



IND AS 2 – INVENTORIES

- Anand Banka



DEFINITION

- Inventories are assets held -

FG	WIP	RM
<ul style="list-style-type: none">• for sale in the ordinary course of business	<ul style="list-style-type: none">• in the process of production for such sale	<ul style="list-style-type: none">• in the form of materials and supplies to be consumed in the production process or in the rendering of services



WHAT WE ALREADY KNOW

- Inventory includes RM, WIP and FG
- To be measured at lower of cost or NRV
- $\text{Cost} = \text{Purchase} + \text{Conversion} + \text{Other costs}$
- Measurement techniques = Actual, Retail and Standard Cost
- Cost Formulas = FIFO, WAM, Specific identification



IS IT INCLUDED IN THE COST?

- Depreciation of production plant
- Freight charges on items purchased
- Advertising costs
- Interest cost incurred on inventory produced in large quantities on a repetitive basis
- Salary of the vice-president in charge of manufacturing
- Salary of the president of the company



INVENTORIES (WIP) OF SERVICE PROVIDER

- In the case of a service provider, inventories include the costs of the service for which the entity has not yet recognised the related revenue
- 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.



DEFERRED SETTLEMENT TERMS

- 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.



OTHER ISSUES

- Cash Discount on Purchase
- Loan to Vendor
- Asset given to Vendor
 - Right to take back
 - Possibility of taking back
 - Period for which given vs. useful life of asset
 - Fair value of goods purchased vs. consideration payable



OTHER ISSUES

- 'Dead' Stock in pipelines/ tanks – Stock or PPE?
- Samples – 'Stores and spares' or Expense
- Inventory given as loan – 'loans and advances' or 'inventories'
- Barter purchase



SPECIFIC INDUSTRIES

- Real Estate
 - What is inventory
 - In progress
 - Finished goods
 - When is inventory considered to be sold
 - Under Ind AS 18/ 11
 - Under IFRS 15
- Service Industry
 - WIP of Service Provider



DIAMOND INDUSTRY

- Inventories of diamonds, extracted ore and sands, mining and construction stores and consumable supplies are valued at the lower of cost or net realisable value. Cost of inventory is determined using weighted average cost formula. Cost of extracted ore and sands is calculated using the quantities determined based on surveyors' measurements of the volumes of ore and sands remaining at the period end. Cost of inventories include those directly attributable to mining the diamonds, extracting the ore and producing sands, and those directly attributable to bringing mining and construction stores and consumable supplies to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.
- Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses, are recognized in the period the write-down of loss occurs. Cost is determined using the weighted average method. Cost includes directly attributable mining overhead but excludes borrowing costs. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and selling expenses



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