PANCHAKSHARI'S PROFESSIONAL ACADEMY PVT LTD
(Your Lifelong Knowledge Partner…)

56 Questions   56 Marks   60 Minutes

Inventories

Select the best choice to answer the following questions:

1. At what value is stock stated in a trader's Balance sheet?
   a) Cost price
   b) Net realizable value
   c) The greater of net realizable value or cost
   d) The lower of net realizable value or cost price

2. Which two of the following statements are true?
   (i) In times of inflation, FIFO will give you a higher profit than LIFO
   (ii) In times of inflation, LIFO will give you a higher profit than FIFO
   (iii) FIFO matches revenue with up-to-date costs
   (iv) LIFO matches revenue with up-to-date costs
   a) (i) & (iii)   b) (i) & (iv)
   c) (i) & (iv)   d) (ii) & (iv)

3. AS-2 (Inventories) require stock to be valued using acceptable methods.
   Which of the following is an unacceptable method of valuing stock?
   a) FIFO   b) LIFO
   c) Weighted average
   d) Specific identification

4. Closing stock is appearing in the balance sheet as
   a) A current liability   b) A current asset
   c) A fixed asset   d) a foot note

5. Closing stock is
   a) Debited to Trading Account
   b) Debited to Profit and loss account
   c) Credited to trading account
   d) Credit to profit and loss a/c

6. The periodical inventory system uses
   a) An Inventory Account
   b) A Stock Account
   c) A Purchases Account
   d) Neither inventory account nor purchases A/c

7. In times of inflation, changing from LIFO method is likely to
   a) Have an unpredictable effect on reported profit
   b) Reduce reported profit
   c) Have no effect on reported profit
   d) Increase reported profit

8. A company includes in stock goods received before the year end. But for which invoices are not received until after the year end. This is in accordance with
   a) The consistency concept
   b) The historical cost convention
   c) The accrual concept
   d) Materiality concept

9. When valuing stock at cost, which of the following shows the correct method of arriving at cost?

Include transport cost	Include production overheads
a. YES	NO
b. NO	YES
c. YES	YES
d. NO	NO

10. According to AS-2 (Inventories), which of the following costs should be included n valuing the inventories of a manufacturing company?
    (i) Carraige inwards
    (ii) Carriage outwards
    (iii) Depreciation of factory plant
    (iv) General administrative overheads
    a) All four items
    b) (i), (ii) & (iv) only
    c) (i), (iii) and (iv) only
    d) (i) and (iii) only

11. The following statements relate to raw material pricing:
    1) Profit will be lower using FIFO rather than LIFO
    2) Production cost will be higher using weighted average pricing rather than FIFO.

Are the above statements true or false in a situation where raw material prices are rising consistently over time?

	Statement 1	Statement 2
a	False	False
b	False	True
c	True	False
d	True	True

12. Under inflationary situations, ________ method will show highest value of closing stock.
    a) LIFO b) FIFO
    c) Simple average d) Weighted average

13. Under _____ method last item purchased is first item sold.
    a) LIFO b) FIFO
    c) Simple average
    d) Weighted average

14. _____ inventory method is a method where the inventory accounting is kept continuously up to date.
    a) Periodic b) perpetual
    c) Weighted average (Periodic)
    d) Simple average (periodic)

15. If the closing inventory is understated, the profit of the period will _____
    a) Be overstated b) Not change
    c) Be understated
    d) None of the above

16. Recording of inventories at the end of the accounting period is_______
    a) An external transaction
    b) A credit transaction
    c) An internal transaction
    d) Not a transaction

17. Under FIFO method, issue of materials are valued____
    a) At cost b) at market price
    c) At lower of cost and market price
    d) At NRV

18. Inventory account is maintained under _____ inventory system.
    a) Periodical b) perpetual
    c) Periodical as well as perpetual
    d) None of the above

19. If opening stock is understated, the gross profit will______
    a) Be understated b) be overstated
    c) Not be affected
    d) Not be affected but net profit will be more

