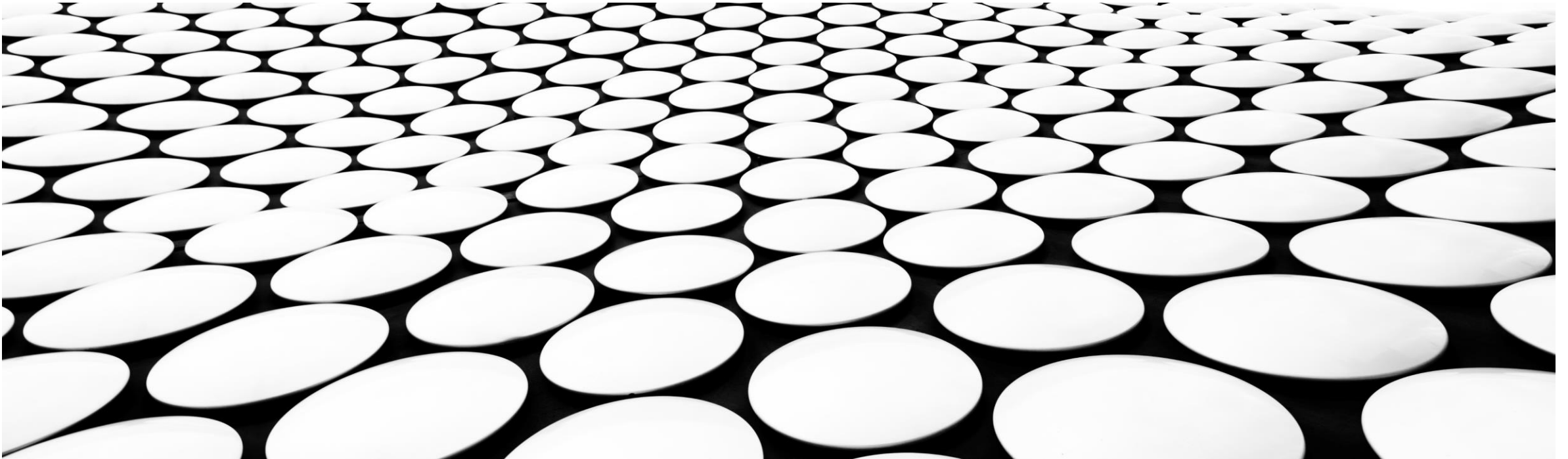


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# **INDIAN ACCOUNTING STANDARDS**

