

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
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NON-APPLICABILITY

- ⇒ 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 harvested/extracted and their sale is guaranteed under a forward contract or a government guarantee or there is negligible risk of failure to sell. These can be valued at NRV.

Producer : Agriculture ya forest produce ko utpann karne wale.

agricultural crop ugaya / jadi bui ugaya

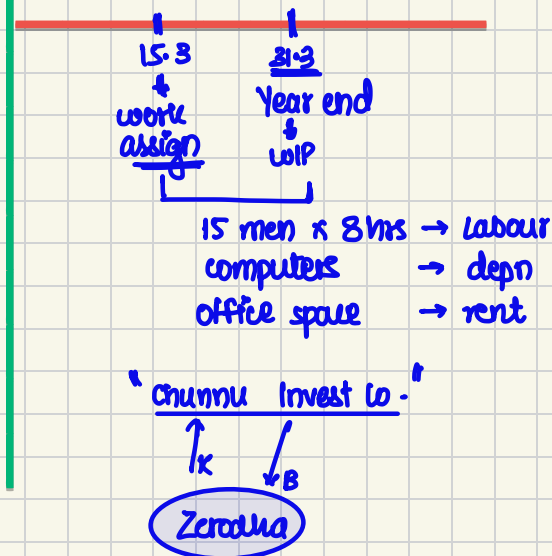
has been harvested

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

- Accounting policy adopted for valuation of inventory
 - Cost formula adopted.
 - Classification and quantification of amount of inventory.
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AS-2: Summary Chart



CA TEJAS SUCHAK
ACCOUNTANCY ACE

Inventory meaning:

1. Goods held for sale : FG or SIT
2. Goods in the process of production : WIP
3. Material or supplies to be used in production process : RM
4. Consumables & spares (if not covered under AS-10)
5. Packing material

Inventory Valuation: - COST OR NRV w.e. lower.

COST of Inventory

Raw material

1. Purchase price inclusive of taxes
 2. - Trade discount & rebates
 3. - Recoverable Taxes
 4. + All cost incurred to bring the inventory to its present location & condition.
- * Normal loss forms part of cost of inventory.
* Abnormal loss is dr. to P&L

WIP/FG

1. Cost of Raw material
2. Conversion cost

Variable

Added to cost of inventory on the basis of actual production.

Fixed

Actual production > Normal prodn.
⇒ fixed o/H absorbed on the basis of actual production.

Actual production ≤ Normal prodn.
⇒ fixed o/H absorbed on the basis of normal production.

COST EXCLUDED:-

- General Administration cost.
- Selling & Distribution costs.
- Abnormal losses.
- Storage costs (unless it is necessary to bring inventory to its present condition)

Cost Formula/Methods

Historical cost Methods

Ordinarily Interchangeable

FIFO
Weighted Aver.

Not ordinarily interchangeable

Specific Identification method

Non-Historical Methods

Adjusted Selling Price Method.

* LIFO is not allowed as per AS-2.

Net Realisable Value

1. NRV of Finished Goods

a. Selling Price
b. - Cost of Selling
Net Realisable Value

2. NRV of WIP

a. NRV of FG
b. - Cost of completion
NRV of WIP

3. NRV of Raw material = Replacement cost

Exception:- When RM : cost > NRV
General rule RM : value = NRV

RM is used in production of FG and NRV of FG > cost of FG;
then RM will also be valued at cost, irrespective of its NRV.

Joint Product

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Two or more finished goods using same production process.
All goods produced are material and important.

→ Cost of Raw Material + Cost of conversion

↓
Apportion on the basis of

↓
Sale Value at split off point of all Joint products.

* Sale value is mentioned and not selling price p.u.
Sale Value = Units produced × Selling price p.u.

* Sale value after further processing will not be considered.

Main Product & By product

When using the same production process, two or more finished goods are manufactured, out of which one or more is important and the other is not so important.

Important & Material FG = Main product
Not so important & immaterial FG = By product.

Entire cost of Raw Material & Production process is assigned to the Main product.

By product is valued at NRV and such NRV is reduced from cost of main product to arrive at the net cost of main product.

