs, FPOH ₹290 lakhs. FPOH includes interest and storage cost of ₹100 lakhs. Compute value of stock. (C.A. Final May 2002)

Problem 6 :

Shah & Sons operates a retail shop. Store provides you the following information for valuing closing stock as on 31.03.2013 :

Particulars	Units	Cost price of the goods (₹)	Retail Price of the goods (₹)
Opening inventory	2,59,000	10,50,222	12,64,748
Goods purchased	12,00,000	61,20,000	78,05,923
Goods sold (Sale Value)	8,30,456		55,81,454

Problem 7 :

In all the cases assume Cost of inventories = ₹50/- and Future estimated costs = ₹2

Closing Stock	Contract Stock	Contract Price	General Selling price
10,000 units	8,000 units	55/-	56/-
10,000 units	8,000 units	49/-	53/-
10,000 units	14,000 units	49/-	54/-
10,000 units	14,000 units	49/-	50/-

Problem 8 :

State with reference to accounting standard, how you will value the inventories in the following cases:

- [i] Raw material was purchased at ₹100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kgs. of raw material is on stock at the year end. Replacement cost is ₹80 per kg.
- [ii] In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting normal wastage of 300 MT. Cost per MT of input ₹1,000. Entire quantity of waste in stock at year end.
- [iii] Per kg. of finished goods consisted of:

Material cost ₹100 per kg.
 Direct labour cost ₹20 per kg.
 Direct variable production overhead ₹10 per kg

Fixed production charges for the year on normal capacity of one lakh kgs. is ₹10 lacs. 2,000 kgs. of finished goods are on stock at the year end. (C.A. Final Nov. 2000)

**Problem 9 :**

SS Ltd. is manufacturing goods for local sale and exports. As on 31st March, 2013, it has the following finished stocks in the factory warehouse:

[i] Goods meant for local sale ₹100 lakhs (cost ₹75 lakhs).

[ii] Goods meant for exports ₹50 lakhs (cost ₹20 lakhs).

Excise duty is payable at the rate of 16%. The company's Managing Director says that excise duty is payable only on clearance of goods and hence is not a cost. Please advice SS using guidance note, if any issued on this, including valuation of stock. (C.A. Final May 2003/2011/2015)

Problem 10 :

The management of the company tells you that the WIP is not valued since it is difficult to ascertain the same, in view of the multiple processes involved. (C.A. Final May 2001)

Problem 11 :

A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers. Comment on the valuation of the stock by the company. (C.A. Final Nov. 2006)

Problem 12 :

SS Ltd. sells beer to customers, Some of the customers consume the beer in the bars run by SS Limited. While leaving the bars, the Consumers leave the empty bottles in the bars and the Company takes possession of these empty bottles. The Company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the Company by calling for tenders. Keeping this in view:

[a] Decide whether the Stock of Empty Bottles is an Asset of the Company.

[b] If so, whether the Stock of Empty Bottles existing as on the date of Balance Sheet is to be considered as Inventories of the Company and valued as per AS-2, or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'? (CA Final Nov 2010)

Problem 13 :

Calculate the value of Raw Materials & Closing Stock based on the following information :

Raw Material X	
Closing Balance	500 Units
Cost price including excise duty	₹200/Unit
Excise Duty (CENVAT Credit is receivable on the excise duty paid)	₹10/Unit
Freight Inward	₹20/Unit
Unloading Charges	₹10/Unit
Replacement Cost	₹150/Unit
Finished Goods Y	
Closing Balance	1,200 Units
Material Consumed	₹220/Unit
Direct Labour	₹60/Unit
Direct Overhead	₹40/Unit

Total fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 Units.

Calculate the value of closing stock when, [i] NRV of FG Y is ₹400 [ii] NRV of FG Y is ₹300.



