# INVENTORY VALUATION

## Q1

Lili's inventory of $24 500 needs to be adjusted for the following.

1 5 items costing $10 each had been omitted from the inventory.
2 10 items costing $25 each were damaged and could only be sold for $15 each.
3 4 items were included in the inventory at the list price of $300 each, having been marked up by 50%.
4 1 item costing $20 was recorded in error in the inventory as $200.

**REQUIRED**

**(b)** Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

| Adjustment | Effect on inventory value | | Value $ |
|---|---|---|---|
| | increase | decrease | |
| 1 | ✓ | | *50* |
| 2 | | | |
| 3 | | | |
| 4 | | | |

## Q2

Mr ARD was not feeling well for the week ending 31 Dec 2019 therefore the accounts were prepared by junior accountant. Closing inventory figure was stated as $24 058

Mr ARD Charges a standard markup of 25%

After resuming his duty Mr ARD realized the following errors were present in closing inventory valuation:

1) Goods with a selling price of $1 040 had been sent to customer on approval
2) Goods costing $2 000 were purchased but excluded from inventory figure
3) A Parcel of inventory has been water damaged. This had originally cost us $390 but can only be sold for $300 after incurring a repair cost of $50
4) Inventory which had cost $1 200 but is now out of fashion and would have to be sold for $400 less than cost
5) Goods costing $950 which ARD had acquired on sale or return basis. He has not showed any intention to purchase the goods
6) Goods with selling price of $500 were sold but awaiting collection by customer

**Required:** Prepare a statement of corrected inventory valuation as at 31 December 2019

## Q3

Ishaq knows that he must place a value on his inventory at the end of his financial year.

**REQUIRED**

**(e)** **(i)** State the basis on which Ishaq should value his inventory.

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**(ii)** Name the accounting principle which Ishaq would be applying by valuing his inventory on this basis.

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**(f)** Complete the table by placing a tick (✓) in the correct column to indicate the effect of Ishaq undervaluing his inventory at 31 July 2019.

| | overstated | understated |
|---|---|---|
| gross profit for the year ended 31 July 2019 | | |
| current assets at 31 July 2019 | | |
| cost of sales for the year ending 31 July 2020 | | |
| profit for the year ending 31 July 2020 | | |

[4]

## Q4

Elil is a trader dealing in clocks.

**REQUIRED**

**(a)** State how inventory should be valued in the financial statements.

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Elil buys clocks for $24 each. The following information is available about Elil's business:

1 Elil had inventory of 100 clocks on 1 January 2016.

2 During the year he bought 2000 clocks.

3 During the year he sold 50 clocks at a promotional price of $40 each. All other sales were made at a selling price of $60 each.

4 He had inventory of 180 clocks on 31 December 2016.

5 All sales were made on a credit basis.

**REQUIRED**

**(b)** Calculate the value of Elil's sales for the year ended 31 December 2016.

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**(c)** Calculate Elil's gross profit for the year ended 31 December 2016.

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Paul always values his inventory at the lower of cost and net realisable value.

**REQUIRED**

**(d)** Explain why Paul should continue his policy of including inventory in his financial statements at the lower of cost and net realisable value.

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**Q5**

Sue is a trader. Her financial year ends on 31 December.

She provided the following information about her inventory for the financial year ended 31 December 2014.

| | Cost | Net realisable value |
|---|---|---|
| | \$ | \$ |
| Inventory 1 January | 6800 | 7100 |
| Inventory 31 December | 8200 | 7800 |

**REQUIRED**

**(a)** Define the following terms.

**(i)** cost ..............................................................................................................

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**(ii)** net realisable value ..............................................................................................

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**(b)** Explain why the inventory at 31 December 2014 was included in the financial statements at net realisable value rather than cost.

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After the preparation of the income statement for the year ended 31 December 2014 it was discovered that the inventory on 1 January had been included at net realisable value.

**REQUIRED**

**(c)** Complete the following table to indicate the effect of this error on the cost of sales and the profit for the year ended 31 December 2014.

Place a tick (✓) under the correct heading to indicate whether each item would be overstated or understated.

| | overstated | understated |
|---|---|---|
| cost of sales | | |
| profit for the year | | |

[2]

Sue provided the following information for the year ended 31 December 2015.

| | $ |
|---|---|
| Cost of sales | 49 900 |
| Average inventory | 7 500 |

**REQUIRED**

**(d)** **(i)** State the formula for the calculation of the rate of inventory turnover.

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**(ii)** Calculate the rate of inventory turnover for the year ended 31 December 2015.
The calculation should be correct to **two** decimal places.
Show your workings.

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Sue's rate of inventory turnover for the previous year was 8.15 times.

**REQUIRED**

**(e)** State whether you consider that Sue would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied? ..........................................................

Reason .............................................................................................................................

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**(f)** Suggest **one** way in which the rate of inventory turnover could be improved.

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**Q6**

After the preparation of the income statement for the year ended 31 January 2015, it was discovered that the opening inventory had been overvalued by $250.

**REQUIRED**

**(g)** Complete the following table to show the effect of this.

The first one has been completed as an example.

| | overstated | understated | no effect |
|---|---|---|---|
| gross profit for the year ended 31 January 2014 | ✓ | | |
| credit balance on capital account on 1 February 2014 | | | |
| gross profit for the year ended 31 January 2015 | | | |
| profit for the year ended 31 January 2015 | | | |
| current assets at 31 January 2015 | | | |