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Passport to IFRS®

IAS® Standard 2 Inventories

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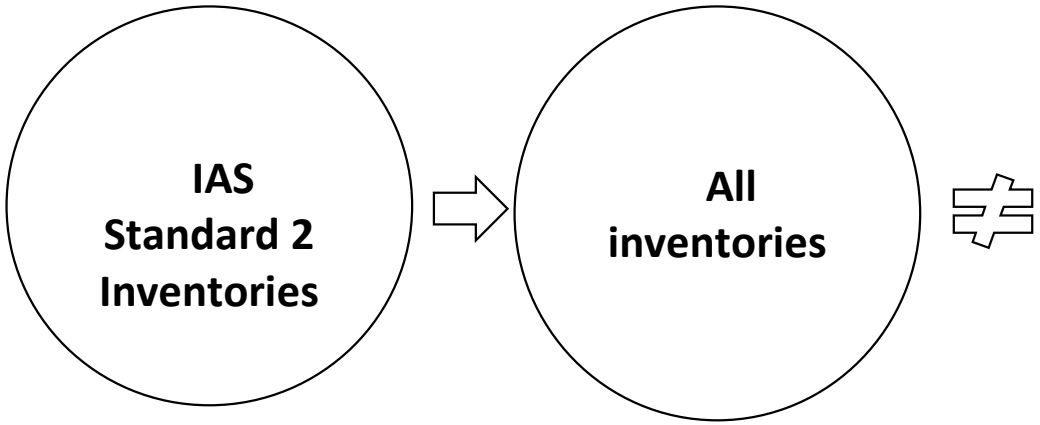
Scope of Implementation of IAS Standard 2



- ✓ financial instruments;
- ✓ biological assets related to the agricultural activity and agricultural produce;
- ✓ inventories held by commodity broker-traders.

What is Main Definition?

Inventories	The assets which are: ✓- held for sale and will be sold in the ordinary course of business; ✓- used in the production process to sell the manufactured products; ✓- raw materials or supplies to be sold to customers who use them in further production processes.

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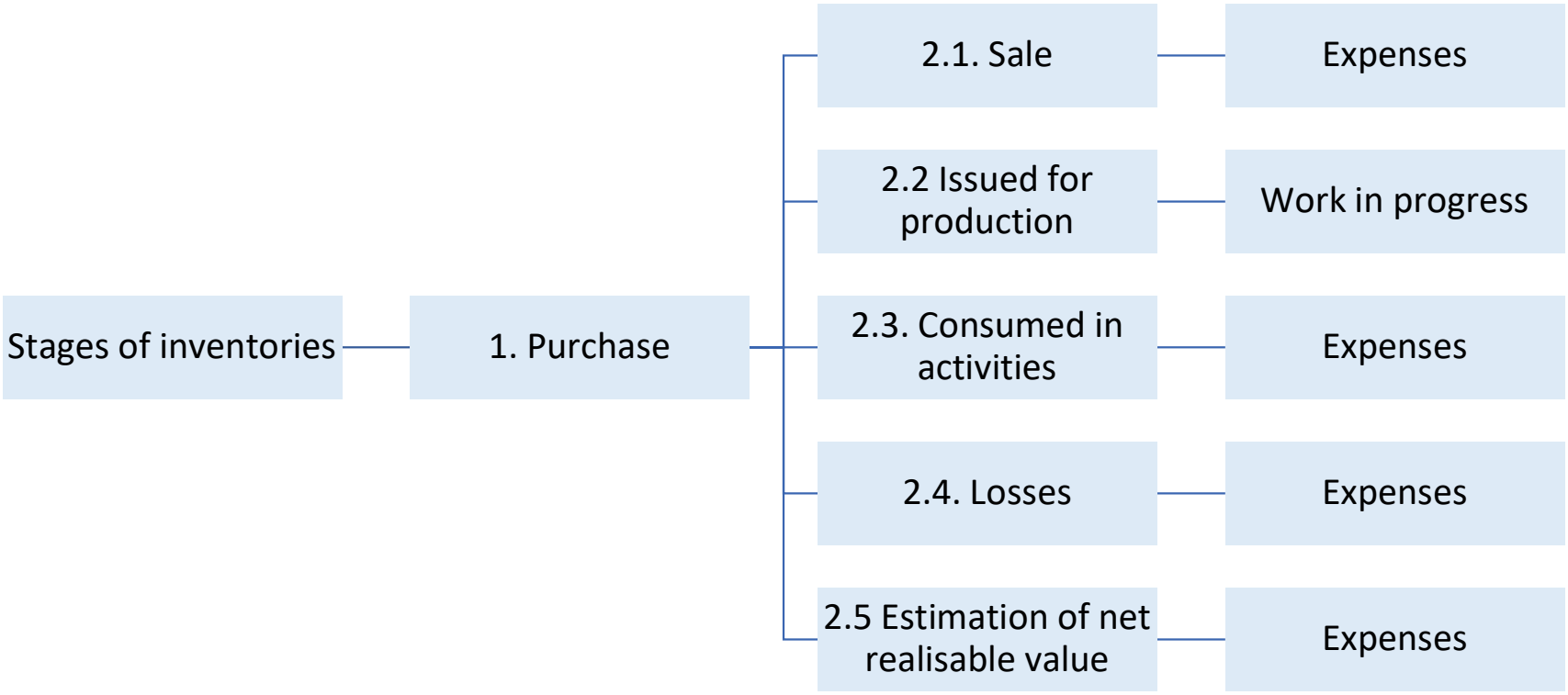
Net realisable value	The price determined on the basis of the normal conditions of sale of the business, from which the estimated costs of completion and necessary to make selling costs are eliminated.
Fair value	The price that can be obtained from selling inventories or paying for a liability upon receipt of such inventories in an orderly transaction between market participants at the measurement date.

