

*A STUDY ON STOCK VALUATION OF A TOY MANUFACTURING COMPANY  
AND  
ITS COMPLIANCE WITH THE IAS 2*

A PROJECT PAPER SUBMITTED TO  
THE MARA INSTITUTE OF TECHNOLOGY  
IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE  
ADVANCED DIPLOMA IN ACCOUNTANCY

BY

*AZHAR BIN SHAAYA BASHEER*

*ITM NO.*

*date: 4th August 1992*

## ACKNOWLEDGEMENT

Here, I would like to take this opportunity to express my gratitude to all of them who are responsible for assisting me towards the completion this project paper. These shall includes Dr. Juhari Samidi, my advisor and all my friends for being very attentive whenever I seek advice from them on the problem relating to my project paper.

I also would like to expressed my special thanks to the General Manager of Aragan Toys (M) S/B , Mr.Steven Mann, Ms. Cheah and all the staffs of Aragan Toys for their cooperation during my visit at their premises.

Thank You.

## TABLE OF CONTENTS

ACKNOWLEDGEMENT	(i)
1. INTRODUCTION	
Background of Study.....	1
Background of Company Selected.....	2
Methodology.....	4
Objectives.....	5
Scopes and Limitations.....	6
General View of Stock Valuation	
<i>Introduction to Stock Valuation Problems.....</i>	7
<i>What is Accounting Standards.....</i>	9
<i>Valuation and Presentation of Inventories</i>	
<i>in respect of IAS 2.....</i>	11
2. LITERATURE REVIEW.....	27
3. DATA COLLECTIONS.....	32
4. FINDINGS	
Organisation Chart.....	34
The Overview of the Company Accounting System.....	35
The Flow of Materials, Labor and Manufacturing Overhead	
through the Accounting System.....	37
The Companies Inventories	
<i>General Description.....</i>	38
<i>Stock Description.....</i>	40
<i>Cost included in the Value of Stock.....</i>	42
5. CONCLUSIONS.....	47
6. RECOMMENDATIONS.....	48
BIBLIOGRAPHY.....	49
ENDNOTES.....	50
APPENDIX 1 - Aragan Toy's statement of accounts	
APPENDIX 2 - IAS 2	
APPENDIX 3 - Stock valuation working schedules	
APPENDIX 4 - Interview Questions	

## INTRODUCTION

### *Background of Study*

These project paper will basically discussed on the requirements of I.A.S 2 for the valuation of stocks. Discussion will also included the Standard Statement of Accounting Standard 9 (SSAP 9) since the IAS 2 accords closely with the content of this SSAP. Compliance with this standard will also ensure compliance with the IAS.<sup>1</sup> Comparison with other Accounting standards may be done to find any similarity or differences regarding stock valuations of the respective standards. The standards will be studied thoroughly in order to understand the requirements of the standard and also to determine the practicability of them towards the preparation of a true and fair financial statement. In making these discussion interesting and realistic, the valuation of stock of a toy manufacturing company will be studied.

The first discussion will be on the valuation of stock as what it has been required in the IAS 2. Secondly ,the discussion will move on to the effect of each methods of the costs formula on the stock valuation which this, will also bring the basic understanding of the methods used in stock valuation. Finally, which is the integral part of the project paper , are concerned with the analysis of stock valuation basis used by Aragan Toys (M) Sdn. Bhd. in order to determine whether all requirements of I.A.S 2 have been fully satisfied or not.

### ***Background of Company selected***

The name of the company selected is Aragan Toys (Malaysia) Sdn. Bhd. The company have an issued and fully paid share capital of \$ 1,000,000 and the profit before tax of \$ 638,102 for the year end 1991 ( *appendix 1* ). The company's principal activity as stated in the Directors' Report is manufacturing and exporting of stuffed toys and related products. Reasons for choosing this company is due to the nature of its inventories, which as a manufacturing company are made up of raw material, work in progress and finished goods. For this type of company, stock valuation is always more complicated than it is in a retailing company since there are several process needed to transform the raw material to finished goods. Therefore problems will always come about regarding matter on how the cost should be allocated to the inventories consisting work in progress and finished goods at the year end.

According to the notes to the accounts of the company financial statement, historical cost system is used as their accounting basis and their stocks are stated at the lower of cost or net realisable value and are costed on the first in first out basis( *appendix 1* ). The notes also stated that the cost includes the actual cost of materials and incidentals cost in bringing the stocks into store and manufactured stocks, it also includes labour and appropriate production overheads. The question arised here is does the