# 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 PROGESS**

c) In form of **Material** (or) **Supplies** to be Consumed in the production process (or) in the rendering of Service
⇓
**RAW MATERIAL**

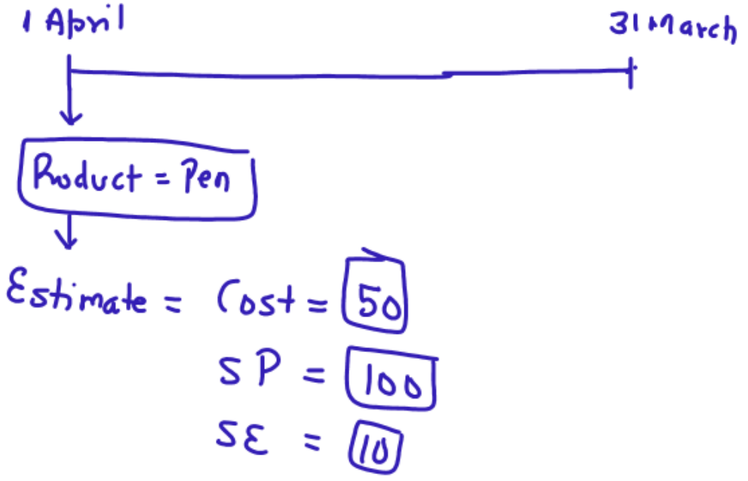
# Net Realisable Value [N.R.V]

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

| N.R.V = | Estimated Selling price | − | Estimated Cost of Completion | − | Estimate Selling Expense |
|---|---|---|---|---|---|

= 100 − 50 − 10

= 40



# 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

(OR)

→ N.R.V

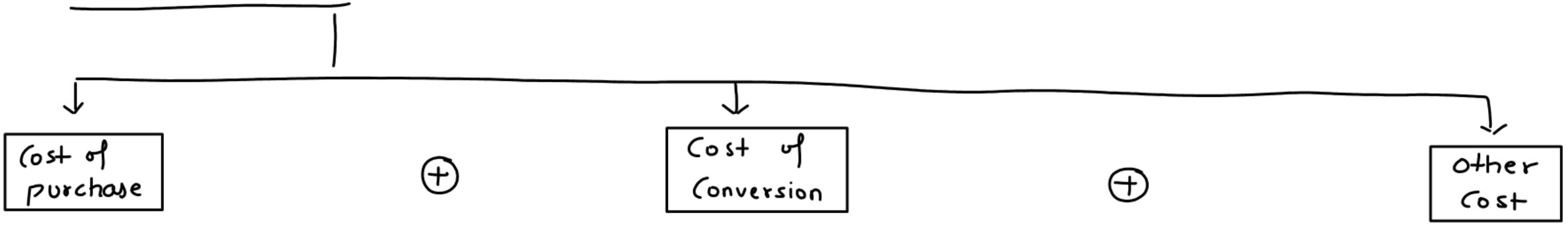
Which ever is LOWER

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 O/H (or) variable O/H]
3. Joint product Cost (Less by product)

# Other Cost →

Othe Cost are included in the Cost of Inventories only to the Extend 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 qualifing 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,

Cost = 100,000

(or)

NRV = 90,000

lower

Therefore,

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

(२)

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

Cost = 60,000

(or)