Non-applicability of AS-2

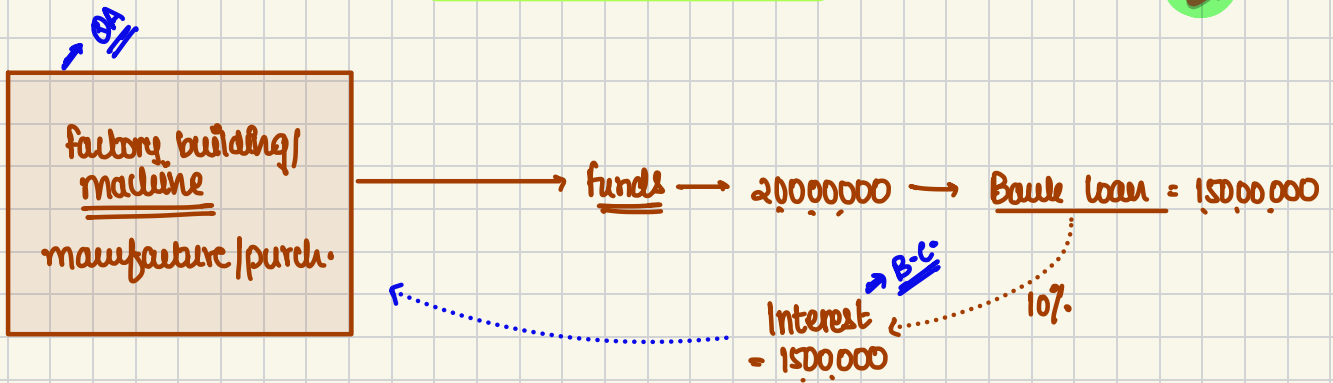
- WIP arising under construction contracts.
- WIP of service providers.
- If entity has shares, debenture as stock in trade.
- Producers inventory of livestock & agricultural/forest prod.

↓
after harvesting

1. Forward Contract
2. Government Guarantee
3. Negligible risk of failure to sell.

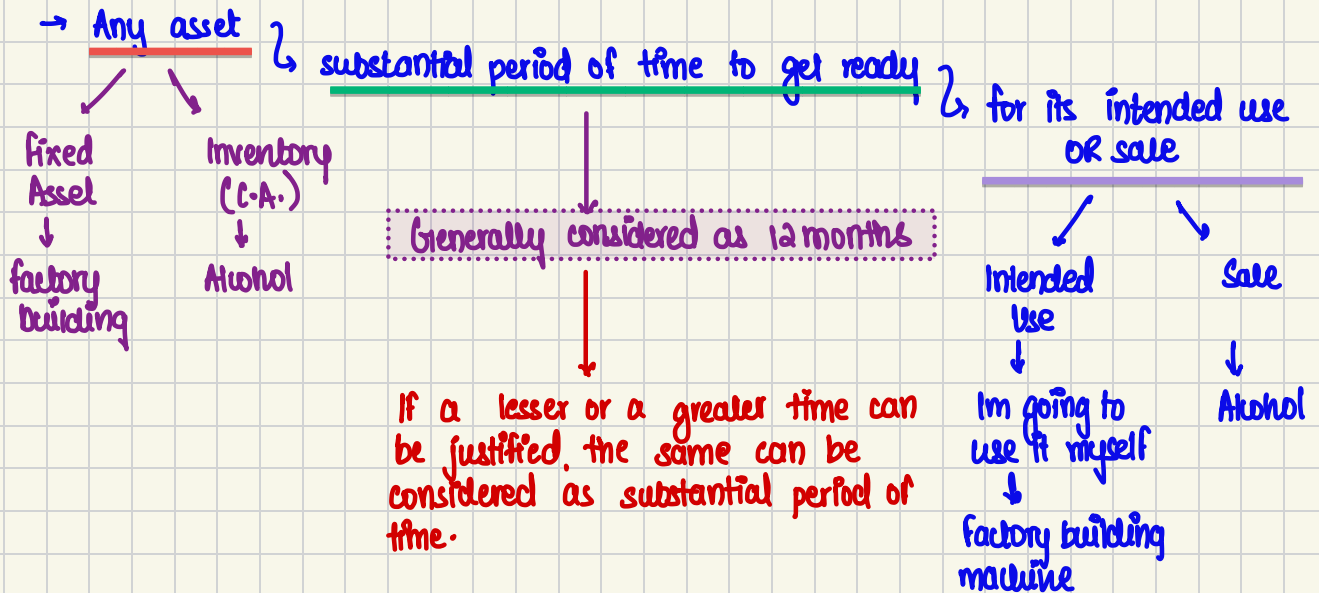
* Inventory can be valued at NRV.

→ Mineral oils/oils/gases → after extraction → valued at NRV.