20. Inventory is recorded in the books of account at its _______
    a) Market value
    b) Net realizable value
    c) Cost
    d) None of the above

21. The ultimate objective of accounting for inventories is the proper determination of___
    a) Cost of goods sold b) Closing stock
    c) Opening stock d) Profit

22. A company values its inventory using FIFO method. At 1st April, 2006 the company had 700 engines in inventory, valued at Rs. 1,900 each. During the year ended 31st March, 2007 the following transactions took place.
    1.6.2006 Purchased 500 engines @ Rs. 2,200 each
    1.11.2006 Sold 400 engines @ Rs. 2,200 each
    1.2.2007 purchased 300 engines @ Rs. 2,300 each
    11.3.2007 sold 250 engines @ Rs. 5,000 each
    What is the value of the company's closing inventory of engines at 31st March, 2007?
    a) Rs. 19,55,000 b) Rs. 16,60,000
    c) Rs. 18,85,000 d) Rs. 10,60,000

23. A fire on 30 September, 2006 destroyed some of the company's inventory and its inventory records. The following information is available: (all figures in rupees)

Inventory on 1st September, 2006	3,18,000
Sales for September, 2006	6,12,000
Purchases for September, 2006	4,12,000
Inventory in good condition at 30th September, 2006	4,12,000
Inventory in good condition at 30 September, 2006	2,14,000

Rate of gross profit is 25% on sales.
Based on this information, what is the value of inventory lost?
a) Rs. 2,71,000 b) Rs. 96,000
c) Rs. 57,000 d) Rs. 26,400

24. On 30th April, 2007 part of a company's stock was destroyed by fire.
The following information is available: (all figures in Rupees)

i.	Stock on 1st April, 2007	1,00,000
ii.	Purchases for April, 2007	2,00,000
iii.	Sale for April, 2007	3,00,000
iv.	Undamaged stock saved	50,000
v.	Gross profit ratio	30%

25. The following information is available from the books of account of Anil, a trader. Purchases were Rs. 8,40,000; sales Rs. 10,00,000; opening stock Rs. 30,000. Anil achieves a mark up of 25%. Value of closing stock is
a) Rs. 40,000 b) Rs. 1,00,000
c) Rs. 70,000 d) Rs. 30,000

Answer Question No. 26, 27 and 28 from the following information:

2006, December

1 opening stock 300 units @ Rs. 9.70 each
3 purchases 250 units @ Rs. 9.80 each
11 Issues 400 units
15 purchases 300 units @ Rs. 10.05 each
20 Issues 210 units
26 purchases 150 units @ Rs. 10.30 each
28 Issues 100 units

26. Based on FIFO (perpetual) method, value of closing stock is
a) Rs. 2,910 b) Rs. 2,915
c) Rs. 2, 952 d) Rs. 2,987

27. Based on Weighted Average (periodic) method, value of closing stock is
a) Rs. 2,987 b) Rs. 2,877
c) Rs. 2,952 d) Rs. 2,910

28. Based on FIFO (periodic) method, value of closing stock is
a) Rs. 2,987 b) Rs. 2,952
c) Rs. 2,910 d) Rs. 2,915

Answer Question Nos. 29, 30 and 31 from the following information extracted from the records of an oil distribution company.

(i) Sales for the month of March, 2007 Rs. 9,45,000.
(ii) Opening stock on 1.3.2007 10,000 litres @ Rs. 30.00 per litre
(iii) Purchases (including freighted insurance):
March 5- 20,000 litres @ Rs. 28.50
March 27- 10,000 litre @ Rs. 30.30 per litre.
(iv) Closing stock 13,000 litres
(v) General administration expenses Rs. 25,000
(vi) FIFO method of inventory valuation is followed by the company.

