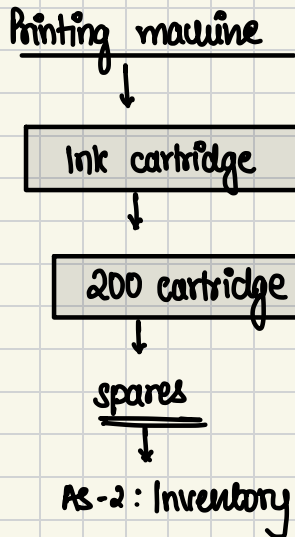


SparesIndigo Airlines

Engines

25 engines

spares

AS-10 PPE ✓

TA

useful life 712m

Rendering of service

Inventory meaning :-

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

1. Ascertainment of cost of inventory

Raw Material

WIP / FG

→ 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 mehn sab incurr karte hain so collectively everyone increases the cost)

→ Abnormal loss is Debited to P&L.
(It is only incurred by us and not everyone)

→ Cost of Raw Material

→ Conversion cost

Eg:- labour cost

electricity cost

machine → rent

factory → rent

Variable Conversion cost

Fixed Conversion cost.

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

$$\text{salary/bat} = 15000/500 = ₹ 30/\text{bat}$$

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

Fixed Conversion cost

machine rent = ₹ 500,000/month
normal production (of bats) = 5000 bats

CASE I :-

Actual prodn = 4000 bats

When, Actual prodn < Normal prodn

$$\text{cost/unit} = 500,000/5000 = 100/\text{bat}$$

(NP)

$$\text{Inventory cost} = 4000 \times 100 = 400,000$$

$$\text{P\&L Dr.} = 500,000 - 400,000 = 100,000$$

Competitor :-

$$500,000/5000 = 100/\text{bat}$$

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

CASE II :-

Actual production = 5000 bats

When, Actual production = Normal production

$$\text{cost/unit} = 500,000/5000 = 100/\text{bat}$$

(NP)

$$\text{Inventory cost} = 5000 \times 100 = 500,000$$

$$\text{P\&L Dr.} = 500,000 - 500,000 = 0$$

Competitor :-

$$500,000/5000 = 100/\text{bat}$$

CASE III :-

Actual production = 6000 bats

When actual production > Normal production

$$\text{cost/unit} = 500,000/5000 = 100/\text{bat}$$

(AP)

$$\text{Inventory cost} = 6000 \times 100 = 600,000$$

$$\text{P\&L Dr.} = 500,000 - 500,000 = 0$$

$$\text{Competitor} = 500,000/5000 = 100/\text{bat}$$

Inclusion of storage cost in cost of inventory :-

L5

Generally, storage cost is not included in the cost of inventory. However, if the storage cost is 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

FIFO

LIFO

SA

WA

Similar Interchangeable

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.I.

Closing Stocks : Towel

Branded Towels

- 1 → Rad Tow
- 2 → Taj Tow
- 3 → Hilton Tow
- 4 → Marriott Tow

Non-Interchangeable

Specific Identification

normal plain white towels

- 1 → 1004
- 2 → 1004
- 3 → 1004
- 4 → 1004
- 5 → 1004

Similar / Interchangeable

FIFO/WA/SA

NOTE :-

While purchasing raw materials, in order to identify the cost we need to first apply the concept of ascertainment of cost i.e. Purchase Price

