AS2 : Valuation of Inventories

Meaning of Inventories

These are the assets

- Held for sale in ordinary coure 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

- **Direct Material**
  - Items not ordinarily Interchangeable
    - Specific Identification
  - Other Items
    - FIFO
    - Weighted Average
- **Conversion Costs**
  - Direct Costs
    - Direct Labour & Direct Expenses → Actuals
  - Indirect Costs (Overheads)
    - Fixed Overheads → Normal capacity or Actual Production w.e. is higher
    - Variable Overheads → Actuals
  - Joint costs
    - Joint Product → Allocation based on sales value at separation or completion
    - By Product → Measured at NRV & deducted from cost of main product
- **Other Costs**
  - Eg: Design cost for specific customers

⇒ Purchase costs

Purchase Price (Net of Trade disc.)
\+ Non Refundable Taxes
\+ Freight Inwards
\+ Directly Attributable Expenditure

⇒ Exclusions from cost

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