* To calculate the no. of units sold:

Opening Stock
+ Purchases
- Closing Stock

* Prepare simple inventory valuation statements

* Always compare "Cost & Sale Price" to find the lower value of them to then multiply the value with the no. of units. But, if "Selling & distribution costs" are also given then calculate "NRV" using "S.P. - C.O.S."

Purposes of a Trial Balance?

→ To check the arithmetical accuracy
→ Helps in making a financial statement
6.4.5 Valuation of Inventory

* Understand the basis of the valuation of inventory at lower of cost & net realisable value.

Q. State the basis on which the trader will value his inventory. [3]
   At the lower of cost and net realisable value (NRV)

NRV = S.P - Expenses

Q. What is meant by "Cost"?
   Cost is the purchase price of a good plus any additional costs incurred in bringing the inventory to its present condition & position.

Q. What is meant by "NRV"?
   NRV is the estimated receipts from sale of the inventory less any costs of completing or selling the goods.
0. | Cost | NRV |
---|---|---|
   | $6800 | $7100 |
   | $8200 | $7800 |

Q. Explain why the inventory at 31 Dec. 2014 was included in the financial statements at NRV rather than cost.

- Inventory should always be valued at the lower of cost & NRV.
- This is an application of the principle of prudence.
- Overvaluing the inventory causes the profit for the year to be overstated.
- Overvaluing the inventory causes the current assets to be overstated.

\[
\text{Rate of Inventory Turnover} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}
\]

OR

\[
\text{Rate of Inventory Turnover} = \frac{\text{Average Inventory} \times 100}{\text{Cost of goods sold}}
\]

gives ans. in times

gives ans. in days

Q. What can be done to improve the rate of inventory turnover?

- Reduce inventory levels
- Increase sales activity
- Only replace inventory when necessary.