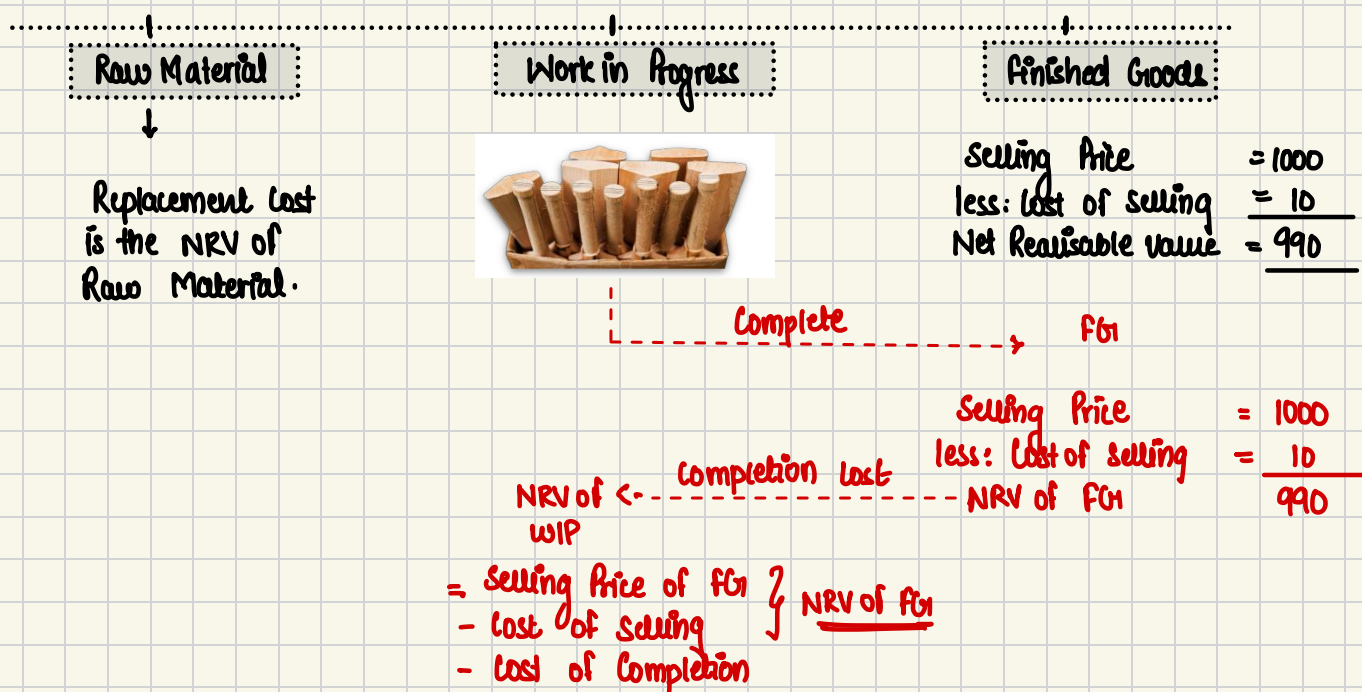
LS

- 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.

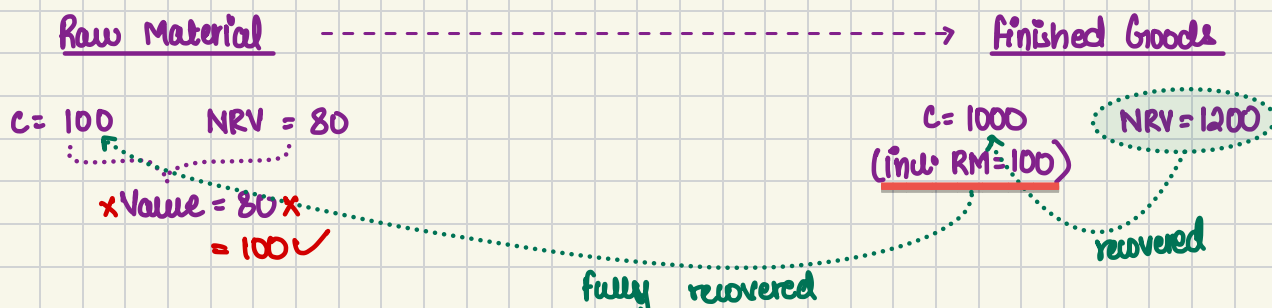
At the year end, while calculating the cost of closing stock, we require cost formulas. These formulas are applied to all the purchase prices that we ascertained throughout the year.

CALCULATION OF NET REALISABLE VALUE



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



When Raw Material is used in production of Finished Goods and finished Goods NRV is $\geq$ 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 $\xrightarrow{\hspace{15em}}$ CA final

$$C = 50000 \quad NRV = 40000$$

$$\begin{aligned} \times \text{ Value} &= 40000 \times \\ \text{Value} &= 50000 \end{aligned}$$

$$\begin{aligned} C &= 300000 \\ \text{(includes foundation)} \\ \text{cost also} \end{aligned} \quad NRV = 300000 = 200000$$

$$\text{Value} = 200000$$



AS-2: INVENTORY VALUATION

RM: A	WIP	FG: X
$C = 120$ $NRV = 90$	$C = 260$ $NRV = \frac{FG \times NRV}{- C \times C}$	$C = 320$ $NRV = 300$
$NRV = 90 \times 600$	$= 300 - 60$	$NRV = 300 \times 1500$
	$= 240$	
	$NRV = 240 \times 500$	

QUESTION 9

Mr. Nana Patekar gives the following information relating to items forming part of inventory as on 31-3-2018. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2018 is ₹ 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit. ✓ ⇒ **completion cost**

(iii) 1500 units of finished Product X and total cost incurred ₹ 320 per unit. Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2018. Also calculate the value of total inventory as on 31 -3-2018.

Answer:

Quote: As per AS-2: Inventory Valuation, inventory should be valued at cost or NRV which ever is lower.

However, raw materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost.

If however, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

Analysis: In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320. This means that the NRV of finished goods is below cost.

Conclusion: Hence the valuation will be done as under.-

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost ₹ 320 (₹ 260 + additional cost ₹ 60) or Net estimated selling price ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).

(iii) 1,500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹320 of product X.

STUDENT
NOTES

