

IND AS - 2 [Inventory]

Objective →

The objective of this standard is to prescribe the Accounting Treatment for Inventory (stock)

Definition of Inventory →

Inventory are **Assets**.

(a) Held for Sale in the Ordinary Course of Business



FINISHED GOODS

b) In the **process of production** of such sale



WORK IN PROGRESS

c) In form of **Material** or **Supplies** to be Consumed in the production process or in the rendering of service

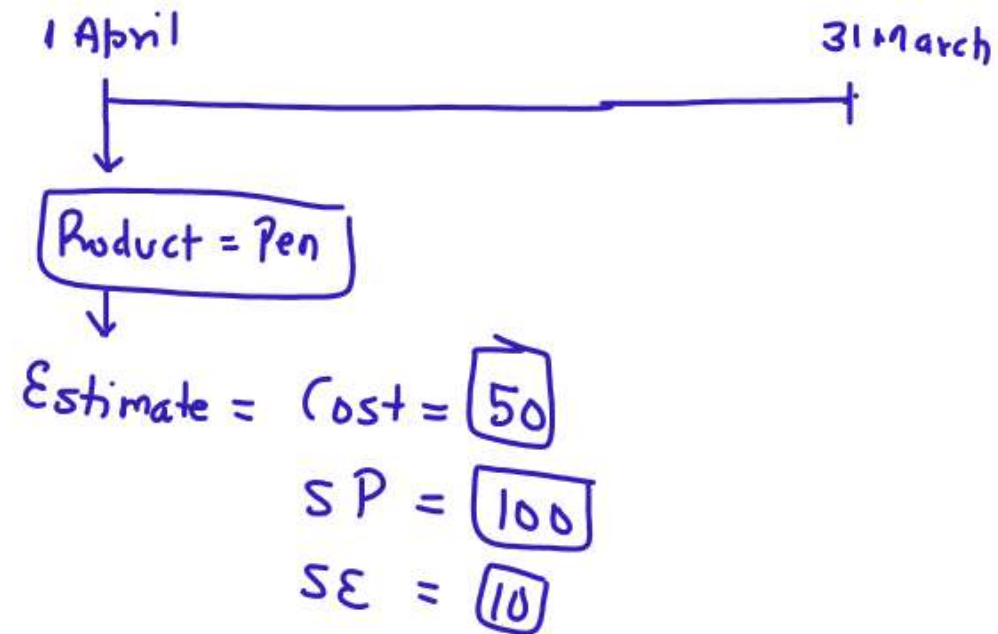


RAW MATERIAL

Net Realisable Value [N.R.V]

Net Realisable Value is the Estimated Selling price in the ordinary course of Business less the Estimated Costs of Completion and the Estimated Cost necessary to make the sale

$$\begin{aligned} \text{N.R.V} &= \text{Estimated Selling price} - \text{Estimated Cost of Completion} - \text{Estimated Selling Expense} \\ &= 100 - 50 - 10 \\ &= \boxed{40} \end{aligned}$$



Face Value →

Face Value is the price that would be Received to sell an Asset (Inventory). In simple word Market value of an Asset (Inventory).

Measurement of Inventory

Inventory shall be measured at

→ COST
②
→ N.R.V

Which ever is LOWER

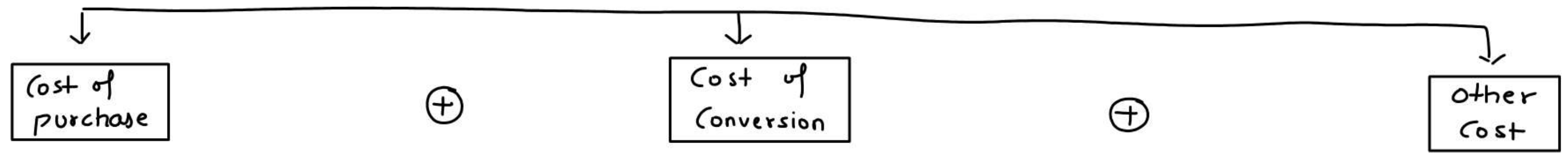
Example Cost of Inventory is 200 & NRV of Inventory is 170 Find the Amount in which inventory is Recorded?