AS-16 discusses whether this interest i.e. borrowing can be added to the cost of building/machine or it should be debited to P&L a/c.

QUALIFYING ASSET



Example :- Nidar Ltd. is constructing a complex machine. The machine generally takes 14 months to get ready for its intended use. However, Nidar Ltd. is using latest cutting edge technology to construct the machine and is to complete the construction in 9 months time. Can this machine be considered as a qualifying asset?

Solution :-

If entire industry takes 9 months to complete the construction

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Then it will not be considered a qualifying asset.

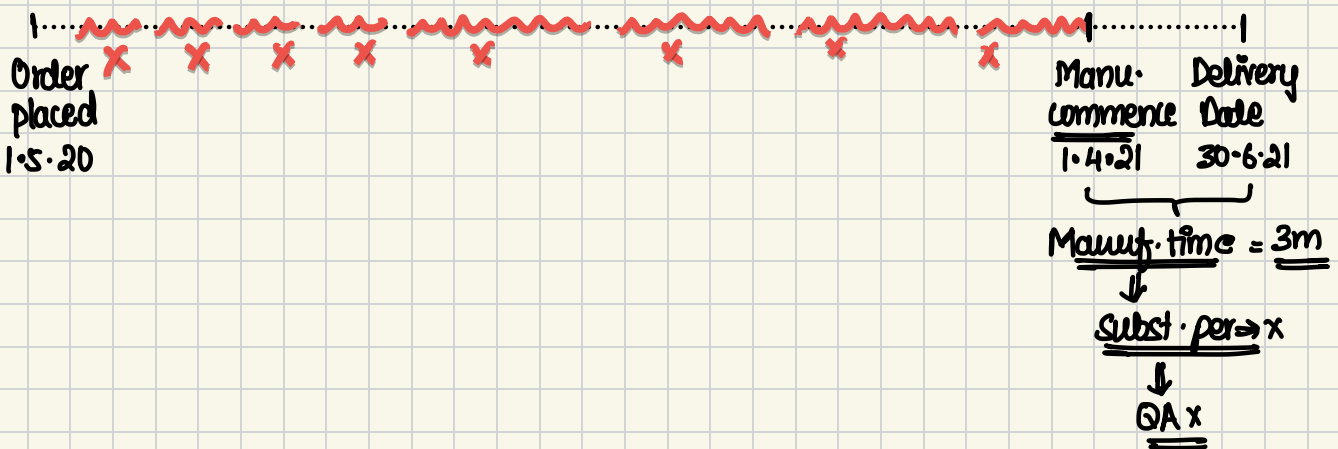
If entire industry is taking 14 months and only Nidar Ltd. completes it in 9 months

↓
Nidar Ltd. can justify it as a QA because the asset generally requires 14 months to complete. Only Nidar Ltd. because of

efficient working is able to complete it in 9 months.

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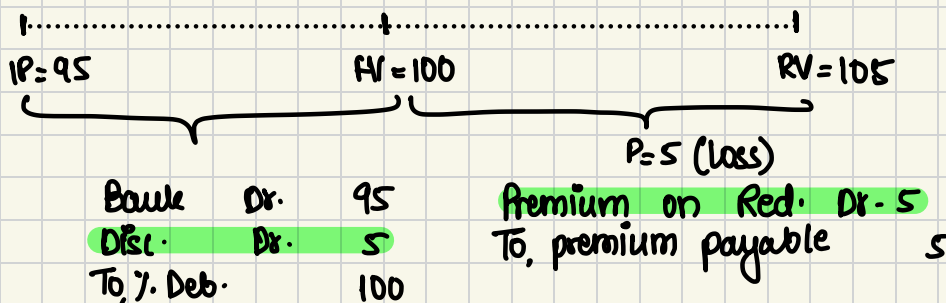
* In case of purchase of an asset if the vendor has given a waiting period of 12m/13m/14m, that does not make the asset a qualifying asset.



BORROWING COST

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1. → Interest cost
2. → Discount & premium on borrowings. (Eg: Debentures)



Preference shares issued
↓
Borrowings → X

issue: discount
redeem: premium } → Borrowing cost X

3. Commitment charges on borrowings.
4. Finance charges on finance lease (As-19)
5. Exchange difference arising on foreign currency borrowings to the extent they are an adjustment to interest cost.

Example :-

US \$ Borrowings = 100,000 \$
Date :- 1.4.20
Exchange Rate : 1\$ = ₹ 75
Interest = 4%.

