IND AS – 2 (INVENTORIES)

- An Overview(Notified On 25th Feb 2011)

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Agenda for discussion

- Objective
- Scope
- Definitions
- Measurements
- Cost Elements
- Cost Formula
- NRV
- Recognition
- Maturity Period
- Disclosure
- Glossary

OBJECTIVE

- Objective of IND AS is to prescribe accounting treatment for inventories.
- Recognition of cost as assets and the carry forward value.
- Cost to be assigned to inventories.
- This standard deals with determination of cost.
- Deals with use of cost formula.

OBJECTIVE

BALANCE SHEET

Assets

Current Assets	Notes	201X	20XX
Inventories	-	-	-

STATEMENT OF P/L

Expenses

	Notes	201X	20XX
Cost of Sales	-	-	-

1.One Should be able to differentiate between cost and expenses .

2.Cost refers to an item that has service potential whereas , expenses arises when the cost loses its service potential.

SCOPE

- This standard deals with all kinds of inventories except few that are :
  - ➢ Work in progress in works contract.
  - ➢ Financial Instruments
  - ➢ Biological Animals
- This standard does not deals with the commodity traded by brokers . Since, inventory is measured at fair value less cost of sales.
- This standard doesn't apply to the measurement of inventories held by producers of agricultural produce since the same is measured at NPV at certain stage of production .

SCOPE

- BIOLIGICAL ASSETS- IND AS 41
- FINANCIAL INSTRUMENT – IND AS 32
- WIP ARISING IN WORKS CONTRACT-IND AS 11
- INVENTORIES HELD BY COMMODITY BROKER
- INVENTORIES HELD BY PRODUCERS OF – AGRICULTURE PRODUCE MINERAL AND MINERAL PRODUCE

DEFINITIONS

❑ INVENTORY

- ✓ Held for sale
- ✓ In the process of production
- ✓ In the form of material

❑ NRV

- ✓ The estimated selling price in the ordinary course of business less estimated cost of completion.

❑ FAIR VALUE

- ✓ Value at which the assets could be exchanged or settled between the knowledgeable parties at an arm length price.

PATTERNS

- Gaurav ltd is a sugar manufacturing company . At the end of reporting year it has 5000 qtyl of inventory . (cost 1500 per qtyl)70%contracted to govt @1250 per qtyl. 30% in open market @2500 per qtyl.

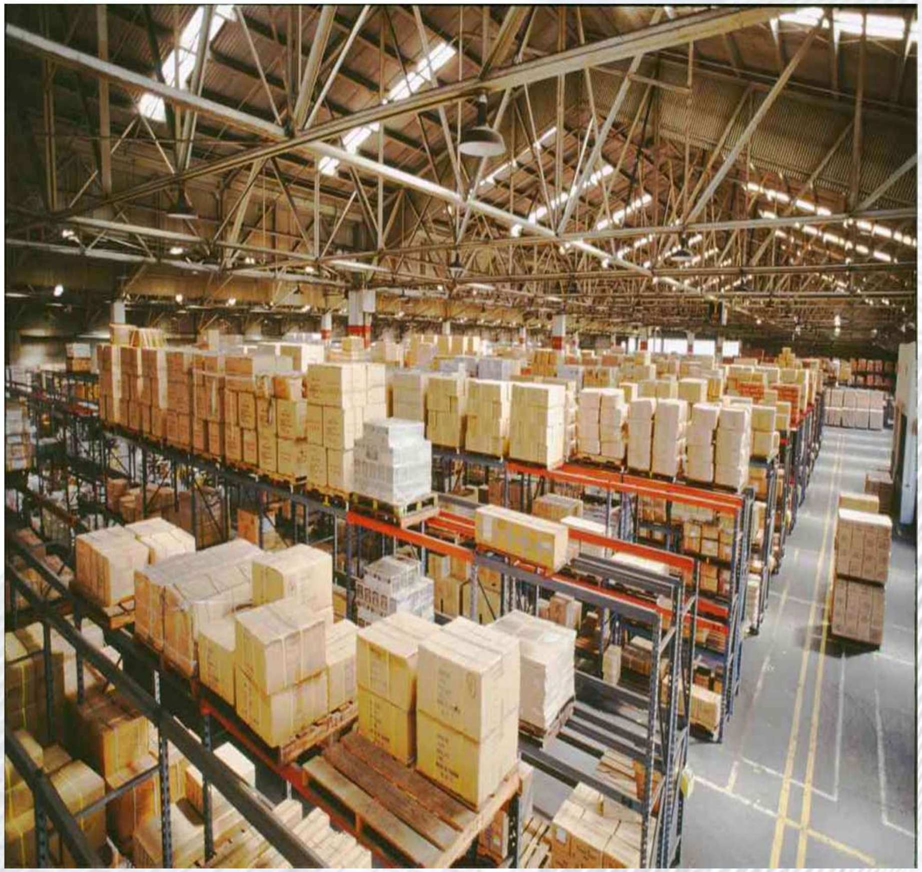
VALUATION

PARTICULARS	GOVT	OPEN MARKET
• COST • NRV	• 1500 • 1250	• 1500 • 2500

- **Valuation of invt. 1250 1500**

fair value is the amount the the company will fetch in open market but in case of fixed contract NRV is not fair value