Stages of Inventory



Measurement Rule of Inventories

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An example if the cost is lower. *The cost of good A is CU100, and the estimated realisable value of good A is CU120. In the balance sheet, goods A will be presented for CU100.*	

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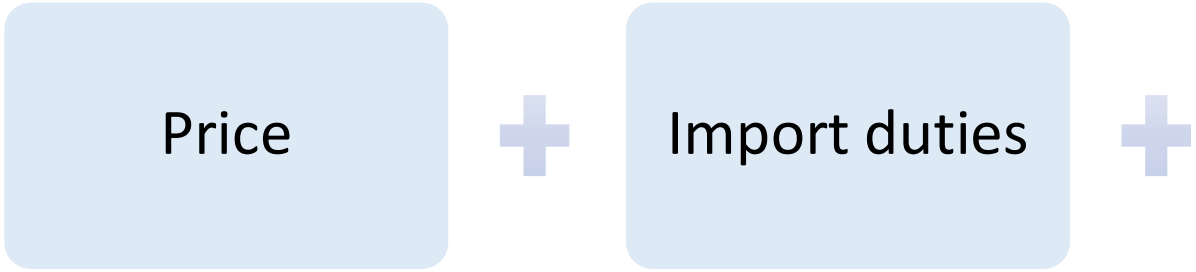
An example if the cost is lower. *The cost of good A is CU100, and the estimated realisable value of good A is CU120. In the balance sheet, goods A will be presented for CU100.*	**An example if net realisable value is lower.** *The cost of good A is CU100, and the estimated realisable value of good A is CU80. In the balance sheet, goods A will be presented for CU80.*