Cost - 200
NRV - 170

lower

Inventory
Record = 170

Cost of Inventory



Cost of purchase →

- ① purchase price
- ② Import duties
- ③ other taxes
- ④ Transportation Cost
- ⑤ Handling Cost

- ⑥ Material Cost
- ⑦ Service Cost
- ⑧ Trade discount (less)
- ⑨ Rebate (less)
- ⑩ other deduction (less)

Cost of Conversion →

- ① Direct Cost ⇒ [D. Material, D. Labour, D. Expense]
- ② Production/Factory overhead [Fixed OH or variable OH]
- ③ Joint product Cost (less by product)

Other Cost →

Other Cost are included in the Cost of Inventories only to the extent that they are incurred in bringing the Inventories to their present location

→ Carriage Inward

→ Freight

→ Borrowing Cost [IND AS-23, Borrowing Cost identified limited circumstances where Borrowing Cost in qualifying Asset are included in Cost of Inventories]

Cost Exclude from Cost of Inventory

- a) abnormal Amount of wasted material, labour and other production cost
- b) Storage cost, unless those cost are necessary in the production process before a further production stage
- c) Administration Overhead
- d) Selling cost
- e) Interest and other Borrowing cost

Illustration Class-2

- ① According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

$$\left. \begin{array}{l} \text{Cost} = 100,000 \\ \text{or} \\ \text{NRV} = 90,000 \end{array} \right\} \text{lower}$$

Therefore,

The Inventory is valued at 90,000 i.e. NRV in Book of Account.

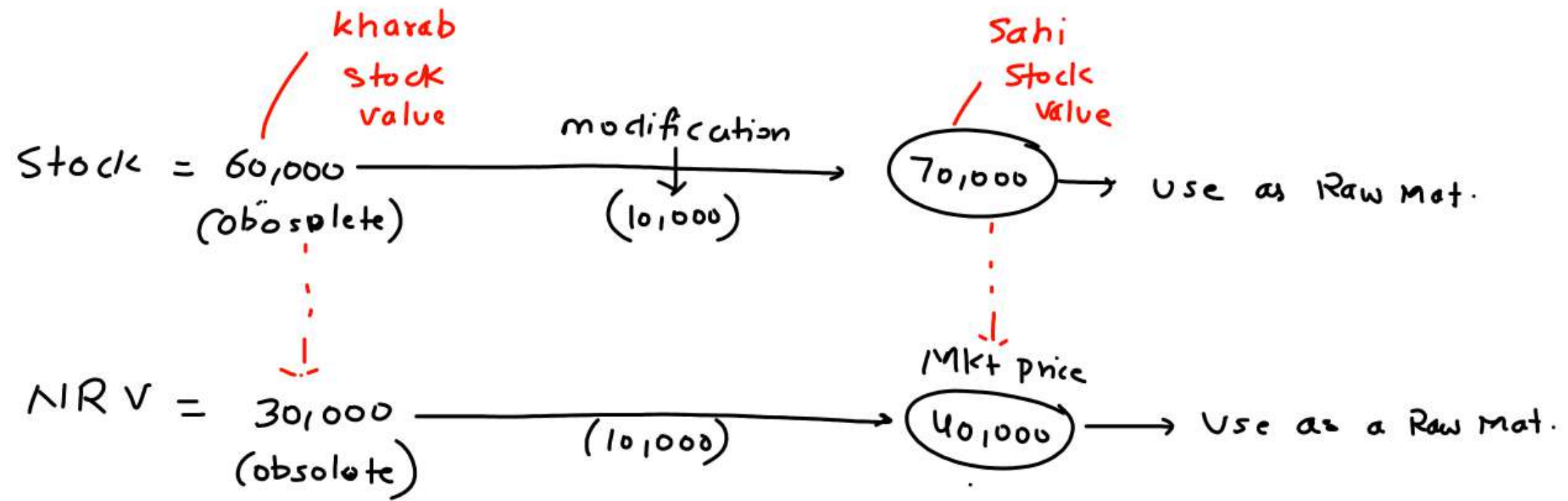
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According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value . In the present case,

$$\left. \begin{array}{l} \text{Cost} = 60,000 \\ \text{or} \\ \text{NRV} = 30,000 \end{array} \right\} \text{lower}$$

Therefore, The Inventory is valued at 30,000 i.e. NRV in Book of Account.

