AS 2 - Valuation of Inventory

Revision :-

1) Inventory (Asset)

- Held For Sale in the ordinary Course of Business
- in the process of production
- in the Form of Material to be Consumed
  - For production
  - OR
  - For rendering of Service

2) Measurement of Inventory

Lower of

- Cost
  - PC + CC + OC
  - (OR)
- (OR)
- NRV
  - Normal SP
  - (-) est. Selling exp.

Rm Consumed —— XXX

(+) Direct Labour Exp —— XXX

(+) Fixed Overheads —— XXX

(+) Variable Overheads —— XXX

Cost of FG

3) Net Realisable Value (NRV)

Est. SP (normal SP) or actual Transaction price after Bfs date.

NRV OF FG

Est. SP XXX

(-) S. Exp (XXX)

NRV

NRV of WIP

NRV OF FG

(-) Further Cost of Production

NRV of WIP

Raw material measurement

If NRV of FG is more than Cost of FG

RM measured at Cost

If NRV OF FG is Lower than Cost

Rm measure at Replacement Cost

or Org. Cost Whichever is Lower.

4) Effect of Defected Goods on NRV :-

Class Ex!-2 31/3/24 80 HP Laptop

Normal SP = 75000/-

25 Laptops are Defected & they require repair costing 5000/- each, they will be Expected to Sell at 70% of Normal SP.

Each Laptop is Having Cost of 50000/-

What is the Inventory Value as per AS 2

Sol) :-

Total 80 Laptops

55 Laptops

a) Cost = 50000/-

(or)

b) NRV = 75000/-

∴ 50,000 x 55 = 27,50,000/-

25 Laptops

a) Cost = 50000/-

b) NRV :- 52500
- 5000
47,500

∴ 47500 x 25

11,87,500

Total Inventory Value = 39,37,500/-

Q5 (Pg no. 3.2)

1) Coats :- Actual Cost = 80/-

NRV = Actual Sale after B/S − S/E
= (150 × 50%) − 5% = 71.25

NRV is lower Hence 400 × 71.25 = 28500
Inventory Value

2) Skirts Cost = 20/-

NRV = actual Sale after B/S = 28/-
date
(-) Remedial Exp = (5/-)
(-) S/E 800/800 = (1/-)
NRV 22/-

Since Cost is lower Hence No need for any adjustment in Total Cost.

Final Inventory Value :-

Total Cost	=	284700
(-) Cost of 400 Coats	=	(32000)
(+) NRV of 400 Coats	=	28500
		281200

Cost of Inventory

1) Purchase Cost
+ GST (Non Refundable)
+ Custom duty
(+) Transport / Octroi
(+) Transit Insurance
(+) Loading Unloading
(+) Primary packaging
(+)

1) Rm Consumed

2) Wages / Labour.

3) Factory power / fuel / Rent / Mach. Dep / Rent of Mach. / Supervisor Salary, Royalty of patent

Factory OverHead
(Or)
production OverHead

Fixed

Variable

Q9 (pg. no. 3.3)

Calculation of Cost of Rm & FG

Rm :- purchase cost = 380/-
Unloading = 20/-
Freight = 40/-

Cost per unit (Rm) = 440

FG:- Rm Cost = 440/-
(+) Labour = 120/-
(+) V. OH = 80/-
(+) F OH = 20/-
Cost per Unit = 660/-
OF FG (y)

Valuation of Inventory

As per AS 2, Inventory is measured at Cost or NRV whichever is Lower.

In Case of Rm, if NRV of FG is higher than its Cost, then Rm shall be measured at Cost.

In Case of Rm, if NRV of FG is lower than its Cost, then Rm shall be measured at Replacement Cost or actual Cost whichever is Lower

Case 1:- NRV OF FG = 800/-

FG (y)	Rm (x)
Cost = 660/- } Lower is 660/- NRV = 800/- }	NRV OF FG is Higher ∴ Rm shall be measured at actual Cost
Value = 66 × 2400	

15,84,000

Value = 440 X 1000
= 4,40,000

Case 2:- NRV OF FG = 600/-

Q7 (Pg no. 33)

Calculation of Total Cost of production

Material	–	150000
(+) Wages	–	90000
(+) F. OH	–	65000
(+) V. OH	–	50,000
Total Cost	–	355,000
(-) NRV of By product (40000 – 10000) NSP Exp	–	(30,000)
(-) Scrap Sale	–	(5000)
Net Cost of production of MP_1 & MP_2	=	320,000

Allocation

MP_1 ⇒ Est. Sale ⇒ 5000 × 60/- = 300000/-

MP_2 ⇒ Est Sale ⇒ 4000 × 50/- = 200000/-

Allocation shall be made in the ratio of above Est. Sale Values.

Cost for MP_1 = $320000 \times \frac{3}{5} = 192000$

Per Unit Cost = $\frac{192000}{5000 \text{ no.}} = 38.40$/-

Cost of MP_2 = $320000 \times \frac{2}{5} = \frac{128000}{4000 \text{ no.}} = 32$/- per unit.

Value of Closg Stock :-

$MP_1 \Rightarrow 250 \times 38.40 = 9600$/-

$MP_2 \Rightarrow 100 \times 32 = 3200$/-

12,800/-

Jan ⇒ 8000/- 500 unit

Feb ⇒ 8100/- 400 unit

March ⇒ 7800/- 600 unit

31/3 Clo. Stock ⇒ 200 unit

Jan → Standard Cost

Feb

May

M = 10 Jan.
L = 6 Ja.
OH = 4 J.

20

100 units

20000/-

Q10 Calculation of Cost of FG produced

		Amt.
1) Raw Material Consumed	Opng 1100 purch. 10000 (-) Closg (900) Consumed 10200 x 10/- *	102000
2) Add:- Labour Exp.	Given	76,500
3) Add:- Fixed OH	Rate = 75000 / Higher of 15000 (normal) or 10200 (actual) 5/- x 10200 no.	51,000
	Total Cost of FG =	229500
	÷ Total FG produced =	10200
	FG Cost per Unit =	22.5/-
	NRV per Unit =	20/-

Lower is NRV => FG Invatory Value = 20 x 1200
= 24000/-

Rm Inventory Value (NRV of FG is Lower) :- at Replacem. Cost

$900 \times 9.5/- = 8550/-$

Total Inventory = 24000 + 8550

= 32,550/-

Note:-

1) Rm Consumed = FG produced during the year

if no extra info. is given

Hence FG produced = 10200 Units

2) Rm Cost per Unit $\Rightarrow$ $\frac{\text{Total Pur. Value}}{\text{Purchased Units} - \text{Normal Wastage}}$

$\Rightarrow \frac{100000}{10000 - 0} = 10/-$