AS2 - Inventories

1 Definition

Inventories → Assets which are
- Held for sale in ordinary course of Business (Finished Goods)
- used in the process of production for such sale (Work in Progress)
- In the form of materials to be consumed in production process (Raw materials)

2 Scope

- Following are excluded from the scope of AS2 → If Bldg ready (flat ready) FG (AS2) → Bush hona chahiye
  - i) Work in progress arising under construction contracts (covered under AS 7)
  - ii) Share, Debentures & other financial instruments held as stock in trade (covered under AS 13)
  - iii) Producers of livestock, agricultural & forest products (Ind AS41 MOAS)
  - iv) Mineral oils, ores & gases (Ind AS106 MOAS)

3 Measurement

Lower of
- cost
- or Net Realisable Value

eg: Inventory (Books) (FG) → cost → ₹100
Net Spf → NRV → ₹90

4] Cost of Inventories

Cost of Inventories — Manufacturing Bun / Trading Bun

(a) Cost of Purchase of Raw Materials / Finished Goods

→ Purchase Price (less Trade discounts)

→ Duties & Non-Refundable Taxes (If taxes are refundable they will not form part of cost of Inventory)

→ All Directly Attributable Expenses (eg: Handling cost, Freight/Transport Exp, Insurance of Purchase, Brokerage/Commission paid to Buying Agent etc)

Basically all direct expenses which are necessary to bringing inventory in present location & condition

(RM se FG main convert karne ka kharcha)

(b) Cost of Conversion

→ Direct cost (Direct Material, Direct labor, Direct Expenses)

→ Variable Overheads (Based of Actual capacity) → eg: Book → 1st sticker → Akhabaag

→ Fixed Overheads (Based on Normal capacity or Actual capacity whichever is higher)

eg: Factory Rent → ₹ 100,000

Production kitna bhi karo rent will be still 100,000

This is to calculate Fixed cost p.u.

1000 Books

2000 Boots

1000 sticker

800 sticker

Eg: Fixed overheads (Allocation to cost of Inventory)

Eg

(i) Jatin ltd (Books Manufacturing) 1138 Q

Normal capacity → 1,00,000 units

Actual capacity → 75,000 units

} Based on Normal capacity

Fixed cost incurrent → ₹ 150000 (Factory Rent)

ep

Fixed cost p.u = ₹ 150000 / 100000 units

= ₹ 1.5 p.u.

1.5p.m

220

Total Fixed cost = 150000

Inventory

Actual → 75000 units

× ₹ 1.5 p.u

= 112.500

Add to cost of inventory

Balancing figure

37500 (unabsorbed cost)

Profit/loss A/c (Exp)

Factory Rent (Fixed OH) = 150000 → (Based on Moomal capacity)

Normal capacity = 100,000 units

Actual capacity = 100,000 units

Fixed cost p.u = ₹ 150000 / 100000 Units = ₹ 1.5 p.u

Fixed Cost 150000

Inventory

Actual = 100,000 units × ₹ 1.5

= 150000

Bal fig

Nil

(3) Fixed OH = ₹2150000 → Based on Normal capacity

Normal capacity = 1,00,000 units

Actual capacity = 1,20,000 units

Fixed cost p.u. = 150000 / 100000 units = ₹1.5 p.u

Actual 120000 units

Fixed Cost 150000

Inventory

Actual = 120000 units × ₹1.25 p.u

= ₹1500000

2150000

Bal fig

Nil

Eg (i) Q.3 (Pg 4.16)

Fixed OH = 18 lakhs

Normal capacity = 1,00000 units

Case (A) Actual capacity = 1,00,000 units

Fixed cost p.u = 18L / 1Lunits

= ₹18 p.u

Total Fixed cost = 18lakhs

i) Allocate to Inventory = Actual Prod (100000 units × ₹18) = ₹18L

ii) Bal trf to PIL = Nil

Case (B) Actual capacity = 90,000 units

Fixed cost p.u = 181 / 1L units = ₹18 p.m

Total fixed cost p.u = 1800,000

i) Allocate of Inventory = Actual Produce (90000 units x ₹18) = 16,20,000

ii) Bal tot to PIL = 180000 (Exp)

