

When Raw Material is used in production of finished Goods and finished Goods NRV is  $\geq$  cost of finished goods i.e. the NRV of finished goods totally covers its cost,

then the Raw Material will be valued at cost irrespective of its NRV because the cost of raw material is also getting fully recovered.

CA foundation  $\xrightarrow{\hspace{15em}}$  CA final

C = 50,000      NRV = 40,000

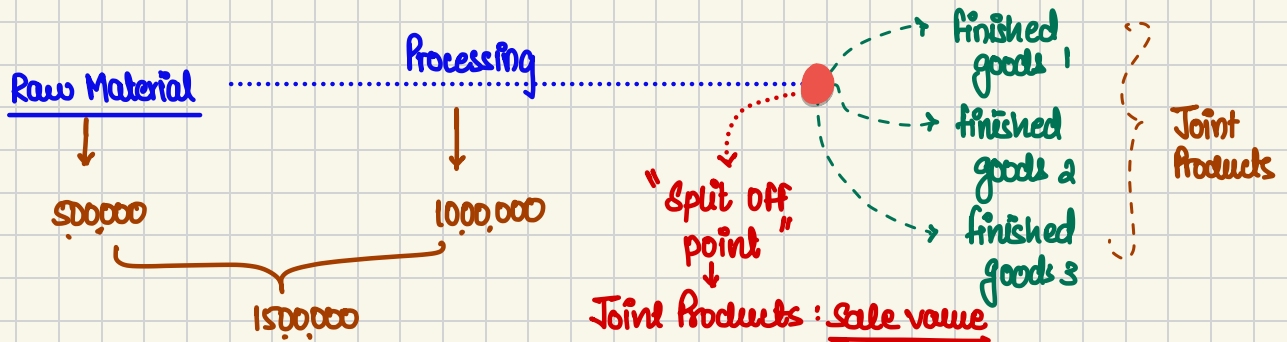
\* Value = 40,000 \*  
Value = 50,000

C = 300,000  
(includes foundation)  
cost also

NRV = 300,000  
= 200,000

Value = 200,000

### VALUATION OF JOINT PRODUCT & BY PRODUCT

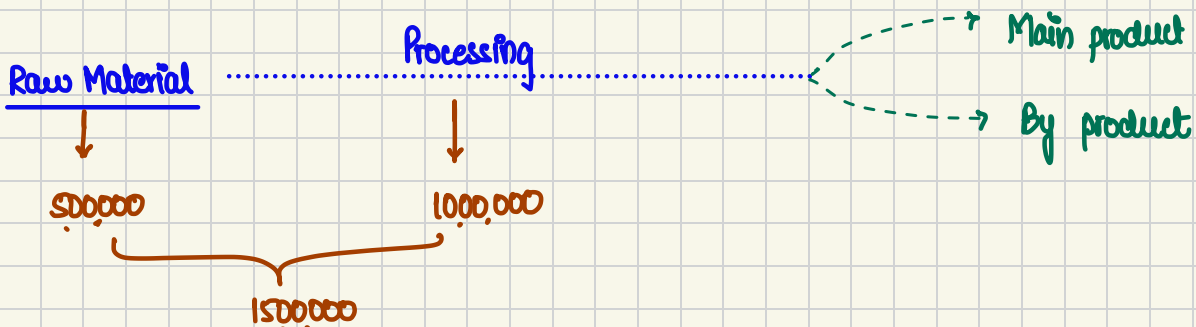


Sale value = units produced  $\times$  SP/unit

Cost will be apportioned in proportion of Sale value.

we want to calculate the cost of Joint Products

### MAIN PRODUCT & BY PRODUCTS



Cost of finished Goods

1- Entire cost of Raw Material consumed  
2- Entire cost of conversion

} will be allocated to the main product

By-product will be valued at NRV

### Main Product Cost

1- Entire cost of Raw Material consumed  
2- Entire cost of conversion  
3- less: NRV of by product

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Cost of main product

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CASE I :- Actual Prodn = 100,000 units

$$\begin{aligned}\text{Fixed O/H} &= 500,000 \\ \text{Normal Prodn} &= 100,000\end{aligned}$$

$$\text{Cost/unit} = 500,000 / 100,000 = ₹ 5/\text{unit}$$

$$\begin{aligned}\text{Inventory cost (absorbed)} &= 100,000 \times 5 = 500,000 \\ \text{P\&L Dr. (unabsorbed)} &= 0\end{aligned}$$

When actual Prodn > normal production cost/unit to be absorbed will be calculated on the basis of actual Prodn.

When actual Prodn < normal Prodn cost/unit to be absorbed will be calculated on the basis of normal production.