## **INVENTORIES – IND AS 2**

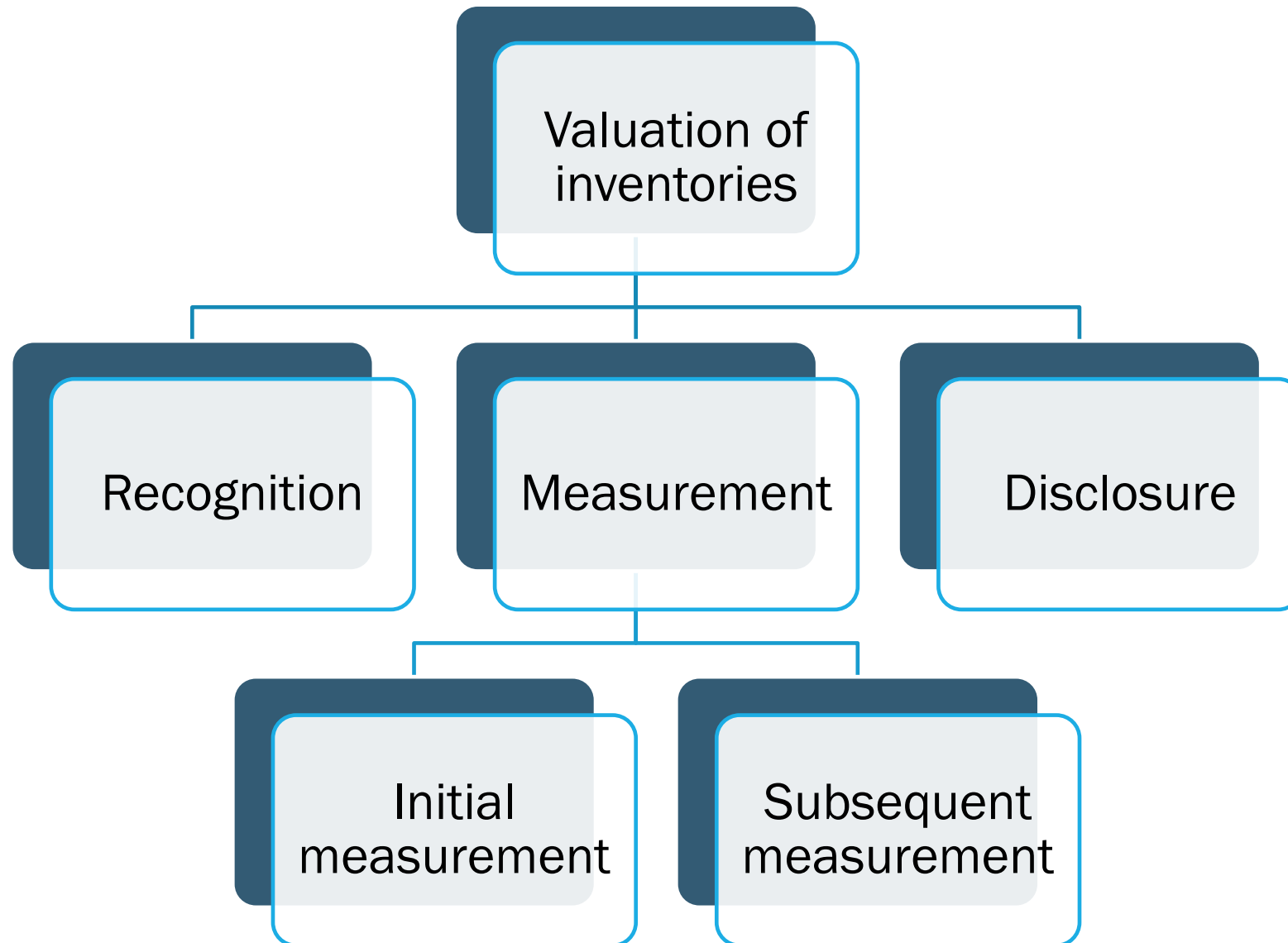
**B D CHATTERJEE FCA, ACMA, ACS, DIP IFR (ACCA) – UNITED KINGDOM**