(181 (-) 16.20) 24

dec Actual Production = 1.21 units

Fixed cost p.u = 181 / 1.2 units = ₹15 p.ae

(Divide by normal or actual whichever is higher)

Total fixed cost p.u = 1800,000

i) Allocate of Inventory = Actual Produce (1.2 units x ₹15) = 18,00000

ii) Bal tot to PIL = NIL

© Exclusions from cost of Inventories

Exclusions from cost of Inventories

i) * Abnormal wastage

ii) Storage cost (But if storage is a part of production then we will consider storage cost in cost of Inventories eg: Wines, pickles)

Inventory Banne ke baad ka cost

Storage cost But if storage is a part of production then we will consider storage cost in cost of Inventories eg

iii) Administrative Overheadt eg salary to employees who are not involved in manufacturing

iv) Selling & Distribution Overheads (eg Aduta markets)

v) Interest charges eg laptop

Add to cost of Inventory

Pantanofufactun

Cooma

Day ① 1 lakh × 10 laptop = ₹10L

After 1 Year payment = ₹ 11L

1 lakh for interest

Inventory Cost ≠ FIOL

F1 → For 1 year credit period

Interest → PIL

Do Not add to cost of Inventory.

1000 × 5 = 8013000

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* Abnormal wastage

Eg 1000 Books purchased @ ₹150 p.u = ₹1500000

Normal loss 5%

Out of 1000 Books only 920 were in good condition

Total loss = 80 Books

Nomad loss = 50 Books (1000 × 5%) → koi diktat nahihai

Abnormal loss = 30 Books → PIL

step ①

We have to compute revised p.u cost of Books after considering normal loss p.ie

= Total cost / Total units − Normal loss = 1500000 / 950 units = 157.89 p.u

step ②

Actual units 920 units × ₹157.89 p.u = 145259 → Add to cost to Inventory

Abnormal loss 30 units × ₹157.89 p.u = 4737 → Abnormal loss (PL)

p.ie

p

fg

149995 or 150000 approx

www

Eg Milk 5000 litres @ ₹50 per litre

Normal loss 2%

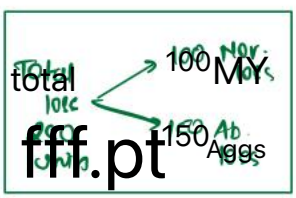
Milk actually receive is only 4750 litres

Calculate Aut to be allocated to cost of Inventory & also calculate Aut of Abnormal loss to be to PL

Soln: Revised cost p.u = 250000 / 4900 litres = ₹51.02 p.u

p.us

p



My

fff.pt

i) Can of Aut to be allocated to Inventory (Actual 4750 litres × ₹51.02 p.u = 242347)

Can of Aut to be allocated to Inventory ATL 5.02pm

ii) PL → Abnormal loss = 150 litres / 4900 litres × 57.02 p.u = 7653

250000

1) Fixed OH allocation & Abnormal loss calculation → Are 2 diff concepts

2) If there is no abnormal loss then no need to do above calculation full Amount paid will be allocated to cost of Inventory

paid

illus 3 (Pg 4.1)

Total units = 5000 MT @ ₹1000 p.u

Normal loss = 5%

Total wastage = 300 MT

Total wastage 300Mt

total loss 300Mt → Normal (5000 × 5%) 250 MT

Revised cost p.u = ₹50,00000 / 4750 Mt [5000 − 5% normal loss]

= ₹1052.63 p.u

i) Amount allocated to cost of Inventory (Actual Prod) = 4700 MT × 1052.63 p.u = 494736

Amount allocated to cost of inventory Actual Prod 4700Mt × 1052.63 p.us

ii) Abnormal loss

50Mt × 1052.63pA = 52632

4750 Mt

50,00,000 approx

appro

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5. Costs formula

Costs formula

- FIFO (First in first out)
- WAM (weighted Avg method)
- Specific Identification Method
- Standard cost Method
- Retail Method

twitter link — subject

FIFO (First in first out)

archas'd eg: 1/4 → 100 units @ ₹20 = 10080

1/6 → 70 units @ ₹25

notelevant

are 60 units @ 30

60 sold.

