

**Task IM-9.51: Inventory Valuation**

RIVERSOND (Pty) Ltd. is a production firm for headsets. A headset comprises 1 brace, 2 speakers and 1 cable unit with the plug.

RIVERSOND (Pty) Ltd. applies a process costing with a perpetual inventory system for movements of inventory. There are 2 production steps: (1) Assembling and (2) Checking. All materials are taken to the assembly department at first. The finished headsets are transferred to the checking department after assembling is completed.

At the beginning of the Accounting period 20X9, RIVERSOND (Pty) Ltd. has 3,000 speakers on stock which were purchased at cost of 35.00 EUR/u. There are 10,000 braces in the storage department at cost of purchase of 17.00 EUR/u. At that time, there is no stock of cable units. Apply weighted average method for the cost formula.

The opening value of finished goods is 8,495 headsets at 100.00 EUR/u.

During the fiscal year 20X9, RIVERSOND (Pty) Ltd. buys from its suppliers 45,000 speakers at 33.00 EUR/u, 25,000 braces at 17.50 EUR/u and 50,000 cable units at 9.00 EUR/u. All amounts are net amounts. RIVERSOND (Pty) Ltd. produces 23,000 headsets during the Accounting period of 20X9. All headsets are completely assembled and checked.

Depreciation in the Assembly department is amounting to 200,000.00 EUR/a. There is no depreciation in the Checking department.

Labour equals to 25,000.00 EUR/a in the Assembling department and 42,000.00 EUR/a in the Checking department. In the Marketing department, labour equals to 60,000.00 EUR/a. Consider an under-application of overheads to an extent of 5 % in the Assembling department.

During the Accounting period 20X9, RIVERSOND (Pty) Ltd. sells 20,395 headsets at a net selling price that is 200 % of their cost of manufacturing. Apply weighted average method for the inventory movements of finished goods.

During a sales meeting, the marketing director estimates that the sales price for the headsets is going to drop by 95.00 EUR/u because RIVERSOND (Pty) Ltd. announced the production of a new headset in the next Accounting period. The statement of the marketing director got recorded in the minutes of the sales meeting. It is relevant for inventory valuation.

**Required: Prepare Work-in-Process and Manufacturing Overhead accounts and determine the value of closing stock for headsets, speakers, braces and cable units.**

**For 3<sup>rd</sup> semester: The price drop is 115.00 EUR/u which requires a change in inventory valuation.**

Solution:

D		MOH Assembling	C
DPR	200,000.00	WIP	213,750.00
LAB	25,000.00	c/d	11,250.00
	<u>225,000.00</u>		<u>225,000.00</u>
b/d	11,250.00		

D		MOH Checking	C
LAB	<u>42,000.00</u>	Chg	<u>42,000.00</u>

D		WIP Assembling	C
MOH	213,750.00	Chg	2,343,714.29
spk	1,523,750.00		
brc	399,214.29		
cbl	207,000.00		
	<u>2,343,714.29</u>		<u>2,343,714.29</u>

D		WIP Checking	C
Chg	2,343,714.29	FG	2,385,714.29
MOH	<u>42,000.00</u>		
	<u>2,385,714.29</u>		<u>2,385,714.29</u>

D		Inventory speakers	C
OV	105,000.00	Ass	1,523,750.00
PRH	1,485,000.00	c/d	66,250.00
	<u>1,590,000.00</u>		<u>1,590,000.00</u>
b/d	66,250.00		

D		Inventory braces	C
OV	170,000.00	Ass	399,214.29
PRH	437,500.00	c/d	208,285.71
	<u>607,500.00</u>		<u>607,500.00</u>
b/d	208,285.71		

D		Inventory cable sets	C
OV	0.00	Ass	207,000.00
PRH	450,000.00	c/d	243,000.00
	<u>450,000.00</u>		<u>450,000.00</u>
b/d	243,000.00		

D		Inventory headsets	C
OV	849,500.00	COS	2,095,005.41
Chg	2,385,714.29	c/d	1,140,208.88
	<u>3,235,214.29</u>		<u>3,235,214.29</u>
b/d	1,140,208.88		

**Exhibit 1:** Accounts

Note, no changes in inventory valuation for headsets are required as the cost of manufacturing are lower than the net selling price!