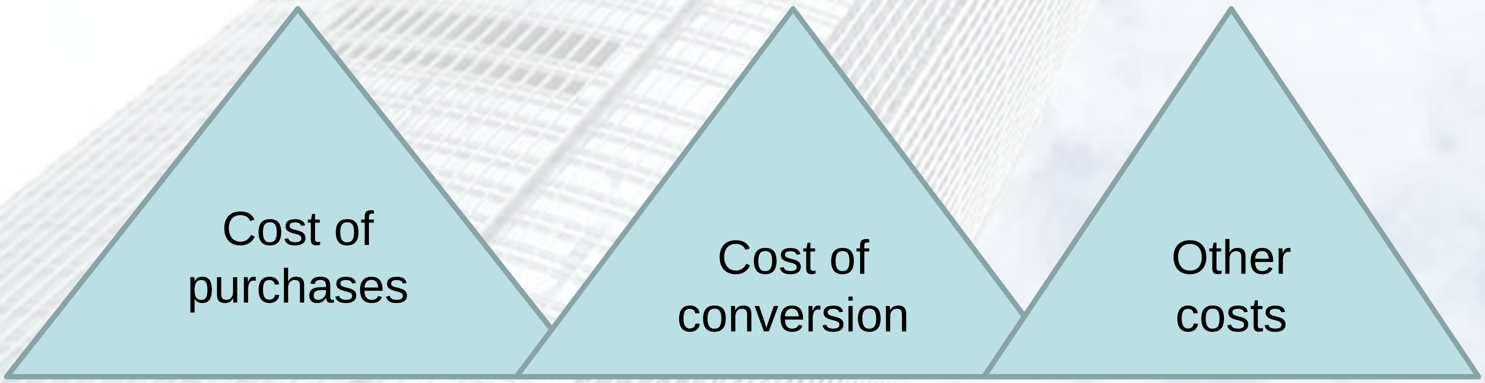
MEASUREMENTS



- Inventories shall be measured at lower of cost and net realizable value.
- Inventories are written at NRV item by item.

MEASURMENTS …cont

- Cost of inventory consist of following :



- **<u>Cost of purchases :</u>** All cost incurred on purchase , import duty , other cost that are directly attributable to the main cost . Includes other taxes , handling charges and other costs.

Cost of purchase

- Purchase price
- Import duties & taxes
- Transport , handling charges

Any discount , rebates , recoverable taxes and similar items shall be deducted

Illustration

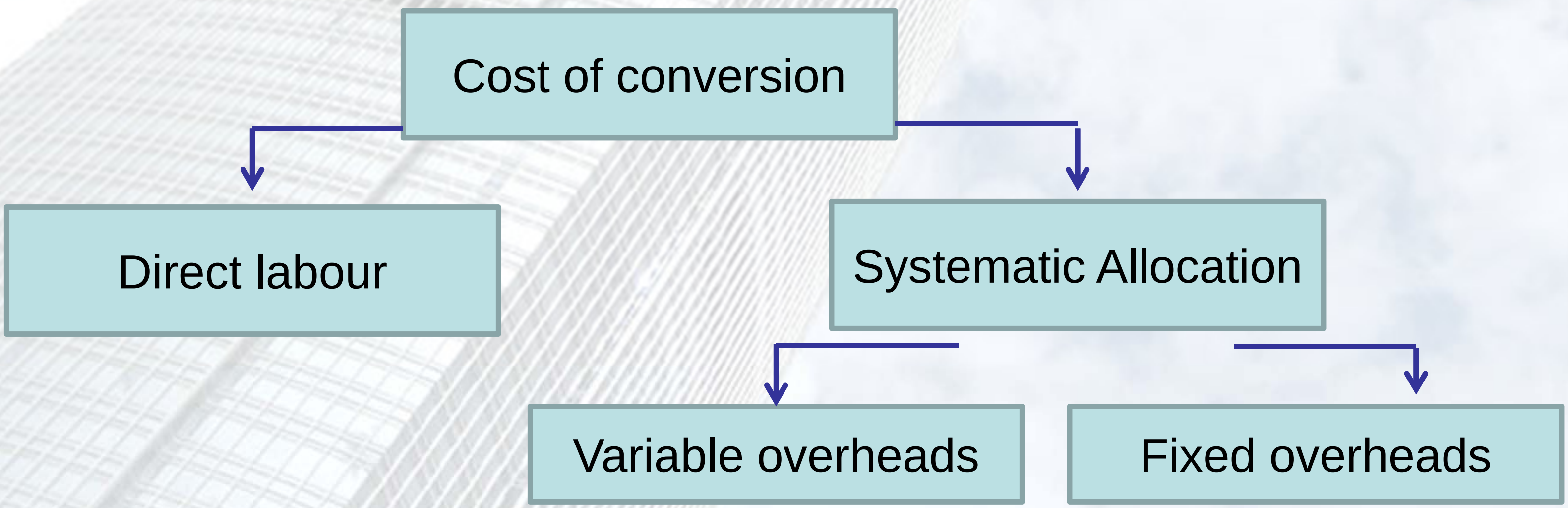
- **ABC Ltd purchased 10000 units @ ₹ 5 per unit .Commission & transportation paid was ₹ 1000 and ₹ 3000 respectively .Estimated normal loss is 10 %.compute total cost of inventory .**