WAM (weighted Avg method)

Eg Below

60 units @ ₹20 = 1200

cesshe 40 units 1st tot 20 = 800

to units 2nd 1017825 = 1750

2550

Specific Identification Method

It is used when inventory are not interchangeable (eg: Jewellery)

eg Jewellery

1/4 → 1 Ring @ ₹10k

1 Chain @ ₹50k

1 Bangle @ ₹75k

Purch.

sale: 1 Bangle

75k → Here which item is sold can be clearly identified along with cost

Standard cost Method

- used when actual cost incurred cannot be identified easily
- It takes into account normal levels of materials labours & capacity utilization

Retail Method

thism'ethodis often used when items are rapidly changing

4 similar gross grohang hug

less Gross Margin

Cost of Inventory

m g

In exam always check what is asked → COGS or CU Stk

COGS → Jo inventory becha uska cost
as stk → To inventory pada hua hai uska cost

eg: on weighted Avg

cg on weighted Avg

Purchase
eg: 1/4 → 100units @ 20 = 2000
16 → 70units @ 25 = 1750
3750 → Avg cost p.u = 3750 / 170 units = 22.06 p.u

Sale 60units @ 30

COGS → 60 units x 22.06 = 1324
CUStk → 110 units x 22.06 = 2426

Note: LIFO is prohibited under AS 2

Note LIFO is prohibited under AS 2

6 NRV (Net Realisable value) → FG, WIP, Raw mate

A) FG → (NRV)

Estimated selling Price
(-) Estimated cost to make the sale (Ceg Commission Brokerage Packaging Delivery cost of selling etc)
NRV of FG

B) WIP (NRV)

Estimated selling Price of FG xx
(-) Estimate cost of completion (xx)
(-) Estimated cost to make the sale (xx)
NRV of WIP

Eg WI

cost incurred till date 150

selling price of FG 250

selling cost 20

Cost yet to be incurred for completion 100

WIP → lower of → cost → 150

NRV → 130

NRV = S.P of FG 250 − (a cost of completion 100 + selling cost 20) = 130

Raw Material (MRV) → we have purchased Raw material to consume in FG not to sale

Valuation of Raw material is Dependent on FG

If FG is sold at cost or above cost → Measure RM @ cost

If FG is sold Below Cost → Measure Rin at Replacement cost

Replacement cost is the amount that an entity would have to pay to replace the asset at present time according to its current worth

eg FG → Cost 100, NRV 98 → fit

Rid → s Cost 20

Replacement cost 18

FG is sold above cost ∴ RM @ cost (120)

eg FG → Cost 100, NRV 90

Rin → s cost 20

Replacement cost 18

FG is sold Below cost ∴ Rin @ replacement cost

7. Allocation of cost of Joint Products & By products

Allocation of cost of Joint Products & By products

i) In case of Joint Products

In case of Joint Products

when cost of conversion of each main products cannot be identified separately, they need to be allocated in sales ratio (total units x selling price p.u)

ii) In case of By product

In case of Byproduct

→ Most By products are immaterial therefore they are measured at NRV.