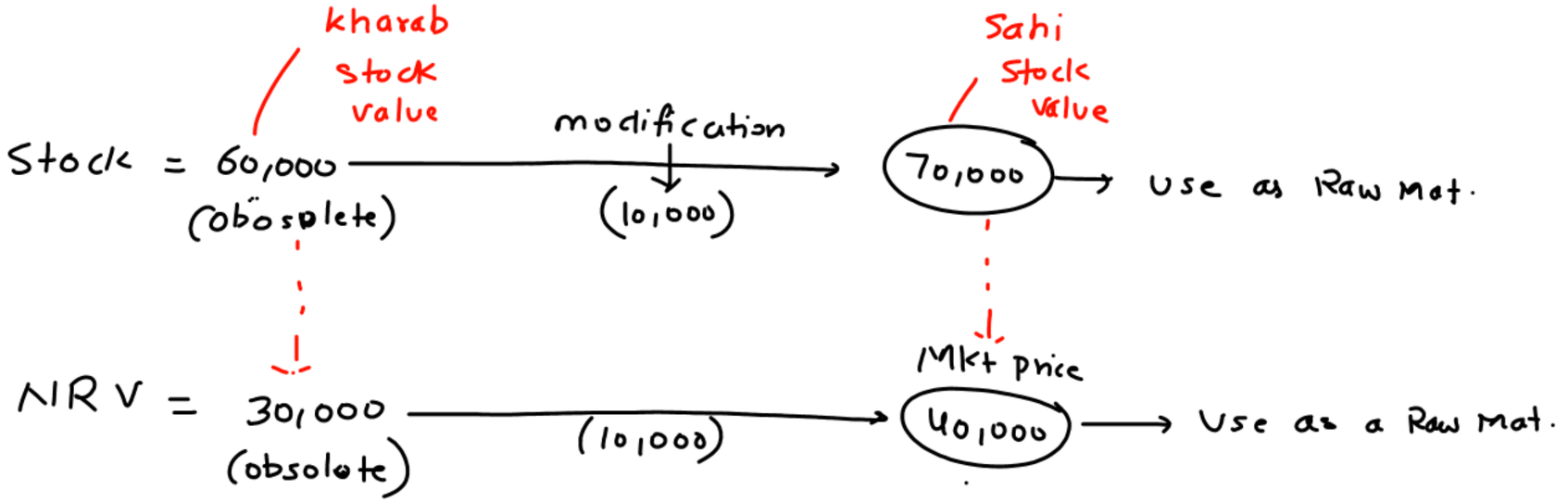
NRV = 30,000

lower

Therefore,

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

## Explaination



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,

Cost = 10 lakh = 10,00,000

(or)

NRV = (11 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 | 101000 + 3000 = 13000 | 18,000 | 13000 |
| philips | 20K + 2K = 22000 | 30,000 | 22000 |
| EC | 35K + 5K = 40,000 | 36,000 | 36000 |
| Sony | 50,000 | 55,000 | 50,000 |
| | | | 121,000 |

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

09

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.

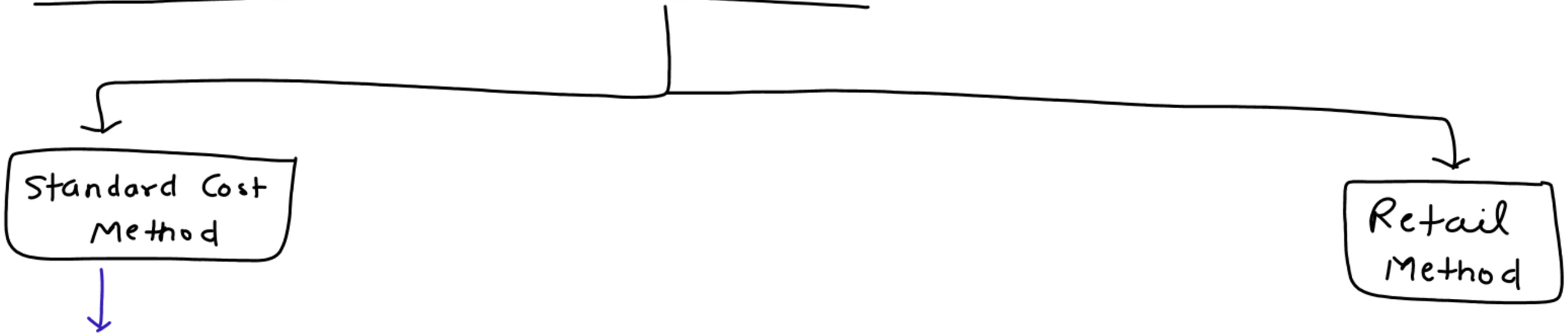
Hence, Notional Interest charges are not Consided/Included in the Valuation of closing stock

