**QUESTION 8**

**Stock Valuation**

**Break down of previous year questions**

**2021 Stock Valuation**, Product Costing and Under/Over Absorption

**2018 Stock Valuation** and Product Costing

**2015 Stock Valuation** and Flexible Budgeting

**2013** **Stock Valuation**, Product Costing and under and over Absorption

**2010** **Stock Valuation** and Product Costing and Under/Over Absorption

**Past Questions**

2021

Stock valuation was on the paper but here was no theory question asked to

1. Calculate closing stock figure (FIFO)
2. Prepare a trading account

2018

1. (iii) Explain how the concept of prudence applies to the valuation of closing stock.

(1 mark)

2015

1. (iii) Outline the implications of an incorrect stock valuation. (4 Marks)

2013

Stock valuation was on the paper but here was no theory question asked to

1. Calculate closing stock figure (FIFO)
2. Prepare a trading account

2010

Stock valuation was on the paper but here was no theory question asked to

1. Calculate closing stock figure (FIFO)
2. Prepare a trading account

**2018**

**Question**

1. **(iii) Explain how the concept of prudence applies to the valuation of closing stock.**

**Answer**

1. The prudence concept states caution should be exercised when preparing financial statements.  Therefore, only realised profits should be included in the accounts.
2. However, provision should be made for all expected expenses and losses.
3. The prudence concept ensures that profits are not overstated and losses not understated.
4. If closing stock was overvalued then profits would be overstated.
5. Therefore stocks should be valued at the lower of cost or net realisable value.

**2015**

**Question**

1. **(iii) Outline the implications of an incorrect stock valuation.**

**Answer**

Incorrect valuation of stock affects:

1. The Financial Statements of two years or two accounting periods ie. the closing stock of one accounting period and the opening stock of the next accounting period.
2. The figures for cost of sales, gross profit, net profit and subsequently figures in the balance sheet
3. In the balance sheet it will affect the figures for current assets and working capital/net assets
4. In carrying out ratio analysis the figure for stock will affect the stock turnover, percentage markup on cost, gross profit percentage, net profit percentage and the current ratio
5. The opinion of the firm in financial circles, its tax liability, its ability to borrow, public opinion and consequently its share price

The mark-up on cost in an industry provides a valuable measure for any firm in that industry. A mark-up that is out of line with the norm is a cause for concern and should lead to immediate investigation to locate the reason and take remedial action

Stock turnover determines the total volume of profit. Therefore, the higher the better