→ NRV of By product will be deducted from total cost of conversion & after deducting, Net cost of conversion will be allocated to main products

In ques → sometimes Profit from By product/scrap will also be given. But remember that we dont need Profit, we need MRY (Ignore Profit)

In ques sometimes Profit from Byproduct scrap will also be given But remember that we dont need Profit we need MRY Ignore Profit

eg: Amul Co

Butter cheese

FfintPok

is to be allocated in total sales ratio (No of units produced x selling Price)

Byproduct/Scrap

Additional wastage of Cheese & Butter → Chaas (Butted milk)

Byproduct Scrap

Additional wastage Chaas Butted milk

eesea Buttes

NRV/Scrap value

sells Price 1L

sells cost 10k

(-) packaging cost

may NRV of By

90k

off

loodoo units

x 15p.ee (SP) given

total sales value 15.00.000

Cost allocation 6,06,667

(91 x 15 / 22.5)

75000 units

(x) 10p.u. (SP) given

750000

3,03,333

(9.1L x 7.5L / 22.5L)

total cost 101

(-) NRV of By product 90k

MRff reduce

Net cost 9.11

Butted cheese

Extra Ques

In a manufacturing process of Mars ltd, one by-product (BP) emerges besides two main products MP1 and MP2 apart from scrap. Details of cost of production process are here under:

Item	Unit	Amount	Output	Closing Stock 31-3-20X1
Raw material	14,500	1,50,000	MP I – 5,000 units	250
Wages		90,000	MP II – 4,000 units	100
Fixed overhead	-	65,000	BP – 2,000 units	
Variable overhead	-	50,000		

Average market price of MP1 and MP2 is ₹ 60 per unit and ₹ 50 per unit respectively,

By- product is sold @ ₹ 20 per unit. There is a profit of ₹ 5,000 on sale of by-product after incurring separate processing charges of ₹ 8,000 and packing charges of ₹ 2,000.

₹ 5,000 was realized from sale of scrap.

Required:

Calculate the value of closing stock of MP1 and MP2 as on 31-03-20X1.

Soln:

Total cost of Main Products	
Raw material	150000
wages	90000
Fixed OH	65000
Var OH	50000
Total cost	355000
less: NRV of By products	
BP	30000
scrap	5000
Net cost	320000

Normal Prod capacity not given ∴ full fixed OH added to cost

2000 units × 20 = 40000 − 2000

MP I

5000 units × 60 = 300000

MP II

4000 units × 50 = 200000

Allocation of cost = 192000 / 320000 (3000 × 32/34)

= 128000 / 320000 (3000 × 24/34)

÷ No of units 5000 units

÷ 4000 units

Cost per p.u. ₹ 38.4 p.u.

NRV ₹60 p.u.

cost ₹ 32 p.u.

NRV ₹ 50 p.u.

costperp.u.F38.4p.ee

NRV 60 p.ee

p

Value of Cls Stk	Qty	Rate	Total
MP I	250	38.4	9600
MP II	100	32	3200
			12800

AS 2 → 7hr0 → Revise → 3 5hm

He

Bhuegaye

u

solution ? → Revision vide. → 4outube

ion

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CA Aakash Kandoi

Illus 2

Purchase	40 lakhs	100%
Sold	30 lakhs	75%
C/s stk (cost)	10 lakhs	25%
(NRV)	9.9 lakhs	

Castle cost NPV

Selling Price 11 lakhs

selling

a sell 8 cost 10) 11 lakhs

9.9 lakh

C/s stk (value) = 9.9 lakhs

is stk value

Illus 4 – Refer Q 8

1164 Refer Q 8

Illus 8

WIP

② Cost ——→ 530

Cost

② NRV

MRI

Selling price of FG 750

selling

(-) Cost of completion (310)

C Cost of completion

(-) Cost of sale (Brokerage) (30) (750 × 4%)

cost of sale Brokerage

NRV 410

WIP (cost or NRV whichever is lower i.e. @ ₹ 410)

WIP cost or NRV whichever is lower i.e. @ ₹ 410

Quest 1 (LDR)

