

A5 Period-end Adjustments Relating to the Preparation of Financial Statements (II)

Chapter 12 Valuation of inventory

Weighted average cost method

$$\text{Weight average cost per unit} = \frac{\text{Total cost of goods available for sale}}{\text{Total number of goods available for sale}}$$

可供銷售貨品總數量

$$= \text{期初存貨數量} + \text{總購貨數量} - \text{購貨退出數量}$$

可供銷售貨品的總成本

$$= \text{期初存貨成本} + \text{總購貨成本} - \text{購貨退出成本}$$

例子： Opening inventory as at 1 March is 600 units with cost of \$30 each. Purchased goods of \$32 each by cheque for \$14,400 as at 2 March. At 8 March, purchased 2,000 units of goods on credit and the unit list price and trade discount were \$36 and 5% respectively. At 10 March, a customer purchased 220 units of goods at \$55 each by cheque and returned 50 units of goods purchased on 2 March to supplier. At 15 March, 1,800 units were sold to customers for \$54 each and returned 300 units. Paid carriage inwards of \$2,800 for March by cheque.

- Calculate the number of goods available for sale for March 2021.
- Calculate the cost of goods available for sale for March 2021.
- Calculate the weighted average cost per unit (to one decimal places)
- Compute the value of closing inventory as at 31 March 2021.

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Lower of cost and net realisable value

Net realisable value = Selling price of an item – Cost to complete and to sell the item

按照成本與可變現淨值孰低法，如果某些貨品的可變現淨值低於成本，這些貨品便應按可變現淨值計價，並須要減值及計算存貨損失

例子： Suppose a firm has 2,000 units of closing inventory with average cost per unit is \$182. However, 100 units of inventory were damaged and could be sold for \$150 per unit after the necessary handling charges \$100.

- Calculate the net realizable value and inventory loss of the damaged inventory.
- Find the correct amount of closing inventory.
- Prepare the necessary journal entries to record the inventory loss.

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- _____

Journal		Dr	Cr
	Details	\$	\$
(c)			

Goods sent or received on a sale or return basis

當公司把貨物以銷售或退回方式送到客戶而客戶尚未售出或退回貨物，這些貨物不應當作除銷及這些貨物應包括在公司的存貨。因此需要作銷貨及應收貨款的扣減並加回這些貨物到存貨處理。

例子： The closing inventory was valued at \$45,500. Goods of \$4,200 had been sent to a customer on a sale or return basis but remained unsold at the year end. These goods had not been included in the closing inventory. A uniform mark-up of 50% was applied.

- Compute the correct value of closing inventory.
- Prepare the journal entries necessary to record the inventory adjustment.

- _____

Journal		Dr	Cr
	Details	\$	\$
(b)			

- 2 Excellence Company uses the weighted average cost method for inventory valuation. Below is the information regarding its single product:
- (i) Opening inventory on 1 February 2024 consisted of 500 units, with an average cost of \$42 per unit.
 - (ii) The following events occurred in February 2024:
 - February 10 Purchased 1,000 units of goods for \$38,400.
 - February 14 Sold 350 units of goods at \$54 per unit.
 - February 23 Sold 400 units of goods at \$46.8 per unit.
 - February 27 The owner withdrew 10 units of goods for personal use.
 - February 28 Sent 15 units of goods to a customer as free samples.
 - February 29 Discovered that 100 units of goods were slightly damaged. They could only be sold for \$38.4 per unit after having them repaired for \$240.

REQUIRED :

- (a) Compute the value of closing inventory as at 29 February 2024.
- (b) Prepare an extract of the income statement for the month ended 29 February 2024, showing the calculation of gross profit.
- (c) State two situations where the net realisable value of inventory is lower than its cost.

(a)

(b)

Income statement for the month ended 29 February 2024

	\$		\$

(c)