CASE II :- Actual production = 80,000 units

$$\begin{aligned}\text{Fixed O/H} &= 500,000 \\ \text{Normal Prodn} &= 100,000\end{aligned}$$

$$\text{Cost/unit} = 500,000 / 100,000 = ₹ 5/\text{unit}$$

$$\begin{aligned}\text{Inventory cost (absorbed)} &= 80,000 \times 5 = ₹ 400,000 \\ \text{P\&L Dr. (unabsorbed)} &= ₹ 100,000\end{aligned}$$

CASE III :- Actual production = 120,000

$$\begin{aligned}\text{Fixed O/H} &= 500,000 \\ \text{Normal Prodn} &= 100,000\end{aligned}$$

$$\text{Cost/unit} = 500,000 / 120,000 = 4.17$$

$$\begin{aligned}\text{Inventory cost (absorbed)} &= 120,000 \times 4.17 = 500,000 \\ \text{P\&L Dr.} &= 0\end{aligned}$$

## ROADMAP TO AIR

L6

1. Daily classes - live → marking → V-imp (A<sup>+</sup>), A
2. Self study → classwork revise  
+ Homework
3. Sunday → Revision → 2 subject → weekly revision → imp quest. handwritten theory
4. Tests → sincerely appear
5. within 10 days of Group 1 classes getting over → group 1 self study finish.
6. Daily routine  
    ↳ Wakeup time  
    ↳ Meal Time → meal portion  
    ↳ Sleep time  
        ↳ daal  
        ↳ 1 bowl chana salad

## Question 7: extended version

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### Calculation of cost of main product Delta

|                                               |           |
|-----------------------------------------------|-----------|
| 1. Total conversion cost                      | = 385000  |
| 2. less: NRV of deltaron<br>7000 x (5 - 1.25) | = (26250) |
| 3. Net cost of Delta                          | = 358750  |
| 4. Units of Delta produced                    | = 125000  |
| 5. Cost/unit of Delta                         | = 2.87    |

Question :- Ms. Grajodhari Lopez runs a dairy business.  
Raw Material cost = 500000  
Conversion cost = 700000

### Finished Goods manufactured :-

Milk = 2500 l ✓  
cheese = 750 kgs  
cream = 450 kgs

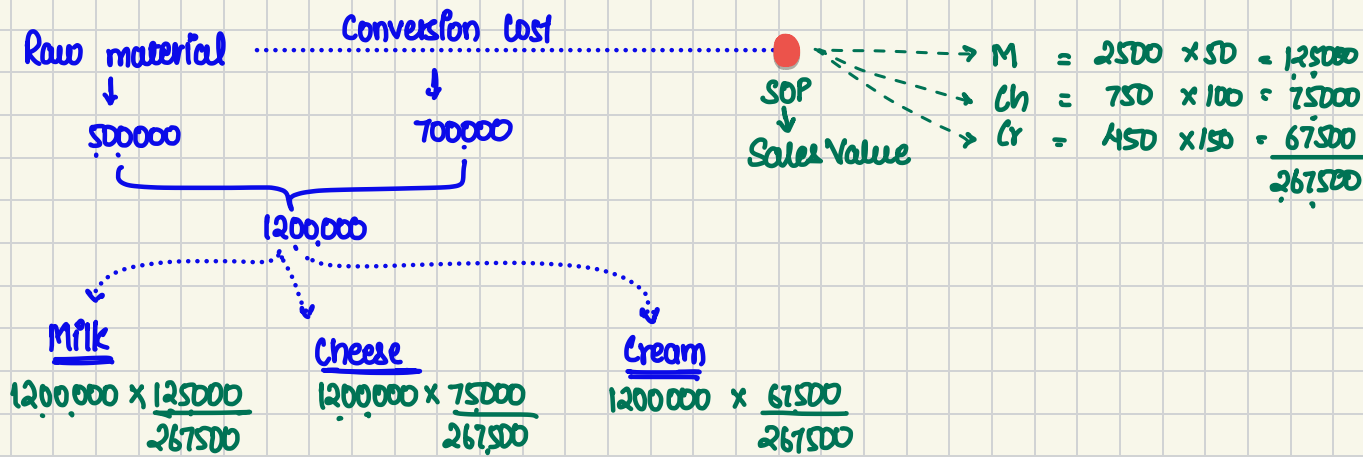
### Selling Price /unit

Milk = 50/l  
cheese = 100/kg  
cream = 150/kg.

cheese and cream are subject to further processing to make them of a better quality. Selling price after further processing is

Cheese = 120/kg  
Cream = 180/kg.

Calculate the cost to be apportioned to the Joint Products.