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 in not a part of Inventory as per IND AS-2 and it is not in compliance of INDAS-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



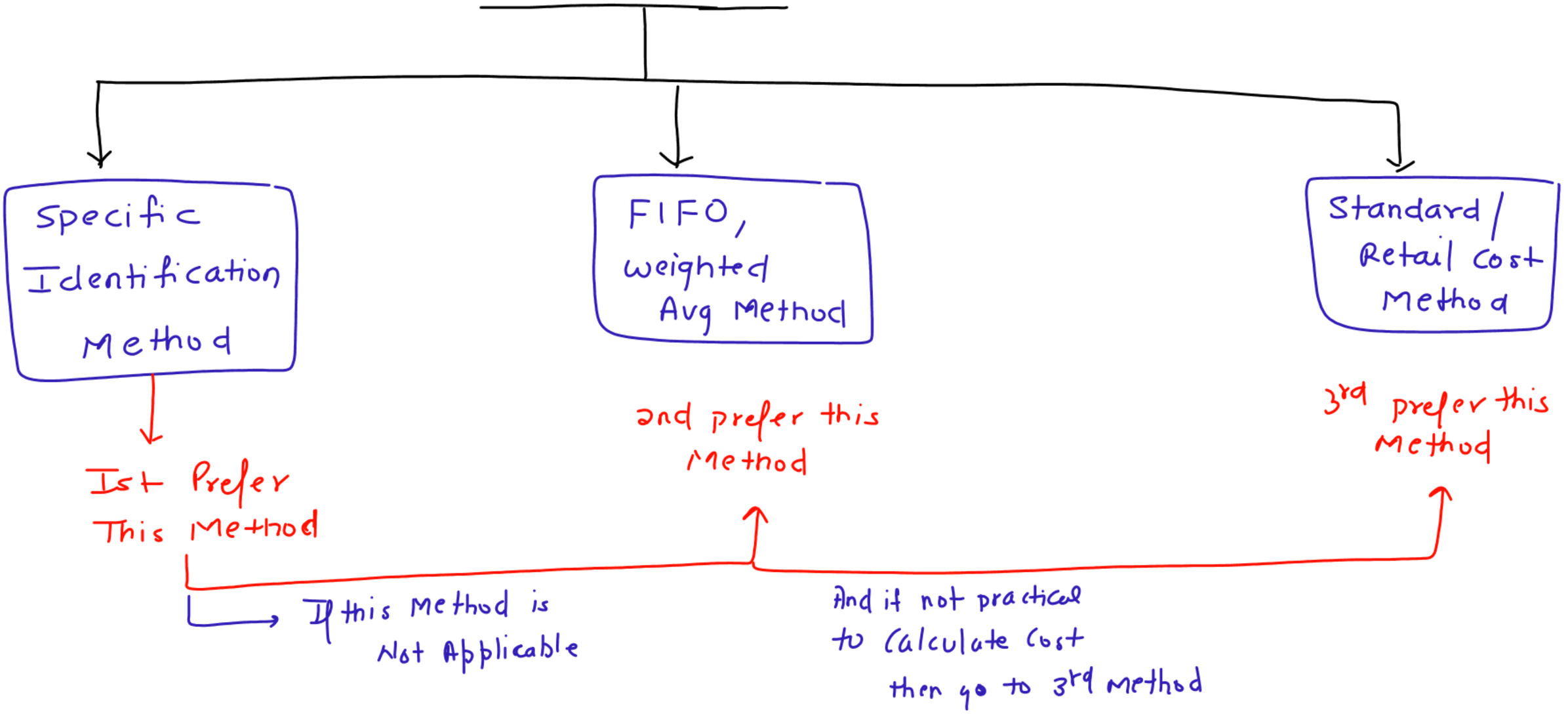

→ They are Regulary Reviewed

→ And if necessary Revised in the light of Current Condition

→ Pre determined Rate, irrespective of actual rates,

| | | ₹ |
|---|---|---|
| Normal selling price | = | xxx |
| less:- Gross margin | = | xxx |
| Retail Cost | | xxx |

