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ACCA F7

Financial Reporting(INT.)

财务报告（国际会计准则）

Chapter 5 Inventory

ACCA Lecturer: Roy Wang





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IAS 2 Inventory

Definition

Inventories are assets:

- – Held for sale in the ordinary course of business;
- – In the process of production for such sale; or
- – In the form of materials or supplies to be consumed in the production process or in the rendering of services.



IAS 2 Inventory

Inventories can include any of the following.

- **Goods purchased and held for resale**, eg goods held for sale by a retailer, or land and buildings held for resale
- **Finished goods** produced
- **Work in progress** being produced
- Materials and supplies awaiting use in the production process (**raw materials**)



IAS 2 Inventory

Measurement

IAS 2 Inventories states that **'Inventories should be measured at the lower of cost and net realisable value.'**



IAS 2 Inventory

The cost of inventories will consist of all costs of:

- **Purchase**
- **Costs of conversion**
- **Other costs** incurred in bringing the inventories to their **present location and condition**



IAS 2 Inventory

cost



IAS 2 Inventory

The standard lists the following as comprising **the costs of purchase** of inventories.

- **Purchase price PLUS**
- **Import duties and other taxes PLUS**
- Transport, handling and any other cost **directly attributable** to the acquisition of finished goods, services and materials LESS
- **Trade discounts**, rebates and other similar amounts



IAS 2 Inventory

Costs of conversion of inventories consist of two main parts.

- a) Costs directly related to the units of production, **eg direct materials, direct labour**
- b) Fixed and variable **production** overheads that are incurred in converting materials into finished goods, allocated on a systematic basis.



IAS 2 Inventory

Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, eg the cost of factory management and administration.

Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, eg indirect materials and labour.



Net realisable value (NRV)



IAS 2 Inventory

- **Net realisable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.



IAS 2 Inventory

In fact we can identify the principal situations in which **NRV is likely to be less than cost**, ie where there has been:

- a) An **increase in costs** or a **fall in selling price**
- b) A **physical deterioration** in the condition of inventory
- c) **Obsolescence of products**
- d) A decision as part of the company's **marketing strategy** to manufacture and sell products at a loss



IAS 2 Inventory

A company has inventory on hand at the end of the reporting period as follows.

	<i>Units</i>	<i>Raw material cost</i>	<i>Attributable production overheads</i>	<i>Attributable selling costs</i>	<i>Expected selling</i>
		<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Item A	300	160	15	12	185
Item B	250	50	10	10	75

Required

At what amount will inventories be stated in the statement of financial position in accordance with IAS 2?



IAS 2 Inventory



IAS 2 Inventory

On 30 September 2014, Razor's closing inventory was counted and valued at its cost of \$1 million. Some items of inventory which had cost \$210,000 had been damaged in a flood (on 15 September 2014) and are not expected to achieve their normal selling price which is calculated to achieve a gross profit margin of 30%. The sale of these goods will be handled by an agent who sells them at 80% of the normal selling price and charges Razor a commission of 25%.

At what value will the closing inventory of Razor be reported in its statement of financial position as at 30 September 2014?

- A.\$1 million
- B.\$790,000
- C.\$180,000
- **D.\$970,000**



IAS 2 Inventory

What is included in the cost of purchase of inventories according to IAS 2?

A Purchase price less trade discount

B Purchase price plus transport costs less trade discount

C Purchase price less import duties less trade discount

D Purchase price plus import duties plus transport costs less trade discount

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