Particulars	**Units**	**Per unit**	**Amount**
Purchases	10000	5	50000
Commission			1000
Transportation cost			3000

- **Total cost 54000**

- **<u> Cost of conversion : </u>** Includes labour cost and a systematic allocation of fixed and variable overheads(allocation to be made on normal capacity)

In case of joint product the allocation is done on rational & constant basis.



Any unallocated fixed overheads is to be recognized as expenses in statement of profit and loss

- **<u>Other Costs:</u>** Only to the extent incurred in bringing the inventories to its present location .

Some costs are excluded from the preview of other costs:-

- ✓ Abnormal wasted material
- ✓ Storage cost.
- ✓ Administration cost
- ✓ Selling Cost

IAS 23, identifies limited circumstances where the borrowing cost are included in the cost of inventory

Cost to service provider

- Service provider generally measure the inventory at cost of production .
- The ingredients of the inventory are

Cost of inventory = Labour Charges + Attributable Overheads + Other Costs

Administrative Expenses are not included but recognized as expenses

CASE IN POINT

- GT is a service provider .His inventory usually comprises of WIP, that is part of the service rendered for which revenue is not recognized. It provides following :

material cost per unit –₹ 10

labour cost per unit –₹ 5

overhead absorption rate -300% of labour

Cost of inventories of GT ₹ 30 { 10+5+(300%*5) }

Cost to Agricultural Produce

- Inventory comprises of agricultural produce that an entry has harvested .

- Inventory are measured on initial recognition at their fair value **less** cost to sell at the point of harvest .

Net Realizable Value

- Cost of inventories are not recoverable under the following :-
  - ✓ damaged inventory
  - ✓ wholly or partially obsolete
  - ✓ Selling price have declined
  - ✓ Estimated cost exceeds estimated revenue.

Net Realizable Value

- Estimates of net realizable value are based on the most reliable evidence available at the time of estimations.
- Estimations also takes into the consideration the purpose for which it is held .
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Recognition as an Expenses

- Time when the value of the inventories shall be recognized as an expenses in the books is at the time of its sales.
- Reversal of any write-down inventories , arising from an increase in net realizable value shall be reversed when occurs.
- Some inventories that are allocated to other accounts are recognized over the useful life of the assets.

WRITTEN DOWN & REVERSAL OF INVENTORIES

Write down and reversal of inventories

Any amount of write down shall be charged as an expenses in the period of such write down

Any amount of reversal of previous write down shall be adjusted with the cost of sales

Disclosure

- Financial statement shall disclose :
  - ✓ Accounting policies adopted
  - ✓ Carrying amount of inventories
  - ✓ Recognition of expenses
  - ✓ Written-down of inventories
  - ✓ Amount of reversal
  - ✓ Circumstances that led to reversal
  - ✓ Carrying amount of investments

Differences- IND AS Vs AS

IND AS-2 prescribes same cost formula to be used for all inventories having a similar nature and use to the entity	**AS-2 requires that the formula used in determining the cost of an item of inventory needs to be selected with a view to providing the fairest possible approximation to the cost incurred in bringing the item to its present location . However there is no stipulation for the use of same cost formula in AS-2 as compared to IFRS**
There are certain additional requirement in IND AS-2:- ✓ **IND AS does not apply to inventories held by brokers** ✓ **Purchase of inventory on deferred settlement terms** ✓ **Exchange differences are not includible in inventory valuation**	**No such guidance**

Thank You