# Cost Formulas



# Specific identification Method

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

This method is Abblication 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

1. 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 ie. = 40/unit

**Valuation of Inventory**

Cost = 50/unit
or
NRV = 40/unit
] Lower

Closing stock = 40/unit

Q10

Total Cost = 80/unit

Selling price = 100/unit

Now, Sunddenly S.P gone dune ie 100 to 70.

Valuation of Inventory,

Cost = 80/unit
or
NRV = 70/unit
} lower

Valuation of Inventory in Balance sheet = 70/unit

ie, 6000 × 70/unit

= ₹420,000

2: If Finished product/goods in which Raw Material and Suplies is used to Sold equal & Above the Cost price

Sold ≥ Cost price

In the Case,

| |
|---|
| Estimated NRV = More than Cost |
| (or) |
| Estimated NRV = equal to the Cost |

Ex

Finished Goods (Cost) = 10,000

Case1 :- Sold in Mkt = 12,000

Case2 :- Sold in Mkt = 10,000

Case 1

Estimated NRV = 10,000 or 12,000 (Higher) = 12000

Case 2

Estimated NRV = equal to Cost

= 10,000

(3) If Finished product/goods in which Raw Material and Suplies is used to sold below the cost price

Sold < Cost price

In this Case,

| Estimated NRV = Replacement of Cost |
|---|

Q11 (i)

Raw Material = 100/kg

FG sold below the cost price

Cost = 10,000 kg x 100

= ₹10,00,000

Estimated NRV = Replacement of Cost

= 10,000 x 80

= 800,000

Q11 (ii)

Total Input = 5000 MT

Normal wastage = 5% of Input

Total wastage - 300 MT

Cost of Per MT = ₹1000 / MT

Total wastage = Normal wastage + Abnormal wastage

300 MT = (5000 x 5%) + Abnormal wastage

300 MT = 250 MT + AW

AW = 300 - 250

Abnormal wastage = 50 MT

Cost of Abnormal wastage = 50 MT x 1000/MT

= ₹50,1000

Transfer to Profit & loss A/c

Q11 (iii)

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

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

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

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

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

$$\text{Valuation of Inventory} = 2000 \text{ kg} \times 140/\text{kg}$$

$$= 2{,}80{,}000$$

# Comprehensive Question (SM Pg = 441)

(1)

Production o/H = 40,00,000

Fixed = 40%.

Variable = 60%

Fixed o/H = 16,00,000

Normal Capital = 10,00,000

Fixed o/H / unit = 16 L / 10 L

= 1.6 / unit

Variable o/H = 24 L

Total unit = 20,00,000

Variable o/H / unit = 24 L / 20 L = 1.20 / unit

Cost / unit = Mat + labour + DE + Variable o/H + Fixed o/H

= 100 + 50 + 2 + 1.2 + 1.6

= 154.8 / unit

Valuation of Inventory = 400,000 × 154.8/unit

= 6,19,20,000

Q2

Cost/unit = 120 + 80 + 50

= 250/unit

Case 1 FG Sold = 270/unit more than Cost

Estimated NRV = 250/unit or 270/unit ] Higher = 270/unit

Valuation of Inventory

Cost of RM = 120

or

Estimated NRV = 270 ] lower

Value of Inventory = 120/unit

Closing stock = 2000 x 120/unit

= 240,000

Case 2

FG sold = 235/unit

FG Cost = 250/unit

FG sold below the Cost

Estimated NRV = Replacement Cost

= 105/unit

Valuation of Inventory

Cost of RM = 120
or or
NRV = 105 ] lower

Valuation of Inventory = 105/unit

Closing stock = 2000 unit x 105

= 210,000