

Accounting Foundations

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8 Valuing Stock

In the previous chapter we saw how to extract a Trading Account from purchases, sales and the value of stock. In this chapter we see how assign a value to stock.

8.1 Stock Cards

Each inventory item has its own Stock Card. A Stock Card is also known as an Inventory Ledger Card. A typical stock card is shown below.

Stock Card										
Line: Growmore										
Unit : bags of 25 kg										
Transaction		Purchases			Cost of Goods Sold			Balance		
Date	Category	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
1 Jan	Open							5	7.00	35.00
15 Feb	Purchase	10	7.00	70.00				15	7.00	105.00
3 Mar	Sale				12	7.00	84.00	3	7.00	21.00
20 Mar	Purchase	10	7.50	75.00				3	7.00	21.00
								10	7.50	75.00
25 Mar	Sale				3	7.00	21.00	0	7.00	0.00
					4	7.50	30.00	6	7.50	45.00
31 Mar	Close							6	7.50	45.00

Line identifies the stock item: Growmore (a fertiliser) in our example.

Unit is the size of the quantity bought or sold. Here, we buy and sell 25 kg bags.

Category is one of Open, Close, Purchase, Sale, Adjustment, Purchase Return, and Sales Return.

Quantity is the number of units - the number of 25 kg bags in our case.

Costs are in £ and include Value Added Tax (VAT). Costs represent the buying price from our suppliers, what the goods for sale cost us to buy.

The closing stock level on 31 March is our opening stock level on 1 April.

We open with 5 bags of Growmore on 1 January.

On 15 February we purchased 10 bags of Growmore at £7.00 each. We now have in hand 15 bags altogether.

On 3 March we sold 12 bags. These 12 bags cost us £7.00 each. Our stock in hand is now 3 bags.

On 20 March we purchase 10 bags. These bags cost us £7.50 each. We now have in stock 3 bags that cost us £7.00 each, and 10 bags that cost us £7.50 each.

On 27 March we sold 7 bags altogether. We assume that the original three bags are sold first, then the four bags at the increased cost. Items that are purchased first are sold first. This is known as the First In First Out (FIFO) principle and forms the basis of valuing our stock.

8.2 Adjustments

An adjustment is made when a physical stock count does not match the expected stock count as shown on the stock card. Adjustments down increase the cost of goods sold and reduce profit. Adjustments up decrease the cost of goods sold.

Stock Card										
Line: Growmore										
Unit : bags of 25 kg										
Transaction		Purchases			Cost of Goods Sold			Balance		
Date	Category	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
1 Jan	Open							5	7.00	35.00
15 Feb	Purchase	10	7.00	70.00				15	7.00	105.00
3 Mar	Sale				12	7.00	84.00	3	7.00	21.00
20 Mar	Purchase	10	7.50	75.00				3 10	7.00 7.50	21.00 75.00
25 Mar	Sale				3 4	7.00 7.50	21.00 30.00	0 6	7.00 7.50	0.00 45.00
31 Mar	Adjust				1	7.50	7.50	5	7.50	37.50
31 Mar	Adjust				-1	7.50	7.50	6	7.50	45.00

8.3 Closing and Opening Stock

From time to time, at the end of each quarter for example, the purchases and cost of goods sold are totalled.

Stock Card										
Line: Growmore					Unit : bags of 25 kg					
Transaction		Purchases			Cost of Goods Sold			Balance		
Date	Category	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
1 Jan	Open							5	7.00	35.00
15 Feb	Purchase	10	7.00	70.00				15	7.00	105.00
3 Mar	Sale				12	7.00	84.00	3	7.00	21.00
20 Mar	Purchase	10	7.50	75.00				3 10	7.00 7.50	21.00 75.00
25 Mar	Sale				3 4	7.00 7.50	21.00 30.00	0 6	7.00 7.50	0.00 45.00
31 Mar	Close							6	7.50	45.00
31 Mar	TOTALS			145.00			135.00			45.00

We can see that the value of the opening stock of Growmore is £35, and that the closing stock value is £45. In reality, we would sum the opening and closing stock values over all our stock lines. It is these stock values that are used to inform the Trading Account.

Exercise 8.1

1 The transactions shown below were recorded between 1 April and 30 June. Enter the transactions into a Stock Card and determine the closing value of the stock. The stock line is Fish, blood and Bone (a general purpose fertiliser) and is bought and sold in 25 kg bags.

1 Apr Opened with seven bags valued at £12.00 each.

5 Apr Purchased 15 bags at £12.50 each

10 May Sold three bags

24 May Sold six bags

1 Jun Sold 8 bags

30 Jun A physical stock count showed 4 bags left in stock. Make an appropriate adjustment to the stock card.

Bibliography

BROWN M *Software Publications Pty Ltd 2010* www.softwarepublications.com.au accessed Jun 2013