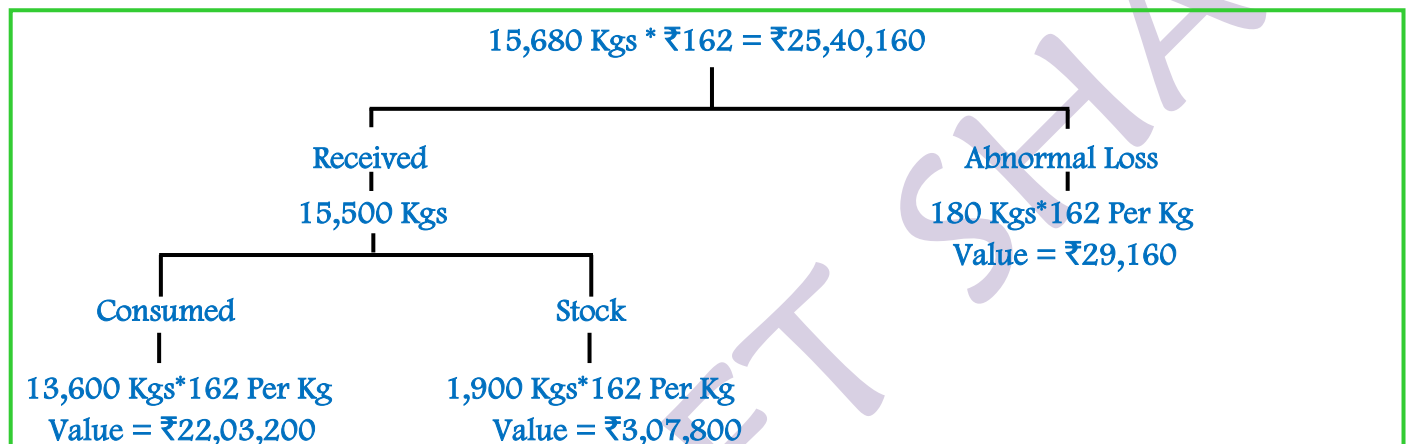
SOLUTIONS - SS QUESTIONS

Problem 1:**Step 1 : Calculation of Cost/Kg**

Sr. No.	Particulars	Computation	₹
i]	Purchase Price per Kg	[16,000 Kg * ₹160]	25,60,000
ii]	Less: CENVAT Credit	[16,000 Kg * ₹10]	-1,60,000
iii]	Add : Freight	[Given]	1,40,160
iv]	Total Purchase Price	[i-ii+iii]	25,40,160
v]	No of Units Received	[16,000 Kg*98%]	15,680
vi]	Cost/Kg	[iv/v]	162.00

CENVAT credit is admissible then don't consider in purchase price

CENVAT credit is not admissible then consider in purchase price

**Problem 2 :**

→ As per AS 14 turnover should be disclosed as follows on the face of P&L.

Particulars	₹
Turnover (Gross)	XXXXXX
(-) Excise Duty	XXXXXX
Turnover (Net)	XXXXXX

→ The above excise duty shown above should be the total duty (except duty related to difference between closing stock & op stock which should be recognised separately in the statement of P&L).

→ In explanatory note in notes to accounts, explain the nature of 2 amounts of excise duty)

* Conclusion : X ltd has not followed the above ASI 14 the auditor would have to qualify his report.

Problem 3 :**Joint Cost to be allocated in MP1 & MP2**

Sr. No.	Particulars	₹
i]	Raw Material	1,60,000
ii]	Wages	82,000
iii]	Fixed OH	58,000
iv]	Variable OH	40,000
v]	Total	3,40,000
vi]	Less :	
	NRV of Byproduct BP (WN 1)	-30,000
	Sale of Scrap	-6,000
	Subtotal	-36,000
vii]	Joint Cost to be allocated	3,04,000



W.N.1 NRV of Byproduct

Sr. No.	Particulars	Computation	₹
i]	Selling Price of the Byproduct	(1,600 Units * ₹25)	40,000
ii]	Packing Charges	(Given)	-6,000
iii]	Separate Processing Charges	(Given)	-4,000
iv]	NRV of Byproduct	(i-ii-iii)	30,000

As per AS 2, most byproducts as well as sale of scrap or waste material are immaterial. So they are measured at NRV.

Calculation of cost/Unit & Closing stock Value

Sr. No.	Particulars	MP1	MP2
i]	Sale Value	5,00,000	2,50,000
		(6,250*80)	(5,000*50)
ii]	Joint Cost to be apportioned (₹304,000 in 50 : 25)	2,02,667	1,01,333
iii]	Output in Units	6,250 Units	5,000 Units
iv]	Cost/Unit	32.43	20.27
v]	No of Units in Closing Stock	800	200
vi]	Value of CI Stock	25,941	4,053

Problem 4 :

Amount of Closing Stock & amount to be written off in P&L

Year	Fixed Cost	Production (in Units)		Consider in Denominator with reason
		Normal	Actual	
2005	₹60,000	48,000	40,000	Cost/Unit = ₹ 60,000/48,000 Units=₹1.25/Unit
Actual Production < Normal Production				So CI Stock = ₹ (7.2+1.25) * 3,600 Units = ₹30,420
Consider Normal Production in Denominator				Amount to be written off to P&L=60,000-(40,000*1.25)=10,000
2006	₹60,000	48,000	50,000	Cost/Unit = ₹60,000/50,000 Units=₹1.20/Unit
Actual Production > Normal Production				So CI Stock = ₹ (7.5+1.2) * 4,000 Units = ₹ 34,800
Consider Actual Production in Denominator				Amount to be written off to P&L = 60,000 - (50,000*1.2) = 0

