



UPSA
UNIVERSITY OF PROFESSIONAL STUDIES, ACCRA
ACCOUNTING AND FINANCE

FINANCIAL REPORTING I

BACT 303

**INTERNATIONAL FINANCIAL REPORTING
STANDARDS
(IAS 2)**

INVENTORIES: IAS 2



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IAS 2 - OVERVIEW

- Objective and scope
- Expense recognition
- Measurement
- Disclosure



IAS 2 –Objective and Scope

- The Standard prescribes the accounting treatment for inventories.
- It provides guidance on the determination of the cost and subsequent recognition of expense to be written down of inventory (i.e., Net realizable value).
- The Standard also provides guidance on the cost flow assumptions (“cost formulas”) that are to be used in assigning costs to inventories.
- It is used to determine the costs to be recognized as inventory costs and the cost to be transferred to the statement of profit or loss as expense



IAS 2 – Objective and Scope

IAS 2 applies to inventories except:

- construction work-in-progress (i.e., **NOW IFRS 15**).
- Financial instruments (i.e., IAS 32).
- Biological assets related to agricultural produce at the point of harvest (i.e., IAS 41).



Definition of Inventories

Inventories are assets:

- Held for sale in the ordinary course of business (usually within the 12 months of the entity)
- In the process of production for such sale (W.I.P), or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services (e.g., raw materials)



IAS 2 - Measurement

There are three stages involved in valuing inventory.

1. Inventory should be valued at cost or production cost.
2. Determine the Net realisable value of the inventory.
3. Using the standard measurement such as: the lower than cost/ production cost.



Determination of Net Realizable Value (NRV)

- NRV is the estimated selling price in the ordinary course of business less Trade discount or rebate, the estimated costs of completion and the estimated costs necessary to make the sale such as (Marketing, selling and distribution expenses)

Determination of Cost

Cost includes:

- cost of purchase (exclude trade discounts and rebates)
- Actual cost of conversion (include 'normal' production overheads)
- Other costs incurred in bringing the inventories to their present location and condition

Fixed production overheads must be allocated to items of inventory on the basis of **normal capacity** of the production facilities



Determination of Cost

Cost excludes:

- abnormal amounts of wasted materials, labour or other production costs
- storage costs, unless necessary in the production process before the next production stage
- administrative overheads
- selling costs



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IAS 2- Measurement

Example 1- Valuing Inventory

LBC manufactures mechanical talkative recorder, which trade under the name 'Talkative'. In the year ended 31 December 2018, 10,000 Talkatives were manufactured and the related costs were

	GHC
Materials	3,000
Labour	4,000
Depreciation of Machinery	2,000
Factory rates	1,000
Sundry factory expenses	3,000
Selling expenses	2,000
Expenses at head office	<u>4,000</u>
	19,000

In addition to the information above, at 31 December 2018, there were 1,000 Talkatives in inventory.

Requirement

Assuming that these have a resale value of GHC4 and a Net Realisable Value of GHC1.20 each, what value should be placed on the closing inventory?

IAS 2- Measurement

Example 1- Valuing Inventory

Solution

	GHC
Materials	3,000
Labour	4,000
Depreciation of machinery	2,000
Factory rates	1,000
Sundry factory expenses	<u>3,000</u>
Total cost	13,000
Units manufactured	10,000
Unit cost	GHC1.30
Number of units on hand at year end	1,000
Value of closing inventory (1,000 x GHC1.2)	GHC1,200



IAS 2- Measurement

Example 2- Valuing Inventory

Finished Goods of dissimilar items at 31 December 2018:

Item	Cost GH¢	NRV GH¢	Value GH¢
Samsung	1,000	1,400	
Nokia	800	700	
Sony	2,500	2,800	
Ericson	1,800	1,700	
infinix	200	300	
Dumsor	<u>300</u>	<u>250</u>	
	<u>6,600</u>	<u>7,150</u>	

What figure should be recorded for the inventories in the financial statements at 31 December , 2017?

IAS 2- Measurement

Example 2- Valuing Inventory

Solution:

Finished Goods of dissimilar items at 31 December 2018:

Item	Cost GH¢	NRV GH¢	Value GH¢
Samsung	1,000	1,400	1,000
Nokia	800	700	700
Sony	2,500	2,800	2,500
Ericson	1,800	1,700	1,700
infinix	200	300	200
Dumsor	<u>300</u>	<u>250</u>	<u>250</u>
	<u>6,600</u>	<u>7,150</u>	<u>6,350</u>



IAS 2 – Measurement

Example 3-Valuing inventory

Finished Goods of dissimilar items at 31 December 2018:

Esinam Ltd has the following products in inventory at the end of 2018:

	Units	Cost per unit GH¢
Ahomka (completed)	5,400	22
Adonko (part complete)	2,800	26

Each product normally sells at GH¢34 per unit. Due to the difficult trading conditions, Esinam Ltd intends to offer a discount of 15% per unit and expects to incur GH¢4 per unit in selling costs. GH¢10 per unit is expected to be incurred to complete each unit of Adonko.

Required: In accordance with IAS 2 Inventories, at what amount should inventory be stated in the financial statements of Esinam Ltd as at 31 December 2018?

(3 marks) **Source: ICA, NOV., 2017**

IAS 2 – Measurement

Example 3-Valuing inventory

	Quantity	Cost	NRV	Total GH¢
Ahomka	5,400	22	$34 * 0.85 = 28.9 - 4 = 24.9$	118,800
Adonko	2,800	26	$34 * 0.85 = 28.9 - 4 - 10 = 14.9$	<u>41,720</u>
				<u>160,520</u>



Cost Formulae

Methods of valuing inventory issues are:

- First In First Out (FIFO)
- Last In First Out (LIFO)
- Weighted Average

LIFO is *not* allowed under IAS 2



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DISCLOSURE

- Accounting policy adopted in measuring inventories, including cost formulas
- Carrying amount of inventories under major headings (e.g. raw materials, WIP and finished goods)
- Carrying amount of inventories at fair value less costs to sell
- Amount expended in the period
- Amount of any write downs of inventories
- Amount of any reversal of write downs
- Cause of write downs
- Carrying amount of inventories pledged as security



ASSIGNMENT 1- IAS 2: INVENTORIES

QUESTION 1

LBC manufactures mechanical talkative recorder, which trade under the name 'Talkative'. In the year ended 31st December 2017, 10,000 Talkatives were manufactured and the related costs were:

	GHC
Materials	3,000
Labour	4,000
Depreciation of Machinery	2,000
Factory rates	1,000
Selling expenses	3,000
Expenses at head office	2,000
Abnormal loss	3,000

In addition to the information above, at 31st December 2017, there were 2,000 Talkatives in inventory.

Required:

Assuming that these have a resale value of GHC5 and a Net Realisable Value of GHC1.15 each, what value should be placed on the closing inventory?



ASSIGNMENT 1- IAS 2: INVENTORIES

QUESTION 2

- a) State how closing inventory is to be measured according to IAS 2.
- b) Using the following information calculate;
- (i) The value of closing inventory for **each** of the Phones (Nokia, Sumsung and Motorola).
- (ii) The **total value** of all the closing inventories (Nokia, Sumsung and Motorola).
- Azonto trades in different types of phones on wholesale basis. The following data was extracted at the end of the year 31st December, 2016.

	Nokia	Sumsung	Motorola
Cost per unit	GH¢8	GH¢10	GH¢19
Net realisable value per unit	GH¢10	GH¢7.9	GH¢15.6
Selling price per unit in the market	GH¢12	GH¢11	GH¢14
Units in inventory	10,000	20,000	30,000



**THANK
YOU!**