# **INDIAN ACCOUNTING STANDARDS INVENTORIES - IND AS 2**

# INVENTORIES – IND AS 2



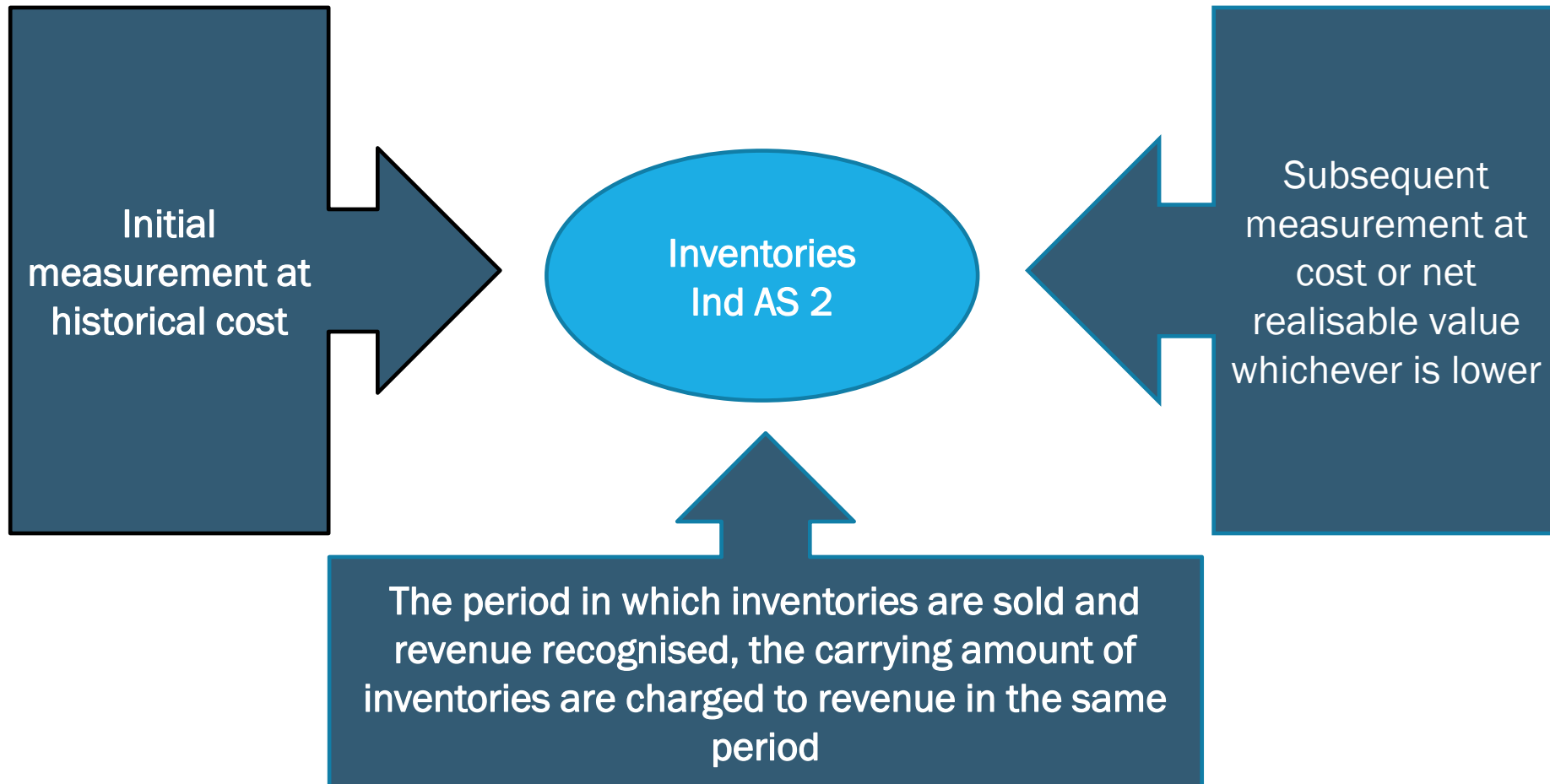
# INVENTORIES – IND AS 2 - DEFINITION

## **Inventories are assets:**

- held for sale in the ordinary course of business
- in the process of production for such sale
- in the form of material or supplies to be consumed in the production processor
- in the rendering of services in case of service providers
- inventories include cost of services for which the related revenue has not yet been recognized (work in progress for lawyers, auditors, architects etc)