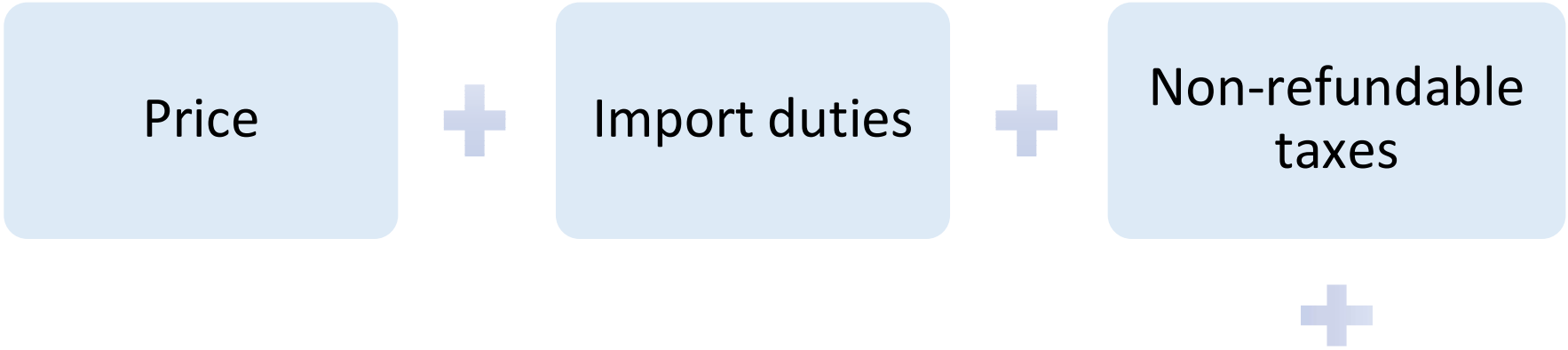
Costs of Purchase

Price

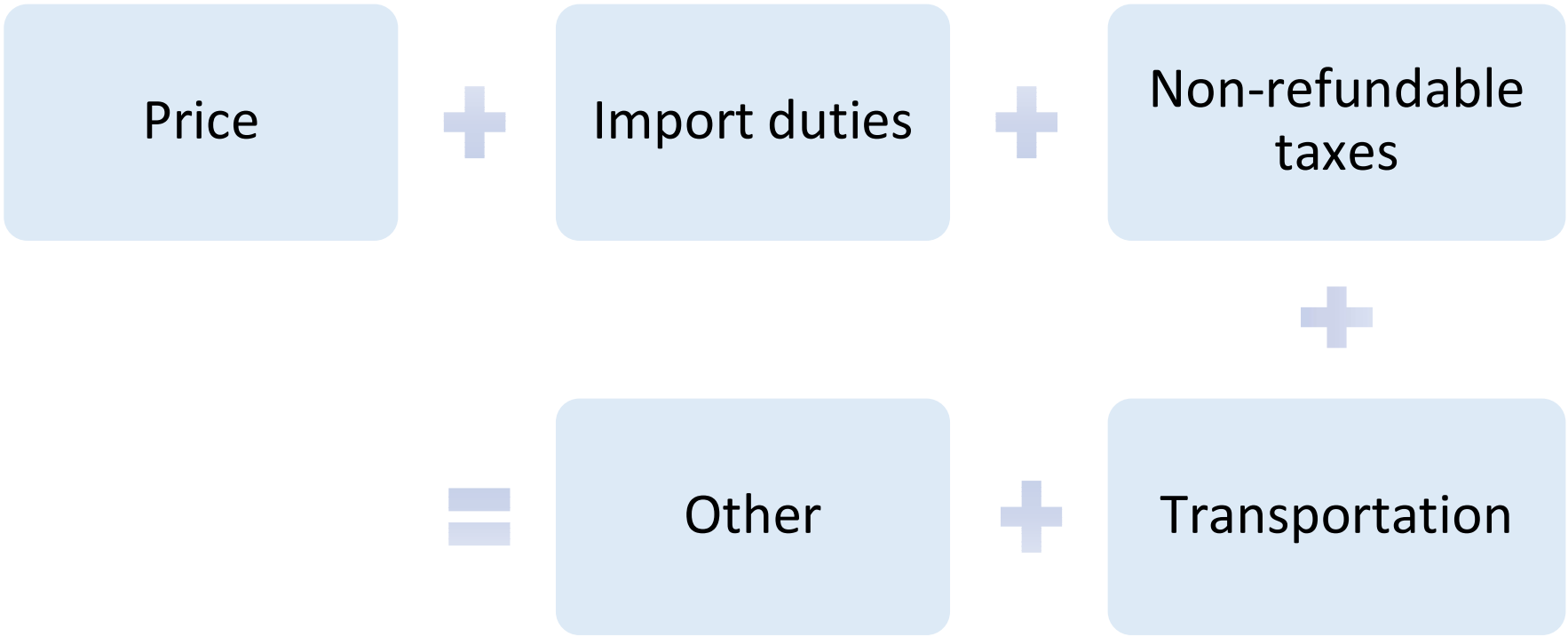
Costs of Purchase



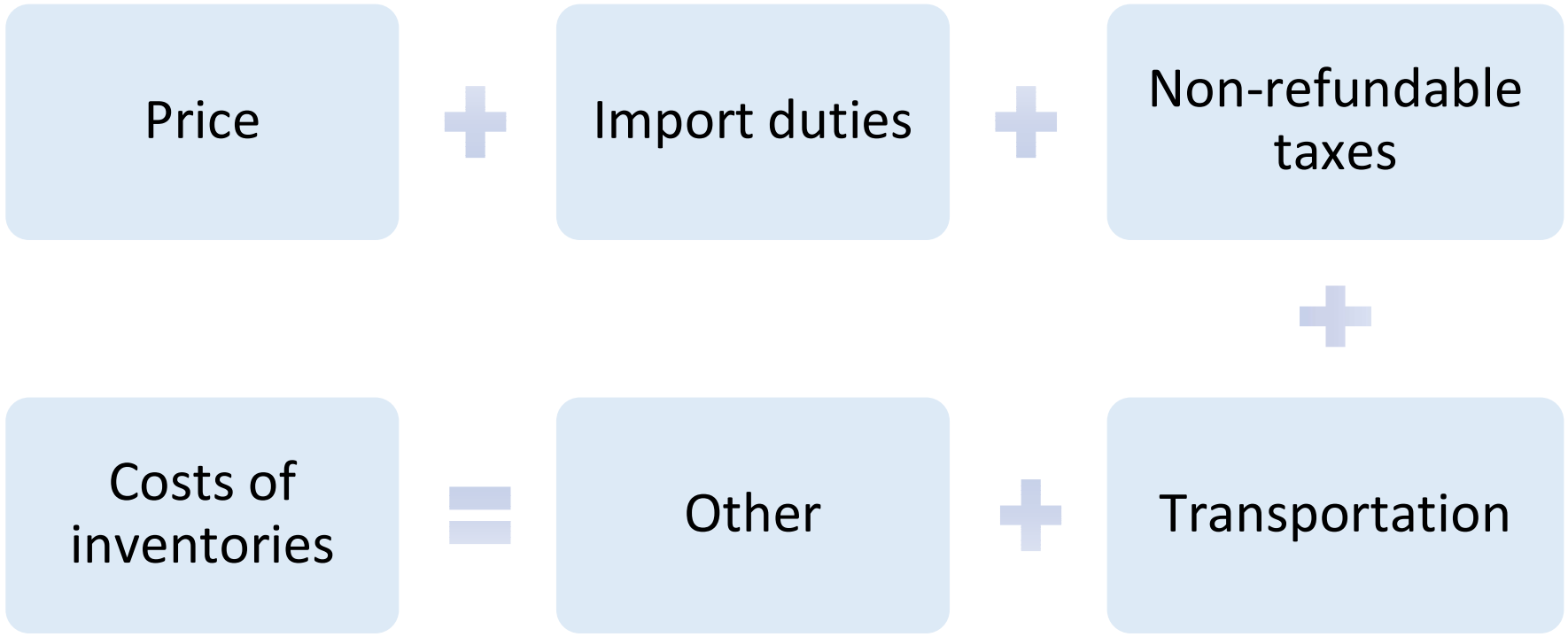
Costs of Purchase



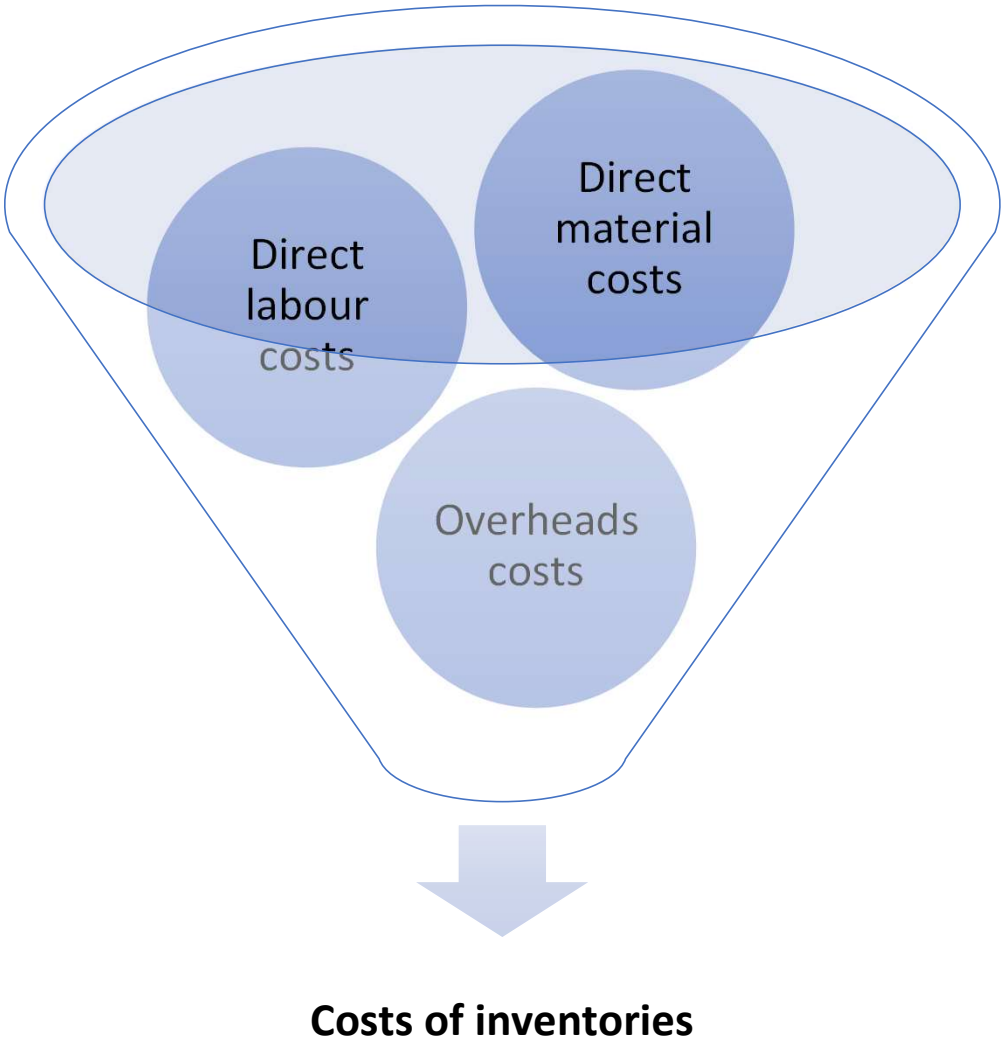
Costs of Purchase



Costs of Purchase



Costs of Conversion



Techniques for the Measurement of Cost

Techniques	Explanation
The standard cost method	The standard cost approach takes into account the normal level of materials, other