(a) Calculation of Material cost per kg

		"₹"
Purchase Price (20000kgs × ₹110)		22,00,000
less: GST - Input Tax credit (20000kgs × ₹12)		(2,40,000)
		19,60,000
Add: Freight		1,17,600
Total cost		20,77,600
÷ No of kgs (after normal loss)	(20000 × 98%) 19600 kgs	Revised cost p.u.
Material cost per kg	₹106/kg	

includes GST

2% normal loss

(b) Allocation of Material cost

Actual Units = 19500

- consumed 18000 × 106 = 19,08,000
- c/s stk 1500 × 106 = 1590000

Total loss	Nor. loss	400kg
500kgs	Ab loss	100kg

20000 kgs − 19500 kgs = 500 kgs

Ab loss = 100kg × ₹106 = ₹10600 → Trf to PL

Ques 3

(a) Cost (weighted Avg method)

₹108 × 20 units	=	2160
₹107 × 15 units	=	1605
₹109 × 30 units	=	3270
₹107 × 15 units	=	1605
Total cost		8640
÷ No of units		80 units
Avg cost p.u.		108

Cls Stk units = 80 purchase C/ 60 issued

= 20 units

Cls Stk

i) cost = 20 units x 108 = 2160

ii) NRV = 20 units x 107.75 = 2155

Cls stk will be valued at ₹ 2155

Cls stk will be valued at 2155

Ques 4

Value of closing Stock	Qty	Rate	value (Amount) ₹
i) Raw material x	1000	440	440000
ii) Finished Goods Y	2400	660	1584000
			2024000

working note:

i) Raw Material

a) Cost

Cost Price	380
(+) Freight	40
(+) unloading	20
Total cost	440

b) Replacement cost 300

FG is sold above cost

∴ Rra @ cost

ii) Finished Goods

material consumed	440
Direct labour	120
variable OH	80
Fixed OH (400000 / 4000 units = 80)	20
Total cost	660
NRV (Given)	800

Case (i) When NRV of FG is ₹ 450

	Qty	Rate	Amt (₹)
Raw Material P	600	275 Cost	165000
Fin Goods Q	1500	360 Cost	540000
		Value of CU SMC	₹ 705000

Case (ii) When NRV of FG is ₹ 340

	Qty	Rate	Amt (₹)
Raw Material P	600	180 Replacement cost	108000
Fin Goods Q	1500	340 NRV	510000
		Value of Cls SMC	₹ 618000

(a) Raw Material

Cost Price	250
GST (Input Tax credit)	(20)
	230
Freight	30
Handling	15
Cost	275
Replacement cost	180

includes list

(b) FG

Material consumed	280
Direct labour	70
Variable OH	30
Fixed OH (30k/25k)	10
cost	390

i) NRV 450
ii) NRV 340

formal capacity 30k
Actual 25K

pata nikalne ke liye we divide by whichever is higher.

Ques 8

Lifading to AS-2 (Inventories), inventory shall be valued at cost or MRY whichever is lower.

Value of closing stock

	Qty	Rate	Amount
Product A (FG)	200	90	18000
ProductB (FG)	800	70	56000
			74000

WN

i) Product A

Material	40
wages	30
OH	20
Cost	90
NRY	99

(110 - 10%)

ii) Product B

Material	45
wages	35
Cost	80
NRY	70

Profffa

Ques 9 & 10 → Refer QB

Ques 11 (VOR)

Value of closing stock @ cost (Given)	450000
less: Adjustment for 100 coats (WN1)	(20000)
Value of cls stk	430000

WN1

① 100 Coats

Cost (100 × 2200)	220000
NRV (100 × 2000)	200000
Adjustment to be made in cls stk	20000

→ 450000 already includes inventory @ cost of 220000. But as NRV is lower we will reduce the stk by ₹ 20000

② Shirts

Cost	50000
NRV	55000

No adjustment required in cls stk as cost is lower than NRV

student mistake (10% comm) 55000 / 4500 / 40500 → incorrect 550001 not selling price but directly NRV is given.

No adjustment required in cls stk as stk at cost is lower than NRN 2 in our cls stk we have included at cost only

Ques 12 (CDR)

i) As per AS-2 (Inventories), Inventories of FG will be valued at cost or NRV whichever is lower.

ii) Inventories of WIP will be valued at cost or NRV whichever is lower.
But to find NRV of WIP we take S.P of F.G (-) cost of completion (-) cost of sale

iii) Inventories of RM will be valued at cost if FG is sold above or at cost
& RM will be valued at replacement cost if FG is sold below cost.