Explanation



Q4 According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

items	Cost	NRV	Valuation of closing stock
A	40 L	28 L	28 L
B	32 L	32 L	32 L
C	16 L	24 L	16 L
TOTAL			76 L

Closing stock should be valued at 76 lakh.

Q5

According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

$$\text{Cost} = 10 \text{ lakh} = 10,00,000$$

or

$$\text{NRV} = (11 \text{ lakh} - 10\%) = 9,90,000$$

lower

Therefore,

The Inventory is valued at 9,90,000 i.e. NRV in Book of Account.

07

According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

items	Cost	NRV	Valuation of closing stock
onida	$10,000 + 3,000 = 13,000$	18,000	13,000
philips	$20k + 2k = 22,000$	30,000	22,000
EC	$35k + 5k = 40,000$	36,000	36,000
Sony	50,000	55,000	50,000
			1,21,000

Therefore, Inventory is valued at 1,21,000 in Balance sheet

Q8 According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

items	Cost	NRV	Valuation of closing stock
Cotton	5600	4960	4960
woolen	3450	4540	3450
Synthetic	1500	2000	1500
			9910

Therefore, Inventory is valued at 9910 in Balance sheet

Q9 According to IND AS-2, Valuation of Inventory will be lower of Cost or Net Realisable Value. In the present case,

items	Cost	NRV	Valuation of closing stock
P	$10k + 2k = 12k$	$15k - 1k = 14k$	12000
S	$= 5k$	$4500 - 500 = 4k$	4000
T	$12k + 3k = 15k$	$18k - 2k = 16k$	15000
Total			31,000

Therefore, Inventory is valued at 31000 in Balance sheet

Class-3

Q3 According to IND AS-2, Interest and other Borrowing Cost which are not relating to Bringing the Inventory to their present location that Borrowing Cost are not include in the Cost of Inventory.

Hence, Notional Interest charges are not Considered/Included in the Valuation of Closing stock

Q6 According to IND AS-2, Interest and other Borrowing Cost which are not relating to Bringing the Inventory to their present location that Borrowing Cost are not include in the Cost of Inventory.

In 2019-20 = Thus it clear that Such delayed cotton charge is not a part of Inventory as per IND AS-2 and it is not in compliance of IND AS-2

In 2020-21 = The company decide to change the earlier view. And They Exclude the charge from cost of Inventory and it comply with IND AS-2