Problem 5 :

Calculation of Cost/Unit

Sr. No.	Particulars	Computation	₹
i)	<u>Cost of Production</u>		
~	Material & Stores	Given	400
~	Direct Labour	Given	250
~	Variable OH	Given	150
~	Fixed OH	(290-100)	190
~	Subtotal		990
iii)	No of Units Produced	Given	550
iv)	Cost/Unit	(i/ii)	1.80

- ▶ The company follows standard costing which is used only if the result approximates the actual cost.
- ▶ Incidentally cost/computer as per absorption costing is same as standard costing.

**Problem 6 :****Trading A/c at Retail Price**

Particulars	Units	₹	Particulars	Units	₹
To Op Stock	2,59,000	12,64,748	By Sales	8,30,456	55,81,454
To Purchases	12,00,000	78,05,923	By CI Stock *	6,28,544	34,89,217
Total ₹	14,59,000	90,70,671	Total ₹	14,59,000	90,70,671

$$\text{G.P Ratio} = \frac{\text{G.P.}}{\text{Sales incl CI Stock}} = \frac{90,70,671 - (10,50,222 + 61,20,000)}{90,70,671} = \frac{19,00,449}{90,70,671} = \boxed{20.96\%}$$

At Cost	Profit	Sales
79.0484	20.9516	100
27,58,170		34,89,217

Problem 7 :**Valuation of Inventory**

Cases	Cost	NRV		Value of Inventory (Lower)		Total Value
A	B	Contract Price	General S.P	Contract Price	General S.P	
I	50	53	54	4,00,000	1,00,000	5,00,000
		(55-2)	(56-2)	(8,000*50)	(2,000*50)	
II	50	47	51	3,76,000	1,00,000	4,76,000
		(49-2)	(53-2)	(8,000*47)	(2,000*50)	
III	100	47	54	4,70,000	0	4,70,000
		(49-2)	(56-2)	(10,000*47)		
As per AS 29 provisions for onerous contract : [4,000 Units * ₹50 - (49-2)] = ₹3 = ₹12,000 (As manufacturing price is ₹50 & Selling Price 54-2 = 52 so better to manufacturer)						
IV)	100	47	48	4,70,000	0	4,70,000
		(49-2)	(50-2)	(10,000*47)		
As per AS 29 provision for onerous contract : [4000 Units * (₹50-2) - (49-2)] = ₹1 = ₹4,000 (As manufacturing price is ₹50 & Selling Price 50-2 = 48 so better to purchase from outside)						

Problem 8 :**[i] Valuation of RM**

FG is recorded at Cost
(NRV of FG > Cost of FG)

FG is recorded at NRV
(NRV of FG < Cost of FG)

RM is recorded at Cost

RM is recorded at Replacement

Value

➔ Conclusion : In the given case stock of RM will be valued at ₹80/Kg* 10,000 kgs = ₹800,000

[ii] Abnormal Cost are excluded from Cost of Inventories & treated as Expenses

Valuation of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Total Cost	(5,000 MT * ₹1,000)	50,00,000
ii]	Total Input	(5,000 MT ~ 5%)	4,750
iii]	Cost/MT	(i/ii)	1,052.632
iv]	Value of CI Stock	[iii*(5,000 MT ~ 300 MT)]	49,47,368
	Abnormal Loss	[ii*(300 ~ 5%*5000)]	52,632
	Subtotal		50,00,000



[iii] In accordance with AS 2, Cost of conversion includes a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods.

Cost per kg of finished goods

Sr. No.	Particulars	Computation	₹
i]	Material Cost	Given	100
ii]	Direct Labour	Given	20
iii]	Variable Prod" Overhead	Given	10
iv]	Fixed Prod" Overhead	(10,00,000/1,00,000)	10
v]	Subtotal	(i to iv)	140
vi]	Value of Inventory	(2,000 Kgs*v)	2,80,000

Problem 9 :

- ➔ As per Central Excise Rule
Excise Duty shall be collected at the time of removal of goods from Factory Premises or from approved place of storage
So the levy of excise duty remains upon the manufacture or production.
Only Collection part shifted to the stage of removal
- ➔ As per GN on Excise Duty
E.D. is a duty on manufacture/Production of Excisable goods in India
E.D. is a manufacturing expense like other Manu Exp it is considered in Inventory Valuation
- ➔ Conclusion :
M.D. Contention is not correct as ED is not a cost.
Excise Duty on goods for local sales should be provided @ 16%.
Excise Duty on goods for Export should not be provided.

