

Inventories

• Inventory - an asset



* for sale

* for production

* " consumption of prodn

Weightage
: 05-06m

Inventory

Manufacturing entities

- Raw materials
- working in progress
- finished goods
- stores / spares
- packing materials

Trading entities

↓
stock in Trade
एगो सिर्फ बिकने के लिये होता है।

Significance of Inventory Valuation

1. correct income determination
2. correct financial position (B/S)
3. help to analysis liquidity
4. statutory compliances → sec 11 Co. Act

* Basis of Inventory valuation as of ASC 2

Inventory is valued @ conservatism

Cost or net realisable value whichever is lower

↓
expected sell price - exp cost of completion

Formulae

* Cost of good sold = opening st (+) net pur (+) direct exp (-) closing st.

* Net pur = Pur - Pur return

* Direct exp = manufacturing exp, factory exp, carriage inwards, wages, freight, octroi etc..

* Cost of good sold = net sale (-) gross profit
 * " " " " = " " (+) gross loss.

* closing stock =

1. Op st (+) net pur (+) Dir exp (-) COGS
2. Op. st (+) [Pur (-) pur ret] (+) Dir exp (-) [net sale (-) gross profit]
3. Op. st (+) pur (-) Pur. ret (+) Dir exp (-) [sale - sale ret (-) GP]
4. Op. st (+) pur (-) P.O (+) Dir exp (-) sale (+) & R + G.P

Op. stock = Cl. st (+) COGS (-) net pur (-) Dir exp]

* adjusted pur = op. st + net pur - cl. st

* Cost of goods for available sale = op. st + net pur

* Cost =

cost of pur (+) cost of conversion (+) other cost

expense incurred in acquisition of goods includes tax

incl. direct labour/direct exp

Includes cost incurred in bringing inventory to their present value.

Valuation

1. Over valuation of closing stock \Rightarrow	Profit (\uparrow)	COGS (\downarrow)
2. Under " " " " \Rightarrow	Profit (\downarrow)	COGS (\uparrow)
3. Over valuation of opening stock \Rightarrow	Profit (\downarrow)	COGS (\uparrow)
4. Under " " " " \Rightarrow	Profit (\uparrow)	COGS (\downarrow)

Cost methods : 3

Historical cost

1. FIFO - first in first out
2. LIFO - last in first out
3. Avg price = have to add all prices.
4. weighted avg price = weight ko bhii add karna.

Non H.I.S. Cost

adjusted selling price method (Retail selling)

Adjusted selling price

Sales	XX (given)
(+) closing st @ sell price	XX (given)
S.o.P of goods available for sale	<u>(A) XXX</u>
(-) Op. st	(XX) } given
(-) Pur	(XX) }
Gross margin	<u>(B) XXX</u>

Now $\downarrow = \frac{B}{A} \times 100 = \%$

last step = clos st @ S.P (-) gross margin (%) $\frac{XX}{XX}$
 a. st @ cost $\frac{XX}{XX}$

Diff betⁿ

(2/4/5/6m)

Periodic Inv. system vs Perpetual I. S

- * system based on physical verification
- * in this COGS is residual value (bal. fig)
- * goods lost is assumed to be part of COGS
- * simple & less expensive
- * more inventory not in control
- * requires closure of business for counting of inventory

- * system based on book records
- * in this closing st. is residual value (bal. fig)
- * goods lost is assumed to be part of closing stock.
- * costlier method
- * more controlling inventory can be exercised
- * can be determined without affecting operation of business.

Champions keep playing,
until they get in right.

Prayer
for my
champs!
ammi!

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