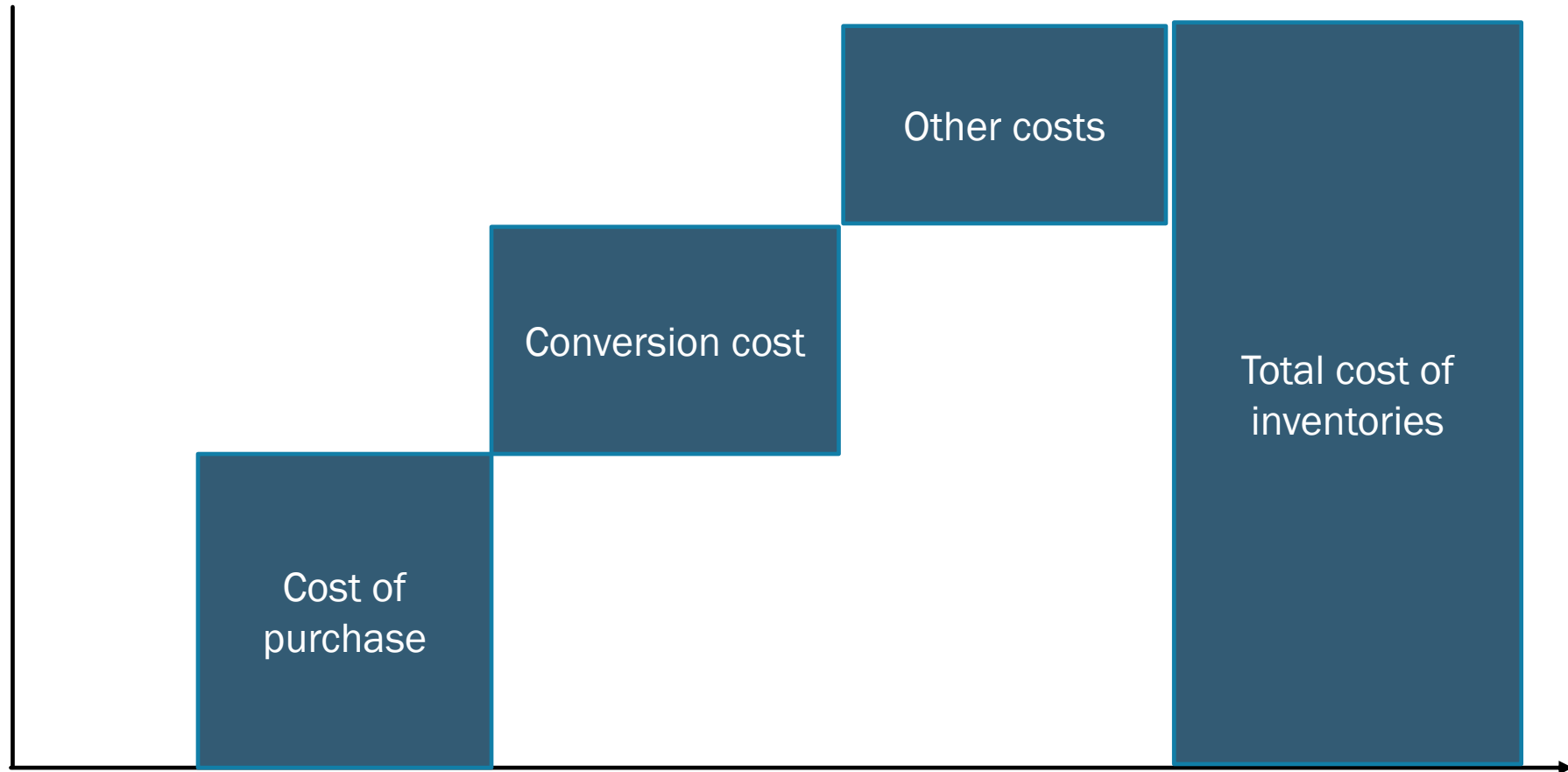
# INVENTORIES – IND AS 2

## Recognition and Measurement Principles



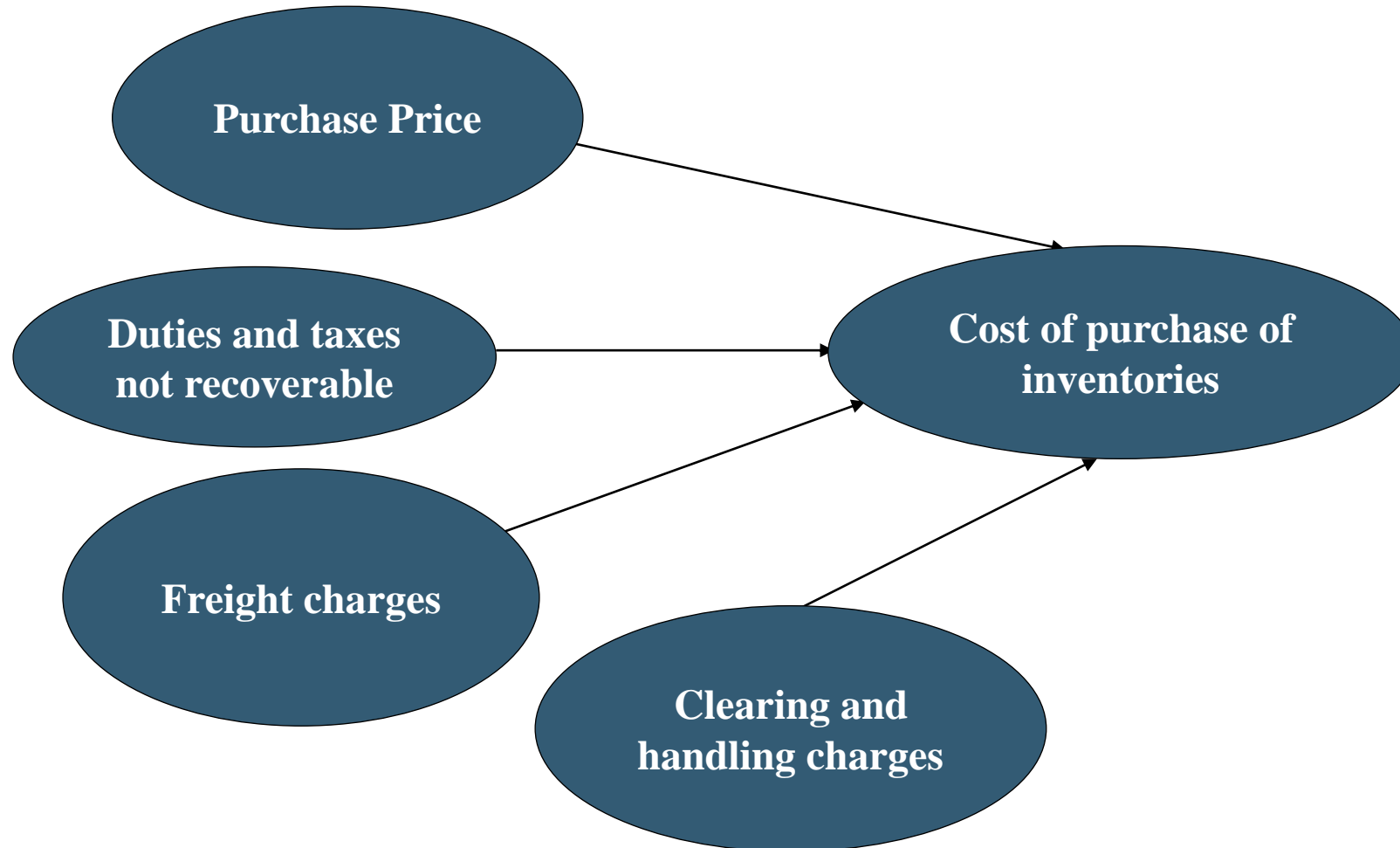
# INVENTORIES – IND AS 2

## Cost of inventories



