



## Question

## Inventory valuation

A company has inventory on hand at the end of the reporting period as follows.

	Units	Raw material cost	Attributable production overheads	Attributable selling costs	Expected selling
		\$	\$	\$	\$
Item A	300	160	15	12	185
Item B	250	50	10	10	75

*Required*

At what amount will inventories be stated in the statement of financial position in accordance with IAS 2?

Answer: 66,900.

### 1.8 Example: Inventories written off and written down

Lucas Wagg, trading as Fairlock Fashions, ends his financial year on 31 March. At 1 April 20X5 he had goods in inventory valued at \$8,800. During the year to 31 March 20X6, he purchased goods costing \$48,000. Fashion goods which cost \$2,100 were still held in inventory at 31 March 20X6, and Lucas Wagg believes that these could only now be sold at a sale price of \$400. The goods still held in inventory at 31 March 20X6 (including the fashion goods) had an original purchase cost of \$7,600. Sales for the year were \$81,400.

*Required*

Calculate the gross profit of Fairlock Fashions for the year ended 31 March 20X6.

Answer: 30,500



## QUESTION

## Inventories

A business is established with capital of \$2,000 and this amount is paid into a business bank account by the proprietor. During the first year's trading, the following transactions occurred.

	\$
Purchases of goods for resale, on credit	4,300
Payments for trade accounts payable	3,600
Sales, all on credit	4,000
Payments from trade accounts receivable	3,200
Non-current assets purchased for cash	1,500
Other expenses, all paid in cash	900

The bank has provided an overdraft facility of up to \$3,000.

All 'other expenses' relate to the current year.

Closing inventory is valued at \$1,800. (Because this is the first year of the business, there are no opening inventories.)

Compute profit/loss for the year.

Answer: 600

**QUESTION**

Valuation

The following figures relate to inventory held at the year end.

	A	B	C
	\$	\$	\$
Cost	20	9	12
Selling price	30	12	22
Modification cost to enable sale	–	2	8
Marketing costs	7	2	2
Units held	200	150	300

*Required*

Calculate the value of inventory held.

Answer; 8,800

### 4.7 Example: Inventory valuations and profit

On 1 November 20X2 a company held 300 units of finished goods item No 9639 in inventory. These were valued at \$12 each. During November 20X2 three batches of finished goods were received into store from the production department, as follows.

<i>Date</i>	<i>Units received</i>	<i>Production cost per unit</i>
10 November	400	\$12.50
20 November	400	\$14
25 November	400	\$15

Goods sold out of inventory during November were as follows.

<i>Date</i>	<i>Units sold</i>	<i>Sale price per unit</i>
14 November	500	\$20
21 November	500	\$20
28 November	100	\$20

What was the profit from selling inventory item 9639 in November 20X2, applying the following principles of inventory valuation?

- (a) FIFO
- (b) AVCO (using cumulative weighted average costing)

Ignore administration, sales and distribution costs.



## QUESTION

FIFO

A firm has the following transactions with its product R.

### Year 1

Opening inventory: nil

Buys 10 units at \$300 per unit

Buys 12 units at \$250 per unit

Sells 8 units at \$400 per unit

Buys 6 units at \$200 per unit

Sells 12 units at \$400 per unit

### Year 2

Buys 10 units at \$200 per unit

Sells 5 units at \$400 per unit

Buys 12 units at \$150 per unit

Sells 25 units at \$400 per unit

### Required

Using FIFO, calculate the following on an item by item basis for both year 1 and year 2.

- (i) The closing inventory
- (ii) The sales
- (iii) The cost of sales
- (iv) The gross profit