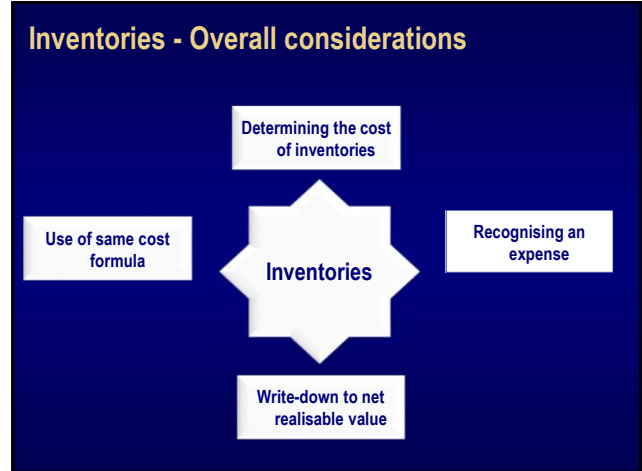


**Insights into
Ind AS 2 "Inventories"**

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Key definition

- Assets held for sale in the ordinary course of business (finished goods)
- Assets in the production process for sale in the ordinary course of business (work in process)
- Materials and supplies that are consumed in production (raw materials)

Special considerations

- Work-in-progress in a construction contract
- Biological asset at the point of harvest
- Major spare parts, stand-by equipment and servicing equipment

Cost of inventories

Include	Exclude
<ul style="list-style-type: none"> costs of purchase net of trade discounts received costs of conversion (including fixed and variable manufacturing overheads) and Other costs incurred in bringing the inventories to their present location and condition 	<ul style="list-style-type: none"> abnormal waste storage costs administrative overheads selling costs foreign exchange differences interest cost on deferred settlement contracts

Cost – Illustrative example

Cost	Include in Inventory		Expense
	Direct	Indirect	
Production Materials	X		
Production Labour	X		
Employee costs (Direct Labour)	X		
Normal waste	X		
Supervisor Salary & Emp.Cost		X	
Indirect Labour & Materials		X	
Rent, Maintenance, Lighting for factory		X	
Depreciation on Production Equipments		X	

Cost – Illustrative example

Cost	Include in Inventory		Expense
	Direct	Indirect	
Product Research			X
Abnormal Wastage of labour, materials			X
Selling Costs			X
Storage Costs			X
General Management Cost			X

Allocation of overheads

Variable	Fixed
Based on actual production	Based on normal production capacity

Method of costing

- For inventory items that are not interchangeable
 - specific costs are attributed to the specific individual items of inventory
- For items that are interchangeable
 - FIFO or weighted average cost formulas
 - LIFO is no longer allowed
- for all inventories with similar characteristics as to their nature and use to the enterprise
 - The same cost formula should be used
- For groups of inventories that have different characteristics
 - different cost formulas may be justified

Net Realisable Value

- Estimated selling price in the ordinary course of business less
 - the estimated cost of completion and
 - the estimated costs necessary to make the sale.
- Any write-down to NSP should be recognised as an expense in the period in which the write-down occurs
- Any reversal should be recognised in the income statement in the period in which the reversal occurs

Net Realisable Value – Special considerations

- If market prices of materials and supplies held for use in manufacturing decline below cost
 - The entity should continue to recognise the materials at cost if it expects to sell the finished products at prices above cost
 - Otherwise write down to NRV

Inventories of service providers

- Inventories of service providers are
 - costs incurred in providing the services,
 - for which the entity has not recognised revenues.

Derecognition

- Inventory is derecognised
 - when it is sold; or
 - when it has no future economic value (for example obsolete inventory)

Major disclosures

- Accounting policy for inventories
- Carrying amount, generally classified as materials, work in progress, and finished goods
- Carrying amount of any inventories carried at fair value less costs to sell
- Amount of any write-down of inventories recognised as an expense in the period
- Amount of any reversal of a write-down to NSP and the circumstances that led to such reversal
- Carrying amount of inventories pledged as security for liabilities
- Cost of inventories recognised as expense (cost of goods sold)



Thank you



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