Stock Valuation

Closing stock is known at year-end by physical count and is normally recorded at cost.
As an application of prudence concept, stock should be valued at the lower of cost and net realizable value, where:
Cost is the purchase price of the goods plus any costs needed in bringing the inventory to its current position (carriage inwards).
Net Realisable value is the selling price less selling expenses which are all costs needed to put the goods in a saleable condition (e.g. carriage outwards, commission and repairs).

Example of Closing Stock Valuation

Computer	**Stock Cost**	**Net Realisable Value**	**Lower of NRV or Cost**
1	$1,500	$1,300	$1,300 (NRV)
2	$1,350	$1,100	$1,100 (NRV)
3	$2,500	$2,400	$2,400 (NRV)
4	$3,200	$4,000	$3,200 (Cost)
		Closing Stock Value	$8,000

The Net Realisable Value is calculated by adding the lower of NRV or the actual Cost of Production or Cost of Purchase from the supplier. In the example above the closing stock value used in the Income Statement and the Balance Sheet under Current Assets will be $8,000.