inventories, labour, efficiency and capacity. They shall be reviewed regularly and, if necessary, revised in the light of the existing conditions.

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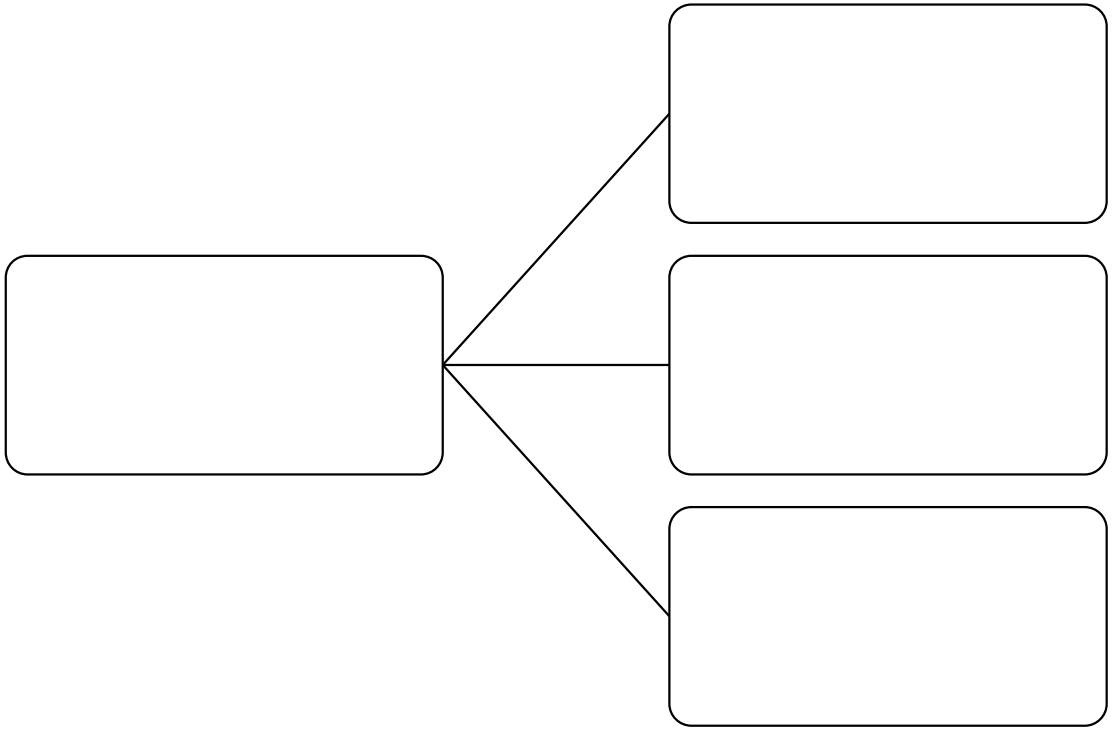
Techniques	Explanation
The standard cost method	The standard cost approach takes into account the normal level of materials, other inventories, labour, efficiency and capacity. They shall be reviewed regularly and, if necessary, revised in the light of the existing conditions.
The retail method	Usually, the retail method results show the approximate cost. It is commonly used to estimate large quantities of inventories that change rapidly and have similar margins. This method is chosen when it is not possible to apply other cost methods. Applying retail methods, the cost of inventories is reduced in proportion to their sales value. The average percentage for each retail division is often used.

