AS-2: VALUATION OF INVENTORY

L4

Spares

Printing machine → Ink cartridge → 200 cartridge → spares → AS-2 : Inventory

Indigo Airlines → Engines → 25 engines → spares → AS-10 PPE ✓

25 engines → TA / useful life 7 yrs / Rendering of service

Inventory meaning :-

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1. FG & SIT → held for sale
2. WIP → held in production process
3. RM → material / supplies to be used in prodn process.
4. Consumables & spares (other than those covered in AS-10)
5. Packing Material

Non-applicability :- will be explained with questions

Inventory valuation :- Cost OR NRV w.e.lower

L5

1. Ascertainment of cost of Inventory

Raw Material

→ Cost of purchase
less: Trade discounts & rebates
add: Non recoverable taxes
add: Cost incurred to bring the inventory to its present location & condition.
add: Borrowing cost (AS-16)

→ Normal loss is considered as a part of cost of inventory (because ye market mein sab incurr karte hein so collectively everyone increases the cost)
→ Abnormal loss is Debited to P&L.
(It is only incurred by us and not everyone)

WIP/FG

→ Cost of Raw Material
→ Conversion cost
Eg:- labour cost
electricity cost
machine → rent
factory → rent

Variable Conversion cost

Fixed Conversion cost.

LS

Variable Conversion cost :- 1 employee = 500 bats manufactured (30 days)
salary = 15000/month (30 days)

salary/bat = 15000/500 = ₹ 30/bat.

It will be added to cost of inventory on per unit basis.

Fixed Conversion cost

machine rent = ₹ 500000/month
normal production (of bats) = 5000 bats

CASE I :-

Actual prodn = 4000 bats

When Actual produ < Normal produ

cost/unit = 500000/5000 (NP) = 100/bat

Inventory cost = 4000 × 100 = 400000
P&L Dr. = 500000 - 400000 = 100000

Competitor :-

500000/5000 = 100/bat

(Hum competitor ko agge nahi badne de sakte. Usko advantage nahi de sakte)

CASE II :-

Actual production = 5000 bats

When, Actual production = Normal production

cost/unit = 500000/5000 (NP) = 100/bat

Inventory cost = 5000 × 100 = 500000
P&L Dr. = 500000 - 500000 = 0

Competitor :-

500000/5000 = 100/bat

CASE III :-

Actual production = 6000 bats

When actual production > Normal production

cost/unit = 500000/5000 (AP) 6000 = 100/bat 83.33/bat

Inventory cost = 6000 × 100 83.33 = 600000 500000

P&L Dr. = 500000 - 500000 = 0

Competitor = 500000/5000 = 100/bat

L5

Inclusion of storage cost in cost of inventory :-

Generally storage cost is not included in the cost of inventory However if the storage cost in necessary to bring the inventory to its present condition i.e. necessary for production or manufacture of inventory then it will be considered as a part of cost of inventory.

Eg:- storage cost incurred for aging of alcohol.

Cost formula / Methods

Historical cost Method

The purchase price (historical price) is considered for calculating cost of closing stock.

- Specific Identification → Not similar / Not Interchangeable
- FIFO, LIFO, SA, WA → Similar Interchangeable
  - LIFO cannot be followed as per AS-2.

Non-Historical cost Method

The selling price (future price) is considered for calculating cost of closing stock.

Selling Profit - Profit = cost

1 → 50
2 → 51
3 → 50.5
4 → 52
5 → 51.5
:
100 → 53

(H.C.)

Closing Stocks : Towel

Branded Towels

1 → Rad Tow
2 → Taj Tow
3 → Hilton Tow
4 → Mariott Tow

Non-Interchangeable → Specific Identification

normal plain white towels

1 → 100 u
2 → 100 u
3 → 100 u
4 → 100 u
5 → 100 u

Similar / Interchangeable → FIFO / WA / SA

LS

NOTE :- While purchasing raw materials, inorder to identify the cost we need to first apply the concept of ascertainment of cost i.e. Purch Price
- Trade Discount & Rebates
+ Non recoverable taxes
+ Cost incurred to bring inv to present location & condition.

