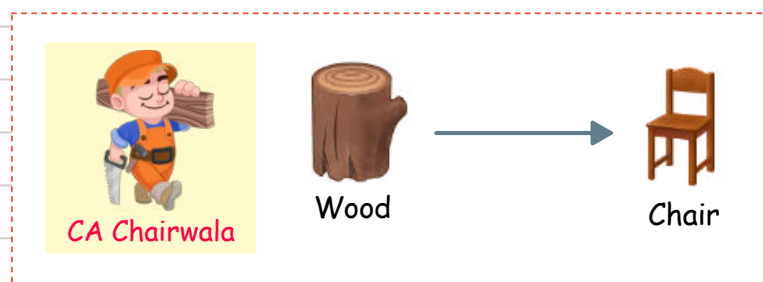
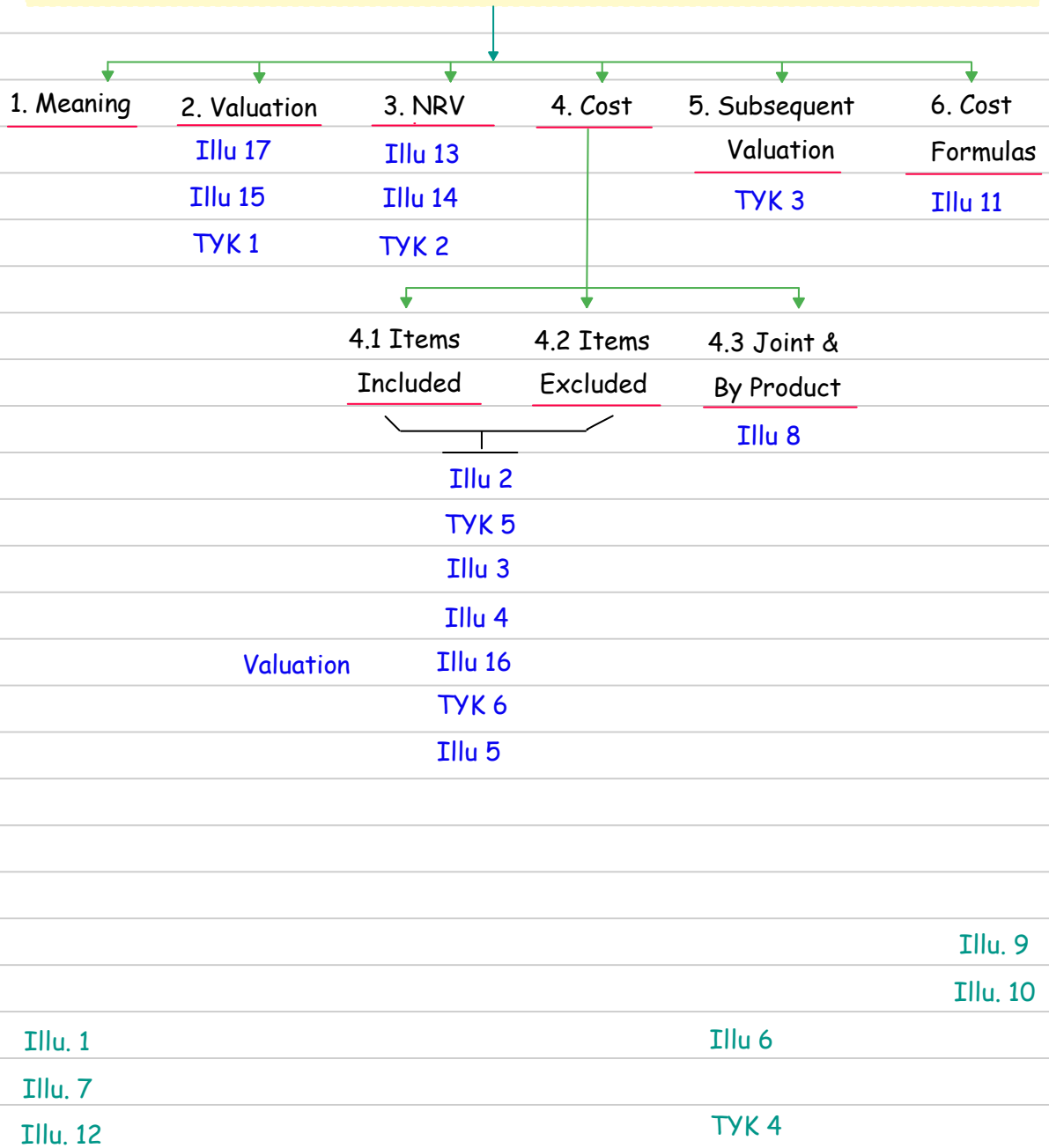


