

Differences between Ind AS 2 (*Inventories*) and Existing AS 2 (*Valuation of Inventories*)

- (i) **Ind AS 2** deals with the subsequent recognition of cost/carrying amount of inventories as an expense, whereas the **existing AS 2** does not provide the same (refer paragraphs 1 and 34 of Ind AS 2).
- (ii) **Ind AS 2** provides explanation with regard to inventories of service providers whereas the **existing AS 2** does not contain such an explanation (refer paragraphs 8, 19 and 29 of Ind AS 2).
- (iii) The **existing AS 2** explains that inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets. **Ind AS 2** does not contain specific explanation in respect of such spares as this aspect is covered under **Ind AS 16**.
- (iv) **Ind AS 2** does not apply to measurement of inventories held by commodity broker-traders, who measure their inventories at fair value less costs to sell. However, this aspect is not there in the existing **AS 2**. Accordingly, **Ind AS 2** defines fair value and provides an explanation in respect of distinction between 'net realizable value' and 'fair value'. The existing **AS 2** does not contain the definition of fair value and such explanation.
- (v) **Ind AS 2** provides detailed guidance in case of subsequent assessment of net realizable value (refer paragraph 33 of **Ind AS 2**). It also deals with the reversal of the write-down of inventories to net realizable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements. The **existing AS 2** does not deal with such reversal.
- (vi) **Ind AS 2** excludes from its scope only the measurement of inventories held by producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products though it provides guidance on measurement of such inventories (refer paragraphs 4 and 20 of **Ind AS 2**). However, the **existing AS 2** excludes from its scope such types of inventories.
- (vii) The **existing AS 2** specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition whereas **Ind AS 2** does not specifically state so and requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity. **Ind AS 2** also explains this aspect (refer paragraphs 25 and 26).
- (viii) **Ind AS 2** requires more disclosures as compared to the **existing AS 2** (refer paragraph 36 of the **Ind AS 2**).