Cost Formulas

Cost Formulas



Which cost model to choose?

- It is better to use the FIFO method for such inventories. When using the FIFO method, it is assumed that the inventory that is produced or acquired first will be the first to be retired.

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- For inventories that are mixed and cannot be identified by the date of acquisition, the weighted average cost formula is best in practice.

Net Realisable Value

- Net realisable value is the estimated selling price of inventories in the ordinary course of business, the necessary less costs to bring the inventories to completion and the estimated necessary costs to sell. This approach is dictated by the need to provide reliable information: inventories should not be carried in excess of amounts expected to be realized from their sale or use.

Net Realisable Value

- At net realisable value, inventories are usually valued individually. Sometimes, due to the abundance of inventories, it is difficult to evaluate each inventory individually, so it may be appropriate to group inventories according to their similar nature or related items.

Examples of Net Realisable Value Setting

Net realisable value setting on	Examples
Information of post – reporting events	It is known that in December 20x1, the net realisable value of inventories is CU1,000. But due to the economic crisis, the inventories net realisable value decreased to CU800 in January 20x1. Therefore, it is appropriate to evaluate the information in this post-reporting event to determine the net realizable value of inventories for 20x1 financial statements.

Examples of Net Realisable Value Setting

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Information of contracts	Entity X provides fence installation services. It has entered into an agreement with customer A, under which, the fences of metal of 1,000 sq.m. will be sold for CU10,000. Entity X has purchased these metal products and holds them exclusively for this customer A.

Reversion of Net Realisable Value

- The net realizable value is remeasured in every new period. Therefore, if circumstances have changed and it has thus resulted in inventories being written down below cost in the previous period and the net realizable value has increased as a result of the changed economic circumstances, the previous write-down is reversed.

Example of Reversion of Net Realisable Value

Situation
Entity purchased inventory A for CU1,000 on 15 May 20x1.

Date	Record
15-05-20x1	***Purchase*** Dr. Inventories CU1,000 Cr. Cash CU1,000

Example of Reversion of Net Realisable Value

Situation
Entity purchased inventory A for CU1,000 on 15 May 20x1.
The financial statements for 31 December 20x1 are prepared. It is known that the inventories have not been sold or used. The estimated net realisable value of inventories is CU800. Therefore, the entity recorded a devaluation of inventories value at CU 200. The value of inventories presented in the financial statement is CU800.

Date	Record
15-05-20x1	***Purchase*** Dr. Inventories CU1,000 Cr. Cash CU1,000
31-12-20x1	***Devaluation*** Dr. Expenses CU200 Cr. Inventories CU200

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Due to the scarcity of raw materials, the net realizable value in 20x2 rose to CU1,500 for inventories. Therefore, the previous devaluation is reversed. The value of inventories again remains at the cost of CU1,000.

Date	Record
15-05-20x1	***Purchase*** Dr. Inventories CU1,000 Cr. Cash CU1,000
31-12-20x1	***Devaluation*** Dr. Expenses CU200 Cr. Inventories CU200
31-12-20x2	***Reversion*** Dr. Inventories CU200 Cr. Expenses CU200

Inventory Disclosure

Financial statements	✓ **information about the accounting policies of inventories – what measuring is used, what cost formula is applied;**

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Financial statements	✓ information about the accounting policies of inventories – what measuring is used, what cost formula is applied; ✓ the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity; ✓ the carrying amount of inventories which are estimated at fair value less costs to sell; ✓ **the amount of inventories recognised as an expenses during the period;**

