

Topic 13



Inventory valuation

Net Realisable Value

The market value of goods.

Net Realisable Value = Expected selling price - Expected Selling Expense.

Example # 1

The following details relating to inventory is given. Calculate the total value of inventory to be included in final accounts.

Product	A	B	C	D	E
Cost	10	15	18	26	34
Selling Price	15	18	20	22	30
Selling Expense	2	3	1	2	1
N.R.V	13	15	19	20	29
Inventory to be valued at	10	15	18	20	29

	\$
A =	10
B =	15
C =	18
D =	20
E =	<u>29</u>
	<u>92</u>

Example # 2

At the end of financial year inventory was valued at cost of \$60,000. Later it was discovered that included in inventory valuation are 6 units which each cost \$220 and normally sells for \$350 each. They are now damaged and can only be sold for \$250 each after incurring total repair cost of \$400. Calculate the value of inventory.

Solution

$$\text{Cost of damaged units} = \$220 \times 6 = \$1320$$

$$\begin{aligned}\text{Net Realisable Value} &= \text{Expected selling price} - \text{Expected Selling Expense.} \\ &= [\$250 \times 6] - \$400 \\ &= \$1100\end{aligned}$$

$$\begin{aligned}\text{Value of Inventory} &= 60,000 + 1,100 - 1,320 \\ &= \$59,780\end{aligned}$$

INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

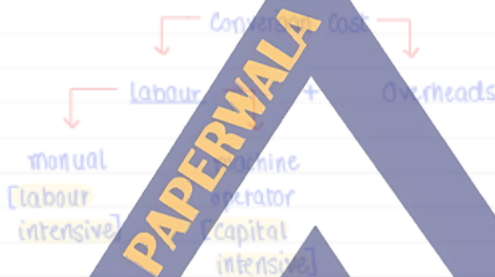
Cost/Expense: Outflow of resources.



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Stages of Manufacturing



ADEEL PAPERWALA

Labour intensive business: Business organisations dependant on manual labour rather than technology or machinery.

Capital intensive business: Business organisations which are more dependant on machines rather than manual labour.