Technique for measurement of Cost

Standard Cost Method

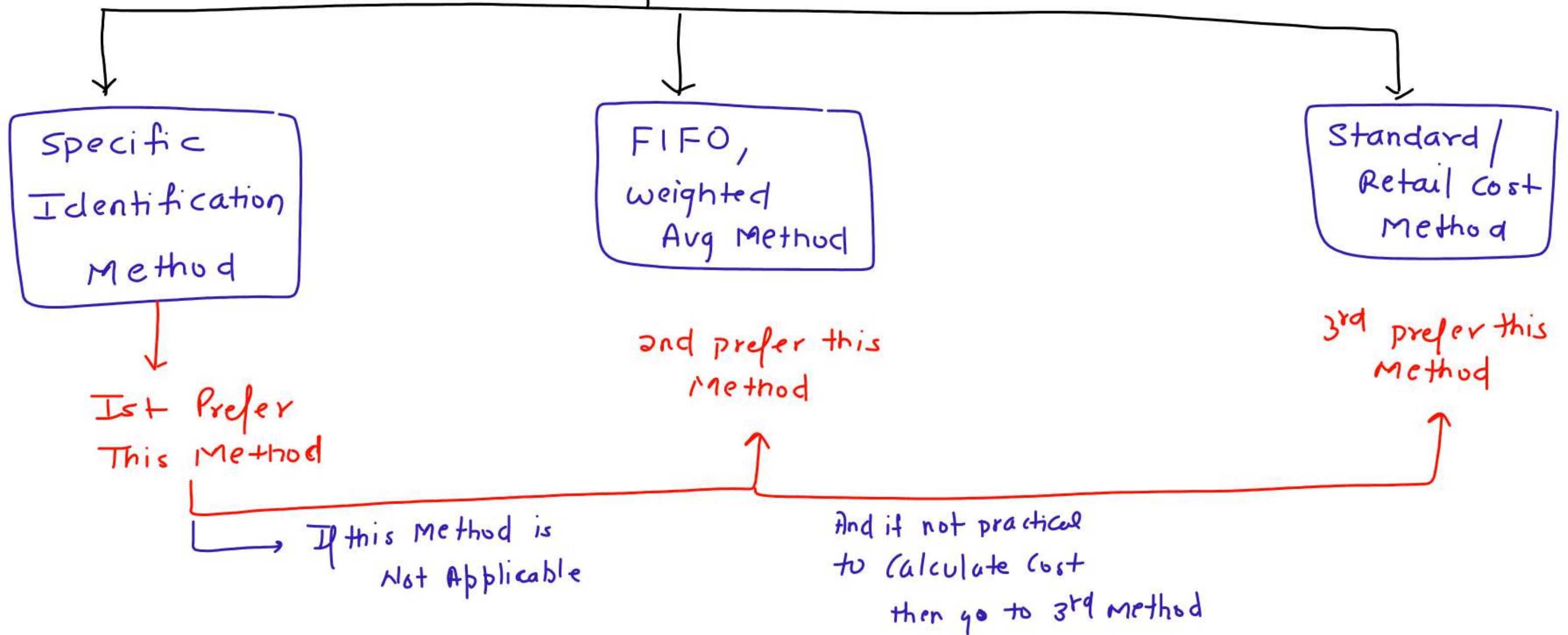


- They are Regularly Reviewed
- And if necessary Revised in the light of Current Condition
- Pre determined Rate, irrespective of actual rates,

Retail Method

$$\begin{array}{rcl} \text{Normal selling price} & = & \text{₹ xxx} \\ \text{less:- Gross margin} & = & \text{xxx} \\ \hline \text{Retail Cost} & & \text{xxx} \end{array}$$

Cost Formula's



Specific identification Method

Specific identification method means directly linking the cost to the specific item inventory

This method is Application in the following condition

- In case of purchase of item specially for specific project.
- In case of goods & service produce for specific project.

If Specific identification method is Not Application

In this case of Valuation of Inventory are Calculated by

→ FIFO

→ Weighted Avg Method.

Important point

∴ If the selling price is gone down suddenly then while calculating the valuation of Inventory NRV will be consider as that down selling price.

Ex Cost of Inventory = 50/unit

Selling price = 80/unit

After some time selling price gone down/decline i.e. = 40/unit

Valuation of Inventory

Cost = 50/unit
or
NRV = 40/unit } lower

Closing stock = 40/unit

Q10

$$\text{Total Cost} = 80/\text{unit}$$

$$\text{Selling price} = 100/\text{unit}$$

Now, suddenly S.P gone down i.e. 100 to 70.

Valuation of Inventory,

$$\left. \begin{array}{l} \text{Cost} = 80/\text{unit} \\ \text{or} \\ \text{NRV} = 70/\text{unit} \end{array} \right\} \text{lower}$$

Valuation of Inventory
in Balance sheet = 70/unit
i.e., $6000 \times 70/\text{unit}$

$$= \boxed{₹420,000}$$

2. Q Finished product/goods in which Raw Material and Supplies is used to sold
equal & Above the cost price

$$\text{Sold} \geq \text{Cost price}$$

In the case,

Estimated NRV = More than Cost
(or)

Estimated NRV = equal to the Cost

Q

Finished Goods (Cost) = 10,000

Case 1:- Sold in Mkt = 12,000

Case 2:- Sold in Mkt = 10,000

Case 1

Estimated NRV = $\left. \begin{array}{c} 10,000 \\ \text{or} \\ 12,000 \end{array} \right\} \text{Higher} = 12,000$

Case 2

Estimated NRV = equal to Cost
= 10,000

③ Finished product/goods in which Raw Material and Supplies is used to sold
below the cost price

$$\text{Sold} < \text{Cost price}$$

In this case,

$$\text{Estimated NRV} = \text{Replacement of Cost}$$

Q11 (i)