29. The value of closing stock on 31st March, 2007 is
a) Rs. 3,85, 500 b) Rs. 3,93,900
c) Rs. 3,88,500 d) Rs. 3,70,500

30. Cost of goods sold during March, 2007 is
a) Rs. 7,87,500 b) Rs. 7,79,100
c) Rs. 8,02,500 d) Rs. 7,84,500

31. Net profit/loss for March, 2007
a) Rs. 1,60,500 b) Rs. 1,35,500
c) Rs. 1,17,500 d) Rs. 1,33,000

32. These records were kept for a stock item in May, 2007:
May 1, 1,000 units in stock @ Rs. 100 each
May 5, 500 units purchased @ Rs. 100 each
May 15, 600 units sold
May 25, 200 units bought @ Rs. 80 each
May 30, 800 units sold
The value of stock at May 31 using FIFO is
a) Rs. 24,000 b) Rs. 30,000
c) Rs. 16,000 d) Rs. 26,000

33. The following transactions relate to a raw material for a period:

Day	Transaction	Units	Total value (Rs.)
1	Balance b/f	100	500
3	Issue	40	-
4	Receipt	50	275
6	Receipt	50	300
7	Issue	70	-

The periodic weighted average method is used to price material issues. What is the value of the issue on Day 7?
a) Rs. 376.25 b) Rs. 382.81
c) Rs. 402.50 d) Rs. 410.00

34. S Ltd.'s stock was valued at Rs. 1,30,000 and excludes goods supplied to a customer on a sale or return basis. The customer has 20 days within which to return the stock. The goods on sale or return were purchased by S Ltd.. for Rs. 60,000 and were invoiced at a mark-up of 25%. The value of S Ltd.'s stock should be
a) Rs. 10,000 b) Rs. 1,90,000
c) Rs. 2,05,000 d) Rs. 2,10,000

35. X ltd. has an item in stock which cost Rs. 10,000 and can be sold for Rs. 12,000. However, before it can be sold, it will require to be modified at a cost of Rs. 1,500. The expected selling expenses of the item are an additional Rs. 1,000.
The value of stock is
a) Rs. 10,000 b) Rs. 11,500
c) Rs. 9,500 d) Rs. 10,500

36. Amar restores and sells second hand motorcycles. At 31st December, 2006, he had one motorcycle in inventory. Details of this were:
Model: Bajaj Boxer
Details: this item cost Rs. 10,000 and in December, 2006 Amar had also spent Rs. 750 on repairs. He has not yet sold it but is confident to sell it in a motorcycle fair in February 2007 for at least Rs. 15,000. It will cost Amar Rs. 250 to transport motorcycle to the fair.
The value of motorcycle to be included in the final account for 2006 is
a) Rs. 10,000 b) Rs. 15,000
c) Rs. 10,750 d) Rs. 14,750

37. Amar also holds an inventory of parts, which he values on the periodic weighted average basis. During the year 2006 his purchases of parts was:

Month	**Quantity (units)**	**Cost per unit (Rs.)**
January	400	20
June	500	22
September	300	24

At 31st September, 2006 he had 300 units in inventory. On 1st January, 2006 he had no parts in inventory. The value of inventory of parts at 31st December, 2006 is
a) Rs. 6,600 b) Rs. 6,000
c) Rs. 7,200 d) Rs. 6,550

38. Following the physical stock taking, the value of total stock is Rs. 1,22,357. The auditors find the following additional information:
(i) 370 units of stock which cost Rs. 0.40 per unit have been valued @ Rs. 4.00 each
(ii) The stock value including damaged goods at their original cost of Rs. 2,885. These goods could be sold for Rs. 3,600 after incurring repairing cost of Rs. 921.