The above needs to be applied everytime we purchase raw material.

At the year end while calculating the cost of closing stock, we require cost formulas. These formulas are applied to all the purchase prices that we ascertained throughout the year.

CALCULATION OF NET REALISABLE VALUE

Raw Material

Replacement cost is the NRV of Raw Material.

Work in Progress

Complete → FGI

NRV of WIP ← Completion cost ← NRV of FGI

= Selling Price of FGI − Cost of selling − Cost of Completion } NRV of FGI

Finished Goods

Selling Price	= 1000
less: Cost of selling	= 10
Net Realisable value	= 990

Selling Price	= 1000
less: Cost of selling	= 10
NRV of FGI	990

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ACCOUNTANCY ACE

Based on the above, Inventory should be valued at lower of cost or NRV.

EXCEPTION :- Raw material to be valued at cost irrespective of its NRV

Raw Material → Finished Goods

C = 100 NRV = 80
× Value = 80 ×
= 100 ✓

C = 1000 (incl. RM = 100) NRV = 1200

recovered

fully recovered

L5

When Raw Material is used in production of finished Goods and finished Goods NRV is ≥ cost of finished goods i.e. the NRV of finished goods totally covers its cost,

then the Raw Material will be valued at cost irrespective of its NRV because the cost of raw material is also getting fully recovered.

CA foundation ——————————————→ CA final

C = 50,000 NRV = 40,000

✗ Value = 40,000 ✗
Value = 50,000

C = 300,000 (includes foundation cost also)

NRV = 30,00,000 = 200000

Value = 200,000

VALUATION OF JOINT PRODUCT & BY PRODUCT

L6

Raw Material → Processing → finished goods 1, finished goods 2, finished goods 3 (Joint Products)

50,000 + 1000,000 = 1500,000

"Split off point"

Joint Products : Sale value

Sale value = units produced × SP/unit

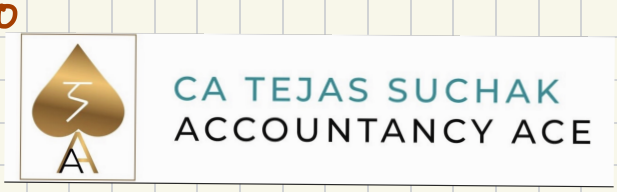
Cost will be apportioned in proportion of Sale value.

we want to calculate the cost of Joint Products

MAIN PRODUCT & BY PRODUCTS

Raw Material → Processing → Main product, By product

50,000 + 1000,000 = 1500,000



Cost of finished Goods

L6

1. Entire cost of Raw Material consumed
2. Entire cost of conversion

} will be allocated to the main product

By-product will be valued at NRV

Main Product Cost

1. Entire cost of Raw Material consumed
2. Entire cost of conversion
3. less: NRV of by product

Cost of main product

NON-APPLICABILITY

L7

⇒ WIP of construction contracts. (AS-7)
→ WIP of service providers.
⇒ If an entity holds shares, debentures other financial instruments as stock in trade. (further discussed in AS-13)
⇒ Producers inventory of life stock or agriculture & forest produce, mineral oil ores & gases, after they have been harvested/extracted and their sale is guaranteed under a forward contract or a government guarantee or their is negligible risk of failure to sell. These can be valued at NRV.

15.3 → work assign
31.3 → Year end → WIP

15 men × 8 hrs → labour
computers → depn
office space → rent

"Chunnu Invest to."
↑K ↓B
Zerodha

Producer : Agriculture ya forest produce ko utpann karne wale.

agricultural crop ugaya / jadi buti ugaya

has been harvested

- Forward contract
- Government guarantee
- negligible risk of failure to sell

Producer has an option to value such inventory at its NRV.

Mineral oils / ores / gases

extract

NRV

DISCLOSURES

L7

- → Accounting policy adopted for valuation of inventory
- → Cost formula adopted.
- → Classification and quantification of amount of inventory.