

VALUATION OF INVENTORIES

1. Which item of inventory is under the scope of AS 2?
 - a. WIP arising under construction contracts.
 - b. Raw materials
 - c. Shares
 - d. Debentures held as stock in trade.

2. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be
 - a. sold at or above cost.
 - b. sold above cost.
 - c. sold less than cost.
 - d. sold at market value (where market value is more than cost).

3. All of the following costs are excluded while computing value of inventories except?
 - a. Selling and Distribution costs
 - b. Allocated fixed production overheads based on normal capacity.
 - c. Abnormal wastage
 - d. Storage costs

4. Identify the statement(s) which is/are incorrect.
 - a. Storage costs which is a necessary part of the production process is included in inventory valuation.
 - b. Administration overheads are never included in inventory valuation.
 - c. Full amount of variable production overheads incurred are included in inventory valuation.
 - d. Selling and Distribution costs does not form part of stock valuation.

5. Pawan and-Vikas are partners in firm sharing profits and losses in the ratio of 4: 3.

Balance Sheet (Extract)

Liabilities	₹	Assets	₹
		Inventory	2,00,000

If the value of Inventory reflected in the above balance sheet is overvalued by 25%, find out the value of inventory to be shown in the new Balance Sheet.

- a. ₹ 1,60,000
 - b. ₹ 2,00,000
 - c. ₹ 2,40,000
 - d. ₹ 2,50,000
-
6. The cost of inventories of items that are not ordinarily inter-changeable and goods or services produced and segregated for specific projects should be assigned by?
 - a. Specific identification of their individual costs
 - b. FIFO
 - c. Weighted average cost formula
 - d. (b) or (c)

 7. In determining the cost of inventories in accordance with AS 2, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred. An example of such cost is?
 - a. Fixed production overheads.

- b. Freight inwards.
 - c. Selling and distribution costs.
 - d. Costs of designing products for specific customers.
8. Under AS 2, how should the cost of inventories be measured?
- a. Net realizable value
 - b. Lower of cost and net realizable value
 - c. Historical cost
 - d. Replacement cost
9. Which method is NOT an acceptable method for measuring the cost of inventories under AS 2?
- a. Weighted Average Cost
 - b. FIFO (First-In, First-Out)
 - c. LIFO (Last-In, First-Out)
 - d. Specific Identification Method
10. How should the cost of raw materials be measured under AS 2?
- a. Cost plus a reasonable profit margin
 - b. Cost minus a reasonable profit margin
 - c. Costs (if finished goods are sold at cost or at above cost)
 - d. Market value only
11. A company has inventory with a historical cost of ₹ 10,000. Due to a decline in market prices, the net realizable value is now ₹ 8,000. According to AS 2, what should be the valuation of inventory in the financial statements?
- a. ₹ 10,000
 - b. ₹ 8,000
 - c. ₹ 9,000
 - d. None of the above
12. A manufacturing company has incurred ₹5,000 in abnormal wastage during the production process. According to AS 2, how should this cost be treated in the financial statements?
- a. Included in the cost of production
 - b. Recognized as an expense
 - c. Deducted from revenue
 - d. Ignored in the financial statements

Answers:

1. (b)
2. (a)
3. (b)
4. (b)
5. (a)
6. (a)
7. (c)
8. (b)
9. (c)
10. (c)
11. (b)
12. (b)