

## INVENTORIES QUESTIONS

### TEST YOUR KNOWLEDGE

#### True and False

State with reasons, whether the following statements are True or False:

1. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.
2. A building is considered inventory in a construction business.
3. Inventory is valued as carrying cost less percentage decreases.
4. Management has daily information about the quantity and valuation of closing stock under Physical Inventory System.
5. Periodic Inventory System is more suitable for small enterprises.
6. When closing inventory is overstated, net income for the accounting period will be understated.
7. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.
8. Cost of inventories should comprise all cost of purchase.
9. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.
10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.
11. Perpetual system requires closure of business for counting of inventory.
12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.
13. The value of ending inventory under simple average price method is realistic as compare to LIFO.
14. The value of stock is shown on the assets side of the balance-sheet as fixed assets.
15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.
16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.
17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism.
18. Finished goods are normally valued at cost or market price whichever is higher.

#### MCQs

1. The amount of purchase if  
Cost of goods sold is ₹ 80,700  
Opening Inventory ₹ 5,800  
Closing Inventory ₹ 6,000  
(a) ₹ 80,500      (b) ₹ 74,900      (c) ₹ 80,900.
2. Average Inventory = ₹ 12,000. Closing Inventory is ₹ 3,000 more than opening Inventory. The value of closing Inventory = \_\_\_\_\_.  
(a) ₹ 12,000      (b) ₹ 24,000      (c) ₹ 13,500.

3. While finalizing the current year's profit, the company realized that there was an error in the valuation of closing Inventory of the previous year. In the previous year, closing Inventory was valued more by ₹50,000. As a result
- Previous year's profit is overstated and current year's profit is also overstated
  - Previous year's profit is overstated and current year's profit is understated
  - Previous year's profit is understated and current year's profit is also understated
4. Consider the following for Q Co. for the year 2019-20:
- |                                  |            |
|----------------------------------|------------|
| Cost of goods available for sale | ₹ 1,00,000 |
| Total sales                      | ₹ 80,000   |
| Opening inventory of goods       | ₹ 20,000   |
| Gross profit margin on sales     | 25%        |
- Closing inventory of goods for the year 2019-20 as
- ₹ 80,000
  - ₹ 60,000
  - ₹ 40,000
5. Which of the following methods does not consider historical cost of inventory?
- Weighted average
  - FIFO
  - Retail price method
6. If the profit is 25% of the cost price then it is
- 25% of the sales price
  - 33% of the sales price
  - 20% of the sales price
7. Goods purchased ₹ 1,00,000. Sales ₹ 90,000. Margin 20% on cost. Closing Inventory = ?
- ₹ 20,000
  - ₹ 10,000
  - ₹ 25,000
8. A company is following weighted average cost method for valuing its inventory. The details of its purchase and issue of raw-materials during the week are as follows:
- 1.12.2020 opening Inventory 50 units value ₹ 2,200.
  - 2.12.2020 purchased 100 units @ ₹47.
  - 4.12.2020 issued 50 units.
  - 5.12.2020 purchased 200 units @ ₹ 48.
- The value of inventory at the end of the week and the unit weighted average costs is
- ₹ 14,200 – ₹ 47.33
  - ₹ 14,300 – ₹ 47.67
  - ₹ 14,000 – ₹ 46.66
9. The cost of sales is equal to
- Opening stock plus purchases
  - Purchases minus Closing stock
  - Opening stock plus purchases minus closing stock
10. Inventory is disclosed in financial statements under:
- Fixed Assets
  - Current Assets

(c) Current Liabilities

11. Accounting Standards do not permit following method of inventory valuation

(a) FIFO

(b) Average cost

(c) LIFO

12. Which inventory costing formula calculates value of closing inventory considering that inventory most recently purchased has not been sold?

(a) FIFO

(b) LIFO

(c) Weighted average cost

13. Valuing inventory at cost or net realisable value is based on which principle

(a) Consistency (b) Conservatism (c) Going concern

14. Under inflationary trend, which of the methods will show highest value of inventory?

(a) FIFO

(b) Weighted average

(c) LIFO

### **Theory Questions**

1. Write short notes on:

(i) Adjusted Selling Price method of determining cost of stock.

(ii) Principal methods of ascertainment of cost of inventory.

2. Distinguish between:

(i) LIFO and FIFO basis of costing of stock.

(ii) FIFO and weighted average price method of stock costing.

3. Define inventory. Explain the importance of proper valuation of inventory in the preparation of statements of the business entity.