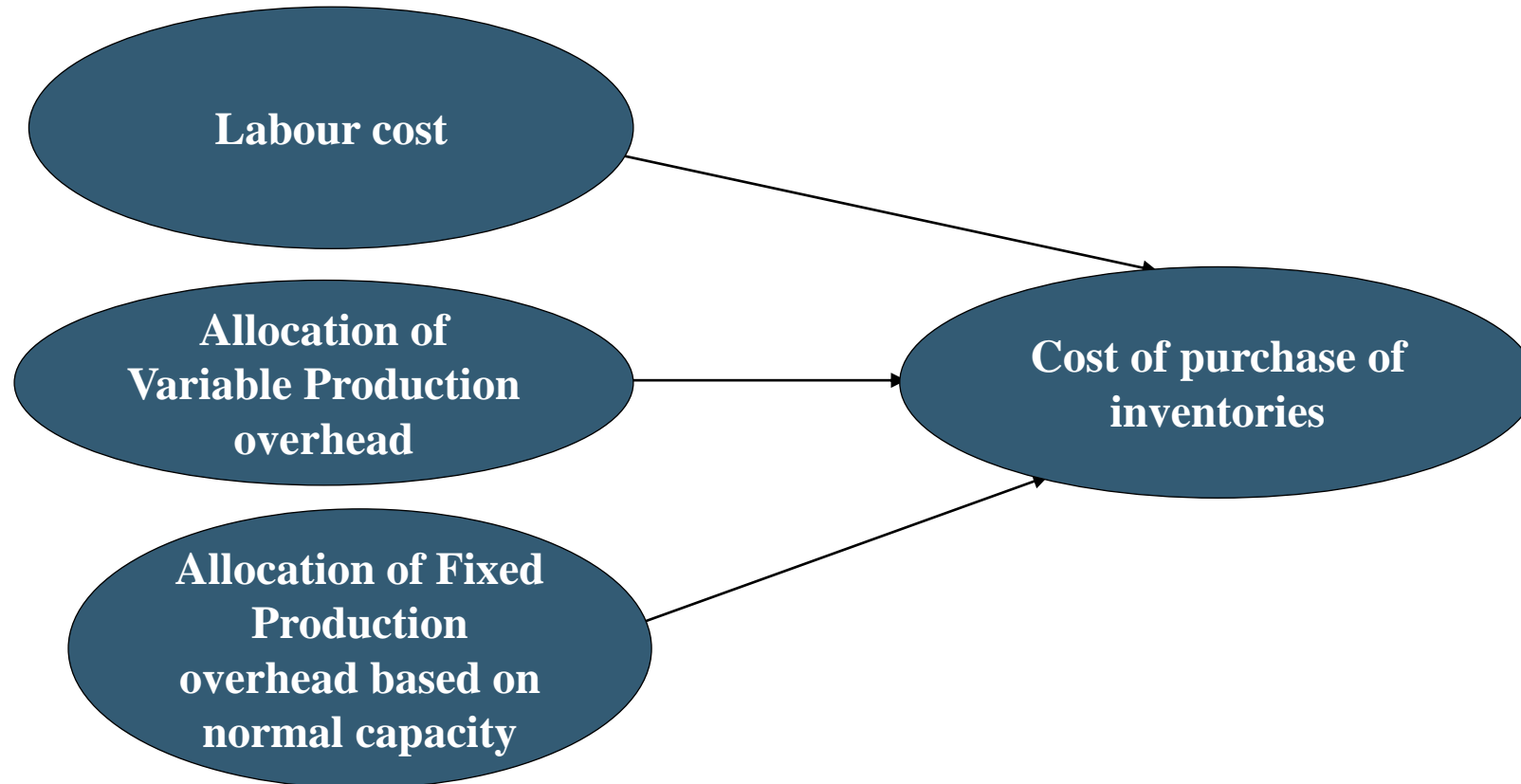
# INVENTORIES – IND AS 2

## Cost of purchase of inventories



# INVENTORIES – IND AS 2

## Cost of conversion of inventories



*Normal capacity* is