### Question 13: -

#### 1. Calculation of value of closing Stock

Method: FIFO

Closing Stock = 130000 units

$$\begin{array}{rcl} \text{2nd Purchase} & : & 100000 \times 15.15 = 1515000 \\ \text{1st Purchase} & : & 30000 \times 14.25 = 427500 \\ & & \hline & & 1942500 \end{array}$$

#### 2. Calculation of costs

Opening Stock + Purchase + Direct Expenses - Closing Stock

$$\begin{aligned} &= (100000 \times 15) + (200000 \times 14.25) + (100000 \times 15.15) + 0 - 1942500 \\ &= 1500000 + 2850000 + 1515000 - 1942500 \\ &= 3922500 \end{aligned}$$

#### 3. Calculation of Profit

$$\begin{array}{rcl} \text{a. Sales} & = & 4725000 \\ \text{b. less: Costs} & = & (3922500) \\ \text{c. less: General o/H} & = & (415000) \\ & & \hline & & 677500 \end{array}$$



RM: C = 140 RC = 190  $\Rightarrow 140 \times 800$

WIP: C = 310

## AS-2: INVENTORY VALUATION

NRV =  $350 - 50 = 300 \Rightarrow 300 \times 650$

Fgt: C = 360

NRV = 350  $\Rightarrow 350 \times 1800$

### STUDENT NOTES

#### Question 24: PP-N19

→ HW

RM: A

Fgt: X

Mr. Rakshit gives the following information relating to items forming part of inventory as on 31st March, 2019. His factory produces product X using raw material A.

800 units of raw material A (purchased @ ₹ 140 per unit). Replacement cost of raw material A as on 31st March, 2019 is ₹ 190 per unit.

650 units of partly finished goods in the process of producing X and cost incurred till date ₹ 310 per unit. These units can be finished next year by incurring additional cost of ₹ 50 per unit. ✓

1,800 units of finished product X and total cost incurred ₹ 360 per unit. Expected selling price of product X is ₹ 350 per unit.

In the context of AS-2, determine how each item of inventory will be valued as on 31st March, 2019. Also, calculate the value of total inventory as on 31st March, 2019

#### Answer:

**Quote:** As per AS-2 (Revised) "Valuation of Inventories", Raw Materials held for use in the production of finished goods are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost.

However, when there has been a decline in the price of Raw Materials and it is estimated that the cost of the finished products will exceed net realizable value, the Raw Materials are written down to net realizable value.

In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

**Analysis:** In the given case, selling price of product X is ₹ 350 and total cost per unit for production is ₹ 360.

Hence the valuation will be done as under:

- I. 800 units of raw material will be valued at cost 140.
- II. 650 units of partly finished goods will be valued at 300 per unit\* i.e. lower of cost (₹ 310) or Net realizable value ₹ 300 (Estimated selling price ₹ 350 per unit less additional cost of ₹ 50).
- III. 1,800 units of finished product X will be valued at NRV of ₹ 350 per unit since

|                       | Units | Cost | NRV ₹ | Value    | ₹             |
|-----------------------|-------|------|-------|----------|---------------|
| Raw material A        | 800   | 140  | 190   | 1,12,000 | (800 x 140)   |
| Partly finished Goods | 650   | 310  | 300   | 1,95,000 | (650 x 300)   |
| Finished goods X      | 1,800 | 60   | 350   | 6,30,000 | (1,800 x 350) |
| Value of Inventory    |       |      |       | 9,37,000 |               |

\*It has been assumed that the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.



Question 1 : DPQ.



Total cost = 2077600  
units = 20000

$$NL = 2\% = 400$$

Effective units = 19600

$$\text{Abnormal loss} = SDO - 400 = 100$$

$$100 \times 106 = 10600 \rightarrow \text{P\&L Dr.}$$

$$\begin{aligned} \text{cost/unit} &= \frac{2077600}{19600} \\ &= 106 \end{aligned}$$

$$\begin{aligned} \text{CS units} &= 19500 - 18000 \text{ units} \\ &= 1500 \\ &\times 106 \\ &\underline{\underline{159000}} \end{aligned}$$

#### Question 4:-

##### Valuation of Closing Stock

##### Raw Material :- X

##### Cost calculation

|                      |   |            |
|----------------------|---|------------|
| 1. Cost Price        | = | 380        |
| 2. Unloading charges | = | 20         |
| 3. freight Inward    | = | 40         |
|                      |   | <u>440</u> |

Replacement cost (NRV) = 300

Raw Material X will be valued at cost or NRV w.e. lower.

However, if the NRV of FG in which the RM will be used exceeds the cost of FG, then even the RM X will be valued at cost.

##### Chemical Y :-

|                                         |   |            |
|-----------------------------------------|---|------------|
| 1. Material consumed                    | = | 440        |
| 2. Direct labour                        | = | 120        |
| 3. Variable o/H                         | = | 80         |
| 4. fixed o/H absorbed<br>(400000/20000) | = | 20         |
| Total cost                              | = | <u>660</u> |
| NRV                                     | = | 800        |

Hence chemical Y will be valued at cost or NRV w.e. lower.

$$\rightarrow 660 \times 2400 = 1584000.$$

As the NRV of chemical Y completely covers the cost, hence even the Raw Material will be valued at cost.

$$\rightarrow 440 \times 1000 = 440000$$