

AS 2 : Valuation of Inventories

Meaning of Inventories

These are the assets

- ★ Held for sale in ordinary course of business
(Finished Goods / Stock in Trade)
- ★ In the process of production (Work in Progress)
- ★ In the form of material or supplies to be consumed
(Raw Material, Stores & spares, etc.)

Non Applicability

- ★ WIP arising under construction contracts
- ★ WIP of service providers
- ★ Shares, debentures, etc. held as stock in trade
- ★ Producers inventories of livestock, agricultural & forest products to the extent measured at NRV

Valuation

Raw Material

$$SP_{FG} \geq CP_{FG}$$

At Cost Price

$$SP_{FG} < CP_{FG}$$

Cost Price
or
Replacement Price
w.e. is Lower

WIP & Finished Goods

Lower of Cost or NRV

Cost

Actual
Cost

★

Standard
Cost

On Normal
consumption

Retail
Price

Sales value
of Inventory
(-) GP (/-)

Used for convenience if results
approximates actual cost

NRV

(Net Realisable value)

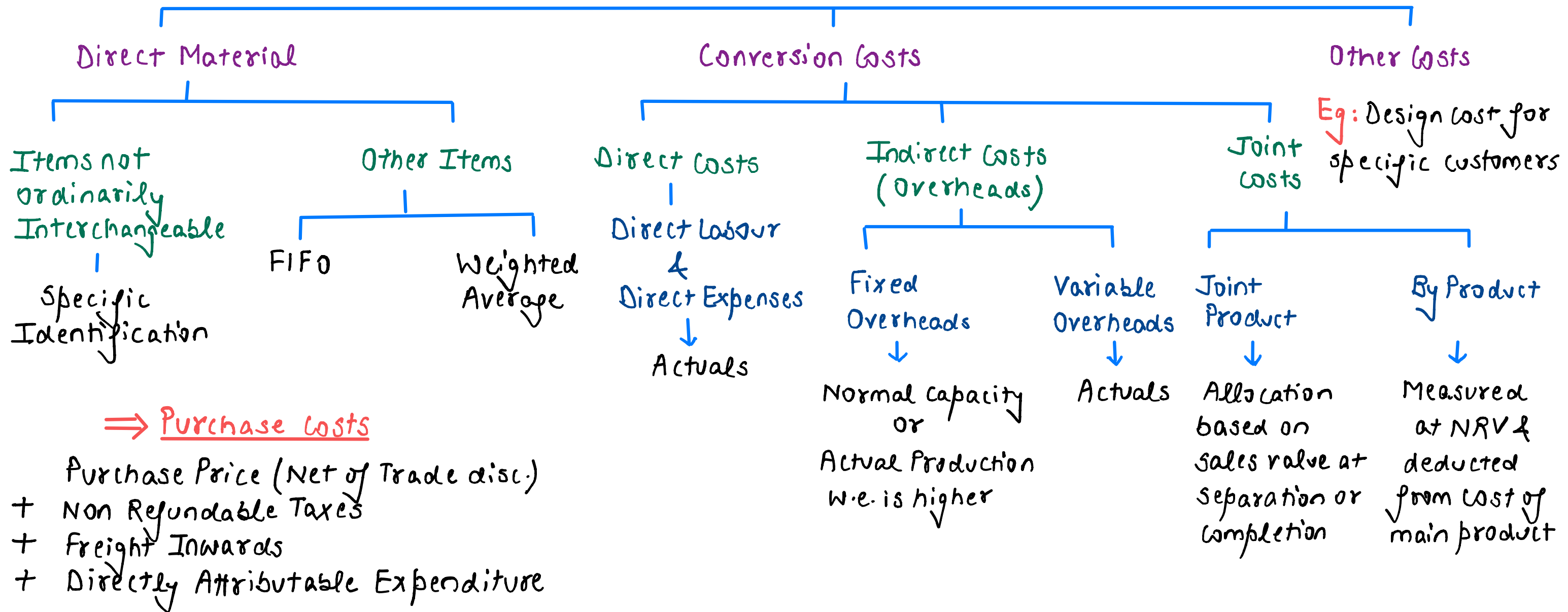
Estimated Selling Price

(-) Est. Selling Expenses

(-) Est. Costs of completion

(Firm/committed contract:
NRV shall be contract Price)

* Actual Cost



⇒ Exclusions from Cost

- ★ Abnormal Loss
- ★ Storage costs unless necessary in production process
- ★ Administrative Overheads
- ★ Selling & Distribution costs
- ★ Interest & other borrowing costs (Exception AS 16)