3055 BA SANGAM COLLEGE
PH: 6674003/9264117 E-mail: basangam@connect.com.fj

WORKSHEET: 17

School: Ba Sangam College **Year:** 1101 **Name:**__________________

Subject: Accounting

Strand – 6	**SYSTEMS FOR IMPLEMENTING THE ACCOUNTING PROCESS- I**
Sub Strand (6.3)	**Sub System Inventory**
Content Learning Outcome (6.3.1)	Evaluate the internal control procedures over inventory.

Inventory

- **Inventory** or **stock, merchandise** refers to the goods and materials that a business holds for the ultimate purpose of resale.
- Inventory is often the largest item in the current assets category, and must be accurately counted and valued at the end of each accounting period to determine a business's profit or loss.

Importance of Inventories

- Assists in profit determination (calculation of gross profit).
- Closing stock has to be identified for the preparation of the Final Accounts.
- Large amounts of money is invested in inventories therefore sufficient control is required. (CCTV cameras, inspection of shopping bags, curved mirrors, store detectives).

Drawbacks of overstocking (too much stock)

- Inventories can become out dated.
- excessive stock requires a large storage area (additional cost e.g rent, storage space, insurance etc)
- it may cause the problems of converting stocks into cash.

Drawbacks of understocking inventory

- sales will be lost to competitors.
- goodwill will diminish (reputation of the business will go down).

Stocktaking

is the process of listing, counting and valuing unsold inventories on hand.

Importance of Stocktaking

- determine the value of inventories on hand at a particular date.
- is the only way of determining actual inventory on hand, see whether stock has been lost through theft or spoilage.

System used to account for Inventories

	Periodic Inventory System	Perpetual Inventory System
1	Stock on hand can be identified from stock ledger cards	Stock on hand can be determined by stock- take
2	Purchase of inventory is treated as asset	Purchase of inventory is treated as expense
3	Stock loss is identified when compared with periodic system	Stock loss cannot be identified under this system
4	Interim and profit report can be prepared regularly because stock on hand and COGS can be found anytime	The reports cannot be prepared regularly because required data is not available
5	Used for high unit cost and low turnover items e.g. cars, televisions, jewelries, sofa set,	Used for low unit cost and high turnover items groceries, food items, vegetables

	furniture	

Methods of Inventory Valuation

FIFO (First In First Out) Method

- assumes that goods purchased first are the goods sold first.
- Closing stock is always valued at the most recent price.
- in times of rising prices FIFO over values closing stock, undervalues cost of goods sold and overvaluing profits.
- used for items which are perishable or have frequent style changes or technology changes.

Advantages	Disadvantages
is acceptable to Fiji Revenue and Customs Authority (FRCS).	Not suitable in times of rising prices because businesses have to pay more tax.
closing stock in the balance sheet is valued nearest to market price.	in times of rising prices it fails to give realistic values of cost of goods sold.
the oldest items are sold first.	
Permitted by Accounting standards as an acceptable approach to inventory valuation.	

Example

Daven and Company sells saffron dresses. The following transactions took place during the month.

June 1 Balance 10 dress at $20 each
8 Purchases 15 dress at $8 each
10 Sold 12 dresses
19 Purchased 25 dresses at $10 each
22 Sold 15 dresses
26 Purchased 35 dresses at $9 each
30 Sold 20 dresses

Required

a) Prepare the Stock Leger card using the FIFO method under perpetual system.
b) Calculate the total amount of purchases.

c) Calculate the cost of goods sold.
d) Calculate the gross profit or loss made if the selling price of the dress is $15 each.
e) Calculate the amount of closing stock.

f) If the physical ending inventory count revealed $258, calculate the amount of theft.

Solution

a)

Item : Dress										
Method: FIFO					Re- Order Level :35					
		Receipt/ In			Issued/ Out			Balance		
Date	*Particulars*	*Qty*	*Price*	*Total*	*Qty*	*Price*	*Total*	*Qty*	*Price*	*Total*
1	Balance							10	20	200
8	Purchases	15	8	120				15	8	120
10	Sales				10	20	200			
					2	8	16	13	8	104
19	Purchases	25	10	250				25	10	250
22	Sales				13	8	104			
					2	10	20	23	10	230
26	Purchases	35	9	315				35	9	315
30	Sales				20	10	200	3	10	30
								35	9	315

b) Total purchases = ($120 + 250 + 315)

= $685

c) Cost of goods sold = calculate the total amount in total of Out column apart from any purchases returns.

Cost of Goods Sold = ($200 + 16 +104 + 20 + 200)

= $540

d)Gross profit = sales – Cost of goods sold

= (47 x 15) - $540

= $165

e) Closing stock = the amount remaining in the total of out column after the last sale

= $ 345

f) **Stock loss/ theft/ shoplifting** = Actual closing stock on hand from stock ledger card – Physical count ending stock

= $345 - $258

= $87

Activity Questions

Singh is the owner of Office Tec Limited which sells computers. During the month of January the following transactions took place:

Jan 14	Sold 7 sets @ $1 250 each
22	Purchased 12 sets @ $1 200 each
24	Sold 6 sets @ $1 650 each

Note: On 1 January 2015, the business had 10 sets of computers at the total cost of $11 000.

Required:
Use the information given above to:

(i) Complete the Stock Card using **Last In First Out** method. **(3 marks)**
(ii) Calculate the Total Sales revenue. **(Show full working) (2 marks)**

SOLUTION

i.

Item: Computers					**Method: LIFO**					
		Receipt/ In			**Issued/ Out**			**Balance**		
Date	**Particulars**	**Qty**	**Price**	**Total**	**Qty**	**Price**	**Total**	**Qty**	**Price**	**Total**
Jan 1										
14										
22										
24										

ii.

THE END