

# IAS 2 INVENTORIES

Prof. Dr. Nazlı Kepçe

---

---

---

---

---

---

---

## Objective

- The objective of this Standard is to prescribe the accounting treatment for inventories.

---

---

---

---

---

---

---

## Scope (1/2)

- This Standard applies to all inventories, except:
  - (a) work in progress arising under construction contracts, including directly related service contracts (see IAS 11 Construction Contracts );
  - (b) financial instruments (see IAS 32 Financial Instruments: Presentation and IFRS 9 Financial Instruments ); and
  - (c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see IAS 41 Agriculture)

---

---

---

---

---

---

---

### Scope(2/2)

- This Standard does not apply to the measurement of inventories held by:
  - (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in profit or loss in the period of the change.
  - (b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in profit or loss in the period of the change

---

---

---

---

---

---

---

---

### Inventories

- Inventories are assets:
  - (a) held for sale in the ordinary course of business;
  - (b) in the process of production for such sale; or
  - (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

---

---

---

---

---

---

---

---

### 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.

---

---

---

---

---

---

---

---

### Costs of purchase

- The costs of purchase of inventories comprise
  - the purchase price,
  - import duties and
  - other taxes (other than those subsequently recoverable by the entity from the taxing authorities),
  - and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.
  - Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

---

---

---

---

---

---

---

---

### Costs of conversion

- The costs of conversion of inventories include costs directly related to the units of production, such as direct labor.
- They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.
- The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.

---

---

---

---

---

---

---

---

### Other costs

- Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

---

---

---

---

---

---

---

---

**Costs excluded from the cost of inventories and recognized as expenses are;**

- (a) abnormal amounts of wasted materials, labor or other production costs;
- (b) storage costs, unless those costs are necessary in the production process before a further production stage;
- (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- (d) selling costs.

---

---

---

---

---

---

---

---

**Borrowing Costs ???**

- IAS 23 Borrowing Costs identifies limited circumstances where borrowing costs are included in the cost of inventories.

---

---

---

---

---

---

---

---

**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 recognized as interest expense over the period of the financing.

---

---

---

---

---

---

---

---

### Simultaneous production of more than one product

- When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. Such as;
  - relative sales value of each product either at the stage in the production process when the products become separately identifiable
  - at the completion of production

---

---

---

---

---

---

---

---

### By product

- Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

---

---

---

---

---

---

---

---

### Measurement of inventories

- Inventories shall be measured at the lower of cost and net realizable value.

---

---

---

---

---

---

---

---

### Net realizable 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.

---

---

---

---

---

---

---

---

### Cost of inventories of a service provider

- To the extent that service providers have inventories, they measure them at the costs of their production.
- These costs consist primarily of the labor and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads.
- Labor and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred

---

---

---

---

---

---

---

---

### Cost of agricultural produce harvested from biological assets

- In accordance with IAS 41 Agriculture inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest.
- This is the cost of the inventories at that date for application of this Standard.

---

---

---

---

---

---

---

---

### Techniques for the measurement of cost (1/3)

- Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost.

---

---

---

---

---

---

---

---

### Techniques for the measurement of cost (2/3)

- **Standard costs** take into account normal levels of materials and supplies, labor, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

---

---

---

---

---

---

---

---

### Techniques for the measurement of cost (3/3)

- **The retail method** is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods.

---

---

---

---

---

---

---

---

### Cost formulas

- The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

---

---

---

---

---

---

---

---

### Recognition as an expense

- When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.

---

---

---

---

---

---

---

---

### Disclosure

- The financial statements shall disclose:
  - (a) the accounting policies adopted in measuring inventories, including the cost formula used;
  - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
  - (c) the carrying amount of inventories carried at fair value less costs to sell;
  - (d) the amount of inventories recognized as an expense during the period;
  - (e) the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 34;
  - (f) the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period in accordance with paragraph 34;
  - (g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and
  - (h) the carrying amount of inventories pledged as security for liabilities.

---

---

---

---

---

---

---

---