Raw Material = 100/kg

FG Sold below the cost price

$$\begin{aligned}\text{Cost} &= 10,000 \text{ Kg} \times 100 \\ &= \boxed{\text{₹}10,00,000}\end{aligned}$$

$$\text{Estimated NRV} = \text{Replacement of Cost}$$

$$\begin{aligned}&= 10,000 \times 80 \\ &= \boxed{800,000}\end{aligned}$$

Q11 (ii)

$$\text{Total Input} = 5000 \text{ MT}$$

$$\text{Normal wastage} = 5\% \text{ of Input}$$

$$\text{Total wastage} = 300 \text{ MT}$$

$$\text{Cost of Per MT} = ₹1000 / \text{MT}$$

$$\text{Total wastage} = \text{Normal wastage} + \text{Abnormal wastage}$$

$$300 \text{ MT} = (5000 \times 5\%) + \text{Abnormal wastage}$$

$$300 \text{ MT} = 250 \text{ MT} + \text{AW}$$

$$\text{AW} = 300 - 250$$

$$\text{Abnormal wastage} = 50 \text{ MT}$$

$$\text{Cost of Abnormal wastage} = 50 \text{ MT} \times 1000 / \text{MT}$$

$$= ₹50,000$$

Transfer to Profit & loss A/c

Q11 (iii)

$$\text{Cost/kg} = \text{Material Cost/kg} + \text{labour Cost/kg} + \text{Variable o/H per kg} + \text{Fixed o/H Per kg}$$

$$= 100/\text{kg} + 20/\text{kg} + 10/\text{kg} + \frac{\text{Fixed O/H}}{\text{Normal unit}}$$

$$= 130/\text{kg} + \frac{10 \text{ lakh}}{100,000 \text{ kg}}$$

$$= 130/\text{kg} + 10/\text{kg}$$

$$\boxed{\text{Cost/kg} = 140/\text{kg}}$$

$$\begin{aligned} \text{Valuation of Inventory} &= 2000 \text{ kg} \times 140/\text{kg} \\ &= \boxed{280,000} \end{aligned}$$

Comprehensive Question (SM Pg = 441)

①

$$\text{Production o/H} = 40,00,000$$

$$\text{Fixed} = 40\%$$

$$\text{Fixed o/H} = 16,00,000$$

$$\text{Normal Capital} = 10,00,000$$

$$\text{Fixed o/H unit} = \frac{16L}{10L}$$

$$= \boxed{1.6 / \text{unit}}$$

$$\text{Variable} = 60\%$$

$$\text{Variable o/H} = 24,00,000$$

$$\text{Total unit} = 20,00,000$$

$$\text{Variable o/H unit} = \frac{24L}{20L} = \boxed{1.20 / \text{unit}}$$

$$\begin{aligned} \text{Cost/unit} &= \text{Mat} + \text{labour} + \text{DE} + \text{Variable o/H} + \text{Fixed o/H} \\ &= 100 + 50 + 2 + 1.2 + 1.6 \\ &= 154.8 / \text{unit} \end{aligned}$$

$$\begin{aligned}\text{Valuation of Inventory} &= 400,000 \times 154.8 / \text{unit} \\ &= \boxed{6,19,20,000}\end{aligned}$$

Q2

$$\begin{aligned}\text{Cost/unit} &= 120 + 80 + 50 \\ &= \boxed{250/\text{unit}}\end{aligned}$$

Case 1 FG Sold = 270/unit more than Cost

$$\text{Estimated NRV} = \left. \begin{array}{l} 250/\text{unit} \\ \text{or} \\ 270/\text{unit} \end{array} \right\} \text{Higher} = 270/\text{unit}$$

Valuation of Inventory

$$\left. \begin{array}{l} \text{Cost of RM} = 120 \\ \text{or} \\ \text{Estimated NRV} = 270 \end{array} \right\} \text{lower}$$

$$\text{Value of Inventory} = 120/\text{unit}$$

$$\text{Closing stock} = 2000 \times 120/\text{unit}$$

$$= \boxed{240,000}$$

Case 2

$$\text{FG Sold} = 235/\text{unit}$$

$$\text{FG Cost} = 250/\text{unit}$$

FG sold below the cost

$$\begin{aligned} \text{Estimated NRV} &= \text{Replacement Cost} \\ &= 105/\text{unit} \end{aligned}$$

Valuation of Inventory

$$\text{Cost of RM} = 120$$

or

$$\text{NRV} = 105$$

lower

$$\begin{aligned} \text{Valuation of} \\ \text{Inventory} \end{aligned} = 105/\text{unit}$$

$$\begin{aligned} \text{Closing stock} &= 2000 \text{ unit} \times 105 \\ &= \boxed{210,000} \end{aligned}$$