



IAS2 Inventories

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Objective of IAS 2

- The objective of IAS 2 is to prescribe the accounting treatment for inventories. It provides guidance for determining the cost of inventories and for subsequently recognising an expense, including any write down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

[Scope]

- Inventories include 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) and materials and supplies that are consumed in production (raw materials). [IAS 2.6]

Fundamental Principle of IAS 2

- We need to **understand** the following:
- Inventories are required to be stated at the lower of cost and net realisable value (NRV). [IAS 2.9]
- NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to complete the sale. [IAS 2.6]

Measurement of Inventories 1

- **Cost of Inventories**
- The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the Inventories to their present location and condition.
[IAS2.10]

Measurement of Inventories 2

- Another way of saying that is that cost should include all:
- costs of purchase (including taxes, transport, and handling) net of trade discounts received [IAS 2.11]
- costs of conversion (including fixed and variable manufacturing overheads) [IAS 2.12-2.14] and
- other costs incurred in bringing the inventories to their present location and condition [IAS 2.10]

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[Inventory Cost Should not Include]

- We need to **understand** the following:
 - abnormal waste
 - storage costs
 - administrative overheads unrelated to production
 - selling costs [IAS 2.16]
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Inventory Valuation Methods 1

- The **standard cost** and **retail methods** may be used for the measurement of cost, provided that the results approximate actual cost. [IAS 2.21-22]
- For inventory items that are not **interchangeable**, specific costs are attributed to the specific individual items of inventory. [IAS 2.23]

Inventory Valuation Methods 2

- For items that are **interchangeable**, IAS 2 allows the FIFO or weighted average cost formulas. [IAS 2.25] The LIFO formula, which had been allowed prior to the 2003 revision of IAS 2, is no longer allowed.
- The same cost formula should be used for all inventories with **similar characteristics** as to their nature and use to the enterprise. For groups of inventories that have **different characteristics**, different cost formulas may be justified. [IAS 2.25]

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Reference

- I recognise the help I received from the materials prepared by Deloitte, Touche, Tohmatsu in preparing this presentation.