The correct value of year end stock is:

a) Rs. 1,20,877 b) Rs. 1,20,671
c) Rs. 1,20,819 d) Rs. 1,21,225

39. The following information is available from the books of account of a trader. Stock which cost Rs. 20,000 can now be replaced for Rs. 14,000. The estimated net realizable value to this stock is Rs. 17,000. It is proposed that the stock should be written down to Rs. 17,000. Give your view:
a) Stock value should remain same, i.e. Rs. 20,000
b) Stock should be valued at Rs. 14,000
c) Stock should be written down to Rs. 17,000
d) Stock can be valued at Rs. 14,000 if certain conditions are satisfied

40. During the stock taking it was found that of the total stock of Rs. 8,35,000, approximately Rs.

93,000 of stock was missing and had been misappropriated. A further Rs. 50,000 of stock was estimated to be obsolete, with very little likelihood of resale. The value of stock should be:

a) Rs. 8,35,000 b) Rs. 8,78,000
c) Rs. 7,85,000 d) Rs. 6,92,000

Answer Question Nos. 41, 42 and 43 from the following information:

P Ltd. prices the issues using the weighted average (perpetual) method. The following relate to transactions in the month of March, 2007. Opening balance 2000 units @ Rs. 10 each

March 4	1,500 units @ Rs. 8.00 each	March 2	1,000 units
March 15	1,300 units @ Rs. 9.50 each	March 6	1,200 units
March 22	2,000 units @ Rs. 10.00 each	March 20	2,000 units
		March 26	1,500 units

41. The value of closing stock on 31st March, 2007 is
    a) Rs. 10,410 b) Rs. 10,790
    c) Rs. 11,000
    d) None of the above

42. Value of total issue is
    a) Rs. 53,940 b) Rs. 53,350
    c) Rs. 53,560
    d) None of the above

43. If weighted average (periodical) method would have been used by P Ltd. for pricing the issues, the closing stock on 31st March, 2007 should have been
    a) Rs. 11,000 b) Rs. 10,410
    c) Rs. 10,790 d) Rs. 10,313

44. X has closing stock which cost Rs. 38,750. This includes some damaged items which cost Rs. 3,660. It will cost X Rs. 450 to repair these he will be able to sell them for Rs. 1,500 after the repairs are completed. What is the correct value of X's closing stock?
    a) Rs. 38, 750 b) Rs. 36,590
    c) Rs. 36,140 d) Rs. 35,090

45. On 31st March, 2007, inventory code AXN-205 had 1,000 items in inventory. The original cost of this inventory was Rs. 4,600. Alternative valuations were obtained at 31st March, 2007 for this inventory item. Which value should be used in the accounts at 31st March, 2007 as per AS-2?
    a) Original cost Rs. 4,600
    b) Replacement cost Rs.3,200
    c) Net realizable value Rs.3,400
    d) Selling price Rs. 5,100

46. On 31st March, 2007, stock consists of 1,500 units of a raw material purchased @ Rs. 8 each, but the unit price of the item has fallen to Rs. 7. The price reduction is apprehended to be permanent. The firm has already decided that if the price reduction lasts longer than six months it will reduce the sale price of the finished goods from Rs. 12 to Rs. 11. The value of closing stock is:
    a) Rs. 16,500 b) Rs. 10,500
    c) Rs. 12,000 d) Rs. 18,000

47. According to AS-2 Inventories, which of the following costs should be included in valuing the inventories of a manufacturing company?
    (i) Freight and insurance
    (ii) Carriage outward
    (iii) Depreciation of factory plant
    (iv) General administrative overheads
    a) All four items
    b) (i), (ii) & (iv) only
    c) (ii) and (iii) only
    d) (i) and (iii) only

48. During the year to 31st December, 2006 Amar bought goods for resale at a cost of Rs. 7,55,500. His inventory at 1st January 2006 was valued at Rs. 1,57,400. He did not count

his inventory at 31st December, 2006 but he knows that his sales for the year to 31st December, 2006 were Rs. 9,18,000. All sales were made at a mark up of 20%. Based on the information above, what was the value of Amar's inventory at 31st December, 2006?