the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance.



## INVENTORIES – IND AS 2

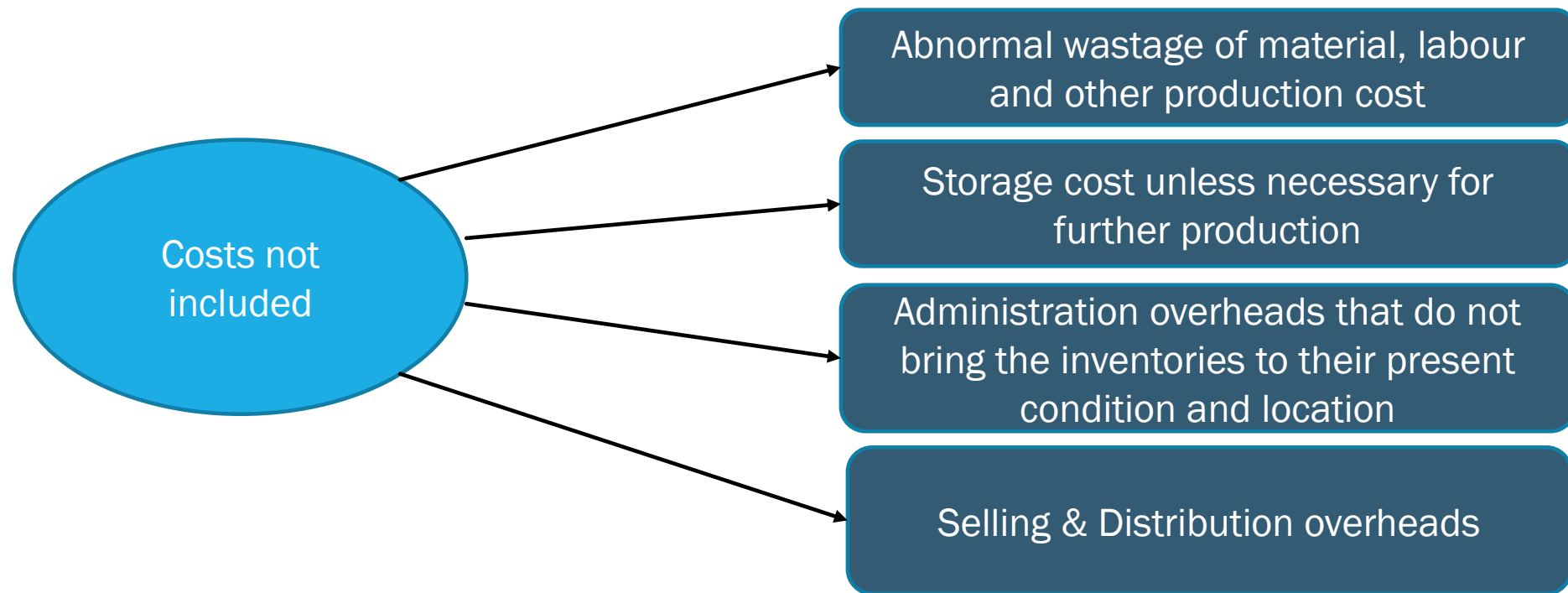
### **Cost of conversion of inventories - Joint products and by products**