Problem 10 :

- ➔ As per AS 2
Inventories include RM, WIP & FG
- ➔ As per GN
Need to calculate stage of completion
- ➔ Conclusion :
Stock is valued at Cost/NRV whichever is lower
Co must take help of technical valuation
So valuation is mandatory for WIP
Otherwise qualify the audit report.

Problem 11 :

- ➔ As per AS 2
Inventory should be value at cost or NRV whichever is lower
- ➔ As per AS 9
In specific industries (agricultural crops have been harvested or Mineral ores have been extracted) performance may be substantially complete prior to the execution of the transaction.
In such cases, when sale is assured under forward contract or Government guarantee the goods invoiced are often valued at NRV
- ➔ Conclusion :
Terry Towel do not fall in above category so valued at cost.
Further export incentives should be recorded only in the year of export sales.
So valuation is not correct to record at NRV.

**Problem 12 :**

➤ As per AS 10 :

Meaning of Asset

Tangible objects or intangible right carrying probable future benefits, owned by an enterprise are called assets.

Night Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. So empty bottles are assets for the company.

➤ As per AS 2 "Valuation of Inventories" :

[a] Inventories are assets held for sale in the ordinary course of business.

[b] Stock of bottles existing on the Balance Sheet date is the inventory.

[c] Night Ltd. has detailed control on recording and accounting of Inventory.

[d] Hence stock of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

Problem 13 :**Case of Material & other supplies held for use in Production of Inventories**

Sr. No.	Cases	Explanation
1]	Input should be recorded at cost	Finished Product in which Input is to be used is expected to be sold at or above cost.
2]	Input should be recorded at NRV i.e. Replacement Cost	Finished Product in which Input is to be used is expected to be sold below cost.

Case I : Closing Stock of if NRV of FG is ₹400**Compare Cost of Finished Product Y (Step I) with NRV ₹400****Step I : Cost of Finished Product**

Sr. No.	Particulars	Computation	₹
i]	Material Consumed	(Step II)	220
ii]	Labour	Given	60
iii]	Direct OH	Given	40
iv]	Fixed OH	2,00,000/20,000 Units	10
v]	Total Cost	(i+ii+iii+iv)	330

✍ Note : As NRV (₹400) > Cost/Unit (₹300) of Final Product. So Material should be considered ₹ 220 & not replacement cost (₹150).

Step II : Cost of Material Consumed X

Sr. No.	Particulars	Computation	₹
i]	Cost Price	Given	200
ii]	Less: CENVAT Credit	Credit available so don't cons	~10
iii]	Freight Inward	Given	20
iv]	Unloading Charges	Given	10
v]	Total Cost	(i+ii+iii+iv)	220

Value of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Raw Material	(500 units * ₹220)	1,10,000
ii]	Finished Goods	(1,200 units * ₹ 330)	3,96,000
iii]	Total		5,06,000



Case II : Closing Stock of if NRV of FG is Rs. 300
Compare Cost of Finished Product Y (Step I) with NRV Rs. 300

✍ Note : As NRV (₹300) < Cost/Unit (₹330) of Final Product. So Material should not be considered ₹220 but replacement cost (₹150)

Value of Closing Stock

Sr. No.	Particulars	Computation	₹
i]	Raw Material	(500 units * Rs. 150)	75,000
ii]	Finished Goods	(1,200 units * Rs. 300)	3,60,000
iii]	Total		4,35,000

✍ Note : It has been considered that RM X has been used in the production of FG Y.

EXERCISE

Illustration 1 :

The company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2014 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2014-15. This would result in decrease in profit by ₹ 5 lakhs. Comment.

Illustration 2 :

Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when

[I] Net Realizable Value of the Finished Goods X is ₹400.

[II] Net Realizable Value of the Finished Goods Y is ₹300.

Illustration 3 :

An enterprise ordered 13,000 Kg. of certain material at ₹90 per unit. The purchase price includes excise duty ₹5 per Kg., in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹80,600. Normal transit loss is 4%. The enterprise actually received 12,400 Kg and consumed 10,000 Kg. Compute calculation of cost per kg & allocation of material cost.