

# INVENTORY

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# INVENTORY

IAS 2 – INVENTORIES

IAS 18 – REVENUES

IAS 41 – AGRICULTURE

IAS 11 – CONSTRUCTION CONTRACTS

IAS 32 + IAS 38 – FINANCIAL INSTRUMENTS

## Definition – Inventories are assets:

- a) Held for sale in the ordinary course of business,
- b) In the process of production for such sale,
- c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

**Classification – externally x internally acquired**

# Valuation bases

- A) Initial recognition valuation
- B) At the end of accounting period
- C) Valuation at the moment of their disposal

# Valuation at Initial Recognition

- The cost of inventories comprises all:
  - Costs of purchase,
  - „Other costs“ incurred in bringing the inventories to their present location and condition
  - Costs of conversion

The carriage inwards, import duties and other handling costs can certainly be included;

## Conversion costs include:

- a) Fixed costs – e.g. depreciation of factory building;
- b) Variable costs – e.g. labour costs;
- 2 methods for recognition of overheads:
  - a) Full costs method,
  - b) Direct costs method.

# Overheads

- Direct costs method – included only direct material and labour costs and variable costs. Fixed costs are recognised as expenses in the current periods.
- **This method is not in accordance with IAS 2.**
- Method of full cost – all variable and fixed cost are included. Non-production overhead is recognised as expenses in the current periods.

# Inventories of own production

Real costs are preferred. Method of standard cost or method of retail sale can be used.

General administrative overheads that do not contribute to bringing inventories to their present location and condition are never including in valuing inventory.



# Excluded costs from inventory valuation

- overhead selling costs;
- abnormal amounts of wasted material, labour and other production costs;
- general administrative overheads;
- storage costs;

# Borrowing costs

- Borrowing costs can be capitalised if there is necessary long time for preparing inventory for sale.
- Inventory produced in huge amount and repeating cycles – borrowing costs are part of expenditures of current accounting period.

# Valuation at the end of accounting period

- Valuation is based on **the caution principle**
- Inventories should be valued at total of the lower cost (all costs incurred in bringing to present location and condition) and net realisable value of separate items of stock or of groups of similar items.

# Net realisable value

- Net realizable value is generally equal to the selling price of the inventory goods less the selling costs (completion and disposal). It is expected sales price less selling costs (e.g. repair and disposal costs).
- In some accounting systems is not used NRV but replacement value.

# Carrying value > NRV

= loss from impairment is recognised as an expense in current accounting period;

= as soon as the reason for impairment passes over it is recognised as a loss decrease, not gain!

# IAS 2 x IAS 16

- It is not possible to revalue inventory to higher costs x IAS 16 ... only it is possible to recognise loss from impairment of their value!!!
- Fair value is possible to use only for biological assets at the initial recognition!!!

- Prior valuation bases – basic solution: FIFO or individual costs and alternative solution: weighted average or LIFO
- Currently:
  - Individual costs
  - FIFO or weighted average

# Bookkeeping principles

- IAS 2 does not provide bookkeeping principles;
- In international accounting systems we can find two methods:
  - Continuous evidence (Method A – in the CR)
  - Periodic evidence (Method B – in the CR)



# Disclosures

- accounting policies adopted,
- any inventories at fair value less costs to sell,
- the write-down of inventories and the reversal of any write down;

# Section 13 - Inventory

- Classification in accordance with AS 2
- Valuation – total of the lower of cost and NRV
- Purchased costs comprise purchase price, costs of conversion, fixed production overheads and variable production overheads;

# Section 13 - Inventory

- Costs methods: FIFO, weighted average, individual costs, ...
- Test of impairment at the end of accounting period – recognise loss of impairment;
- Disclosures requirements...

Thank you for your attention

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