		Qty	Rate	Total
Raw Materials	x	900	80 (Repl.)	72000
WIP		400	216 (NRV)	86400
Finished Goods	P	800	266 (NRV)	212800
				371200

CON

① Raw Material

Cost	100
Replac. cost	80 → as FG is sold below cost

Replace cost — Below cost

② WIP

Cost	245
NRV	
S.P of FG	280
(-) Cost of comp	(50)
(-) Cost of sale	(14) (280 × 5%)
NRV of WIP	216

③ FG

Cost	295
NRV	
S.P of FG	280
(-) cost of sale	(14) → 266

Ques 7 (LDR)

OP Stle + Purchase (-) CS = COGS/ Insumed

Particulars	₹
1) Raw materials consumed (Opn + Purch (-) Cls) (1100kg + 10000kgs (-) 900kgs) = 10200kgs × ₹10 p.u (100000/10000kg) RM purchased	100,000 102000
2] Labour	76500
3] Fixed OH (work)	51000
Total Cost of FG	229500
÷ FG Prod (work)	10200 kgs
Cost p.u of FG p.ie MRI of FG (whichever is lowered)	₹22.5 p.u ₹20 p.u

THE

Actual Prod of FG (kgs)

Opn + Purchase (-) CS = COGS

1000kg + ? (Prodn) (-) 1200kg = 10000kgs

Prodn = 10000kgs − 1000kgs + 1200kgs

= 10200 kgs

Fixed OH 75000 = ₹5 p.u.

Divide by normal → 15000kgs

Actual Prod → 10200 (whichever is higher)

₹75000 → Actual Prodn (10200 × 5) = ₹51000

Bal fig → 24000 (PL)

Value of cls stk	Qty	Rate	Total
1) Finished Goods	1200	20 (NRV)	24000
2) Raw Materials	900	9.5 (Replac. cost)	8550
Effis sold Belowcost			32550
1- Rrn @ Replae.cost			

Ques 14 (LPR) ⟶ Co follows FIFO

Given: Opn → 10,000 litres @ ₹92 per litre → lot 1

Purch (1st June) → 20000 litres @ ₹90 per litre → lot 2

Purch (30th June) → 10000 litres @ ₹95 per litre → lot 3

Cls stk → 13000 litres
- lot 3 → 10000 litres
- lot 2 → 3000 litres

i) Value of cls Inventory as on 30th June

10000 litres × ₹95/litre	=	950000
3000 litres × ₹90/litre	=	270000
		12,20,000

ii) Cost of Goods sold (Opn + Purchase − cls = cogs)

Opn	(10000 litres × ₹92)	920000
(+) Purchase	20000 litres × 90	18,00,000
	10000 litres × 95	950000
(−) cls (computed above)		(12,20,000)
cogs		24,50,000

iii) Profit / loss for the month

Sales (given)	3140,000
(-) cos lots (computed above)	(2 50,000)
Gross Profit	590000
(-) Gen OH	(400000)
Net Profit	190000

Ques 16

i) Value of cls stk (OR)

Value of cls stk

Opn stock	20000
(+) Purchases	147000
(-) Cost of Goods sold	(140000)
Cls Inventory	27000

of is

C + P = S

100 + 10 = 110

? = 154000

140000

i) Value of cls stk (chairs)

Value of its stk (chairs)

Cost (250 chairs x ₹300)	75000
NRV (250 chairs x ₹280)	70000

1.40×707

lower of cost or NRV is 70,000

Ques 17

Value of computer (per unit)	(₹ in lakhs)
Materials	400
Direct labour	250
Variable Production Overheads	150
Fixed Prodn OH (290 − 100) ↓ Interest	190
total cost	990
No. of computers	550
Cost per computer	1.8 per computer