- A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product.
- When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production.
- Most by-products as well as scrap or waste materials, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

# INVENTORIES – IND AS 2

## Other Costs

- Other costs include the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.



# INVENTORIES – IND AS 2

## Measurement techniques

### *Standard cost:*

- Normal levels of materials, labour, and actual capacity should be taken into account.
- The standard cost should be reviewed regularly to ensure that it approximates actual costs.

### *Retail method:*

- Sales value should be reduced by gross margin to calculate cost.
- Average percentage should be used for each homogeneous group of items.
- Marked-down prices should be taken into consideration.

# INVENTORIES – IND AS 2

## Bases of Valuation

- **FIFO (First in first out)**
- **Weighted Average cost**
- **Specific identification of costs (in other cases)**

# INVENTORIES – IND AS 2

## Bases of Valuation

*NRV is likely to be less than cost in the following cases:*

- an increase in costs or a fall in selling price
- a physical deterioration in the condition of inventory
- Obsolescence of products
- Marketing strategy to sell products at a loss
- Errors in production or purchasing

*Inventories are usually written down to NRV on the following principles:*

- items are treated on an item-by-item basis
- similar items are normally grouped together
- each service is treated as a separate item

# INVENTORIES – IND AS 2

## **Bases of charging inventories to expenses**

- The period in which the inventories are sold, and revenue is recognized, the carrying amount of those inventories are charged to expense during the same period
- If inventories are recognized on NRV then the difference between carrying value and NRV needs to be written down as expense in the period in which the write down or loss takes place

# INVENTORIES – IND AS 2

## **Borrowing cost and Inventories**

- Ind AS 23, *Borrowing Costs*, identifies limited circumstances where borrowing costs are included in the cost of inventories.
- An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

# INVENTORIES – IND AS 2

## **Cost of Inventories of a service provider**

- To the extent that service providers have inventories, they measure them at the costs of their production.
- These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads.
- Labour and other costs related to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred.
- The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.



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## INVENTORIES – IND AS 2

### **Cost of agricultural produce harvested from biological assets**

- In accordance with Ind AS 41, Agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest.
- This is the cost of the inventories at that date for application of this Standard.

# INVENTORIES – IND AS 2

## Disclosure Requirements

- (a) the accounting policies adopted in measuring inventories, including the cost formula used.
- (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity.
- (c) the carrying amount of inventories carried at fair value less costs to sell,
- (d) the amount of inventories recognised as an expense during the period,
- (e) the amount of any write-down of inventories recognised as an expense in the period,
- (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period,
- (g) the circumstances or events that led to the reversal of a write-down of inventories; and
- (h) the carrying amount of inventories pledged as security for liabilities.



**THANK YOU!**