IND AS 2 - Inventories

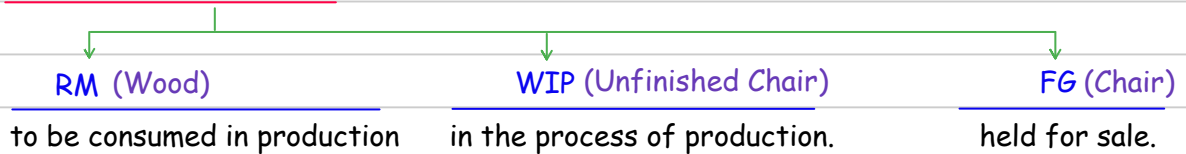




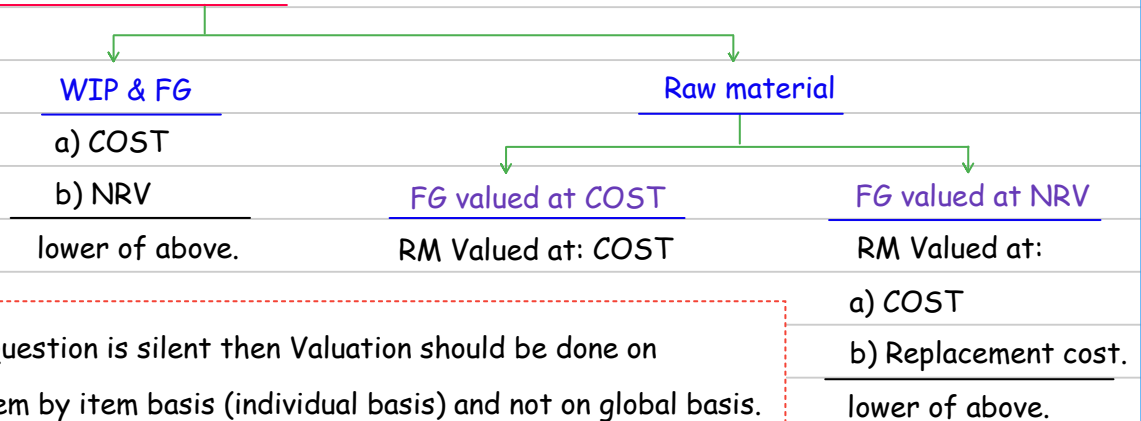
IND AS 2 - Inventories



1. Meaning of Inventories:



2. Valuation of Inventories: (Each Balance sheet Date).



❖ If Question is silent then Valuation should be done on an item by item basis (individual basis) and not on global basis.

3. NRV (Net Realisable Value).

<u>Particulars.</u>	<u>FG</u>	<u>WIP</u>	<u>RM</u>
Selling Price	X	X	-
- Selling Expenses	(X)	(X)	-
- Conversion Cost	-	(X)	-
	<u>X</u>	<u>X</u>	<u>-</u>

↓

Replacement Cost.
Cost company will have to pay to purchase RM from market.

- ❖ If product will be sold after repairing then NRV =

Selling Price	x
- Cost of repairing	(x)
	<u>x</u>
- ❖ In case of firm/committed contract of sale, NRV shall be calculated at the contract price.
- ❖ Question silent about NRV then following assumptions can be taken:
 - a) NRV is Zero
 - b) NRV is more than cost

4. COST of Inventories:

4.1 a) Purchase cost:

Purchase Price	x
- Trade discount (Cash discount : ignore)	(x)
+ Import duty & taxes (only if non refundable)	x
(Import duty & taxes if refundable : ignore) (Question silent: non- refundable)	
+ Transportation Cost —————> supplier to factory: Add to cost	x
+ Handling(Loading & unloading) cost —————> factory to customer: ignore.	x
+ Insurance on Purchase.	x
+ Brokerage paid to Indenting (buying) agent	x
	x

b) Conversion cost

Direct material	x
+ Direct labour	x
+ Other Direct cost	x
+ Production Overheads.	x
(Administration Overheads : ignore) (Selling & Distribution OH : ignore)	
i) Variable Production Overheads:	x
ii) Fixed Production Overheads:	x

Note 1: Fixed overhead per unit

$$\frac{\text{Total fixed Overheads}}{\text{Normal production or Actual Production (which ever is higher)}}$$

Note 2: Actual Production Quantity (FG)

If Actual Production not given:

Opening stock	x	Actual sales	x
Actual production	x	Closing stock	x
	xx		xx

Note3: fixed overhead allocation:

a) Absorbed Overheads	b) Under absorbed (Transfer to P&L)
Closing units x fixed OH p.u. x	Total Fixed Overheads x
Quantity sold x fixed OH p.u. x	- Absorbed Overheads (x)
xx	xx

c) Any cost incurred to bring inventory to present location & condition.	x
	x x

4.2 ✗ Items ignored while calculating COST

- T: Tax (IF credit available).
- O: Office & Administration OH
- S: Selling & Distribution OH
- A: Abnormal loss.
- Interest cost. (IF Allowed as per Ind AS 23 then added to cost).
- Storage Cost.(If storage is necessary for production then added to cost).

4.3 Joint Product & By Product

1. Meaning

Joint Product: Intention to produce (Petrol & Diesel)

By Product: No intention to produce (Wax)

2. Concept Question

	<u>Crude Oil</u>		
			Total Joint Cost 1,02,000
			-NRV of By Product (2,000)
			<u>Net Joint Cost 1,00,000</u>
	SOP: Split off Point		
	↓	↓	↓
—sold—	<u>Petrol</u>	<u>Diesel</u>	<u>WAX</u>
Quantity Produced	3,000	2,500	NRV=2,000
x Selling Price	x 100	x 80	
Sales value at SOP	300,000	2,00,000	

3. Solution:

Appointment of Joint Cost

Particulars	Petrol	Diesel	Total
Sales value at SOP	300,000	2,00,000	500,000
Joint Cost	<u>? 60,000</u>	<u>? 40,000</u>	1,00,000

5. Subsequent Re-assessment (valuation)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
a) COST	100	100	100
b) NRV	90	96	110
lower of above.	90	96	100
(Value appearing in FS)			
	↓	↘	↘
	<u>Loss:10</u>	<u>Reversal of loss:6</u>	<u>Reversal of loss:4</u>

6. Inventory Valuation Technique (Cost Formula)