a) Rs. 1,36, 300 b) Rs. 1,47,900
c) Rs. 1,66,900 d) Rs. 1,78,500

49. Karim is an antiques dealer. His inventory included a clock which cost Rs. 15,800. Karim expects to spend Rs. 700 on repairing the clock which will mean that he will be able to sell it for Rs. 26. At what value should the clock be included in Karim's inventory?

a) Rs. 15,100 b) Rs 15,800
c) Rs. 25,300 d) Rs. 26,000

50. Which of the following inventory valuation method is likely to lead to the highest figure for closing inventory at a time when prices are rising?

a) Weighted average cost (periodic)
b) FIFO
c) Replacement cost
d) Weighted average cost (perpetual)

51. Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?

i) Carriage inwards
ii) Carriage outwards
iii) Depreication of factory plant
iv) Finished goods storage costs
v) Factory supervisor's salary

a) All five b) (i)&(v) only
c) All except (iv)
d) All except (ii) and (iv)

52. At the end of the accounting year 2006, a business has stock of 'money bags' and 'vanity bags'.

	Money bags	**Vanity bags**
Number in stock	100	80
Original purchase price (Rs.)	100	120
Estimated future selling price per unit (Rs.)	90	150
Estimated selling expenses per unit (Rs.)	10	10

There value of stock is:

a) Rs. 19,200 b) Rs. 17,600
c) Rs. 17,800 d) Rs. 19,600

53. The closing inventory at cost of a company at 31st December, 2006 amounted to Rs. 2,84,700. The following items were included at cost in the total:

(i) 400 T-shirts which had cost Rs. 80 each and normally sold @ Rs. 150 each. Owing to change in fashion, they were all sold after the Balance Sheet date at 50% of their normal price. Selling expenses amounted to 5% of the procedds.

(ii) 800 skirts, which had cost Rs. 20 each, because of some manufacturing defect, remedial ork in January 2007 cost Rs. 5 per skirt. They were sold @ Rs. 28 each. Total selling expenses for the batch was Rs. 800

What should be the inventory value according to AS-2 (inventories) after considering the above?

a) Rs. 2,82,800 b) Rs. 2,81,200
c) Rs. 3,29,200 d) None of these

54. At 31 December, 2006 the closing inventory of a company amounted to Rs. 3,86,400. The following items were included in this total at cost.

i) 1,000 items which had cost Rs. 18 each. These items were all sold in January, 2007 @ Rs. 15 each with selling expenses of Rs. 800.

ii) Five items which had been in inventory since 2000, when they were purchased for Rs. 100 each, sold in January, 2007 for Rs. 1,000 each, net of selling expenses.

What figure should appear in the company's Balance sheet at 31st December, 2006 for inventory?

a) Rs. 3,87,100 b) Rs. 4,00,000
c) Rs. 3,82,600 d) Rs. 3,84,200

55. Raju makes up his annual accounts to 31st December each year. he was unable to take stock of physical inventory till 7th January, 2007 the following transactions took place:
    i) Goods cost Rs. 38,400 were received from supplier.
    ii) Goods that had cost Rs. 14,800 were sold for Rs. 20,000.
    iii) A customer returned some goods which had been sold to him in December for Rs. 600 (cost Rs. 400).

    Value of stock on 31st December, 2006 is:

    a) Rs. 4,56,900 b) Rs. 5,04,100
    c) Rs. 5,06,900 d) Rs. 4,59,700

56. A firm prepares accounts annually up to 31st December and stock taking takes place in the following weekend. In the year 2006, stock taking commenced on 7th January, 2007 when the value of stock on the date was found Rs. 25,000. The following transactions took place between 1st January and 7th January, 2007:
    (i) Sales Rs. 1,500 (ii) purchases Rs. 1,000

    The rate of gross profit is 20% on sales. In December, goods were sold to a customer on sale or return basis. The sale price was Rs. 1,000. The goods were still returnable by customer on 31st December. The value of stock on 31st December, 2006 is:

    a) Rs. 27,000 b) Rs. 26,500
    c) Rs. 26,000 d) Rs. 25,200