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Financial statements	✓ information about the accounting policies of inventories – what measuring is used, what cost formula is applied; ✓ the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity; ✓ the carrying amount of inventories which are estimated at fair value less costs to sell; ✓ the amount of inventories recognised as an expenses during the period; ✓ **the amount of any write-down of inventories recognised as expenses during the period;**

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Practical Examples

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Example No. 1

FIFO cost

Operation	Quantity	Price, CU	Formula	Sum, CU
Purchase	10	15		150.00
Purchase	25	19		475.00
Cost of sales	18	x	10 units x CU15 + 8 units x CU19	302.00
Remained in stock	17		17 units x CU19	323.00

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Practical Examples

Weighted average cost

Operation	Quantity	Price, CU	Formula	Sum, CU
Purchase	10	15		150.00
Purchase	25	19		475.00
Calculation of the average			(10 units x CU15 + 25 units x CU19) / (10 unit + 25 unit)	17.85
Cost of sales	18	x	18 units x CU17.85	321.43
Remained in stock	17		17 units x CU17.85	303.57

Practical Examples

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Operation	Quantity	Price, CU	Formula	Sum, CU
Purchase	10	15		150.00
Purchase	25	19		475.00
Calculation of the average			(10 units x CU15 + 25 units x CU19) / (10 unit + 25 unit)	17.85
Cost of sales	18	x	18 units x CU17.85	321.43
Remained in stock	17		17 units x CU17.85	303.57

Practical Examples

Example No. 2

- The entity uses the principle of continuous accounting for inventories and the FIFO valuation method.
- It is known that on April 5, the entity purchased 10 units of A goods for CU10 per unit and B goods 20 units for CU6 per unit, the additional transportation costs for all goods amounted to CU200.
- On May 6, it purchased 20 units of A goods for CU7 per unit, and transport costs amounted to CU80.
- On May 15, the entity sold 12 units A goods.

Practical Examples

How is the cost of inventory determined?

Transportation costs in this case increase the cost of goods and given that the costs are common to several types of goods (A and B), they need to be allocated.

Practical Examples

Purchase on April 5

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	**10**	**10**	100				
B	20	6	120				
		Total:	220				

Practical Examples

Purchase on April 5

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	10	10	100				
B	**20**	**6**	120				
		Total:	220				

Practical Examples

Purchase on April 5

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	10	10	100				
B	20	6	120				
		Total:	220		**200.00**		

Practical Examples

Purchase on April 5

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	10	10	100	45.45	200 x 45.45% = 90.90	100 + 90.90 = 190.90	190.90 / 10 = 19.09
B	20	6	120	54.55	200 x 54.55% = 109.10	120 + 109.10 = 229.10	229.10 / 20 = 11.45
		Total:	220	100.00	200.00	420.00	-

Practical Examples

Purchase on May 6

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	**20**	**7**	140	100.00	80.00	140 + 80 = 220.00	220 / 20 = 11.00
		Total:	140	100.00	80.00	220.00	-

Practical Examples

Purchase on May 6

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
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Practical Examples

Purchase on May 6

Goods	Units	Price, CU	Total, CU	Proportion of goods value, %	Allocation of transportation, CU	Total costs of goods, CU	Costs per unit, CU
A	20	7	140	100.00	80.00	140 + 80 = 220.00	220 / 20 = 11.000
		Total:	140	100.00	80.00	220.00	-

Practical Examples

Card of A goods

Date	Record	Receipt of inventories			Write-off of inventories			Balance at end		
		Units	Costs, CU/unit	Total Costs, CU	Units	Costs, CU/unit	Total Costs, CU	Units	Costs, CU/unit	Total Costs, CU
April 5	Purchase	10	19.09	190.90				10	19.09	190.90
May 6	Purchase	20	11.00	220.00				10	19.09	190.90
								20	11.00	220.00
May 15	Sales				10	19.09	190.90	18	11.00	198.00
					2	11.00	22.00			

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May 6	Purchase	20	11.00	220.00				**10**	**19.09**	**190.90**
								20	11.00	220.00
May 15	Sales				**10**	**19.09**	**190.90**	18	11.00	198.00
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May 6	Purchase	20	11.00	220.00				10	19.09	190.90
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May 6	Purchase	20	11.00	220.00				10	19.09	190.90
								20	**11.00**	**220.00**
May 15	Sales				10	19.09	190.90	18	11.00	198.00
					2	**11.00**	**22.00**			

Costs of sales = CU190.90 + CU22.00 = CU212.90

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