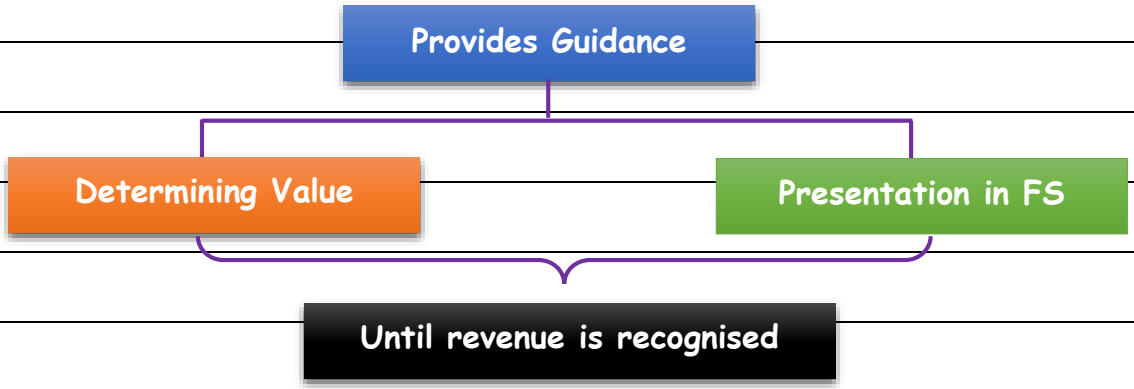
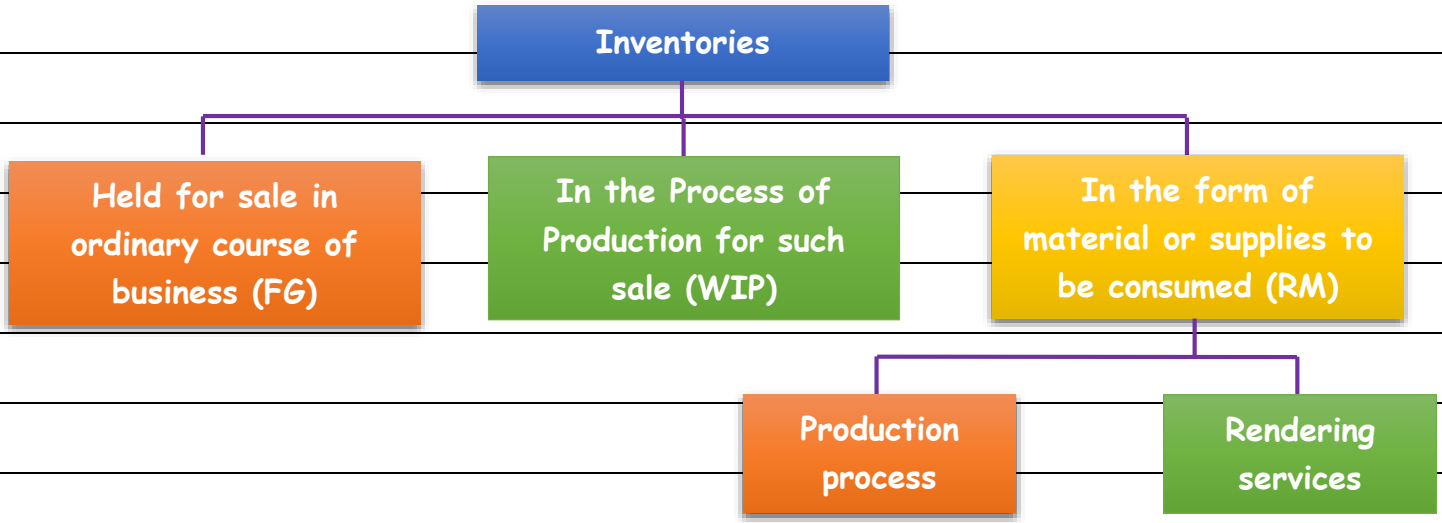
AS 2

CONCEPT 1 : INTRODUCTION

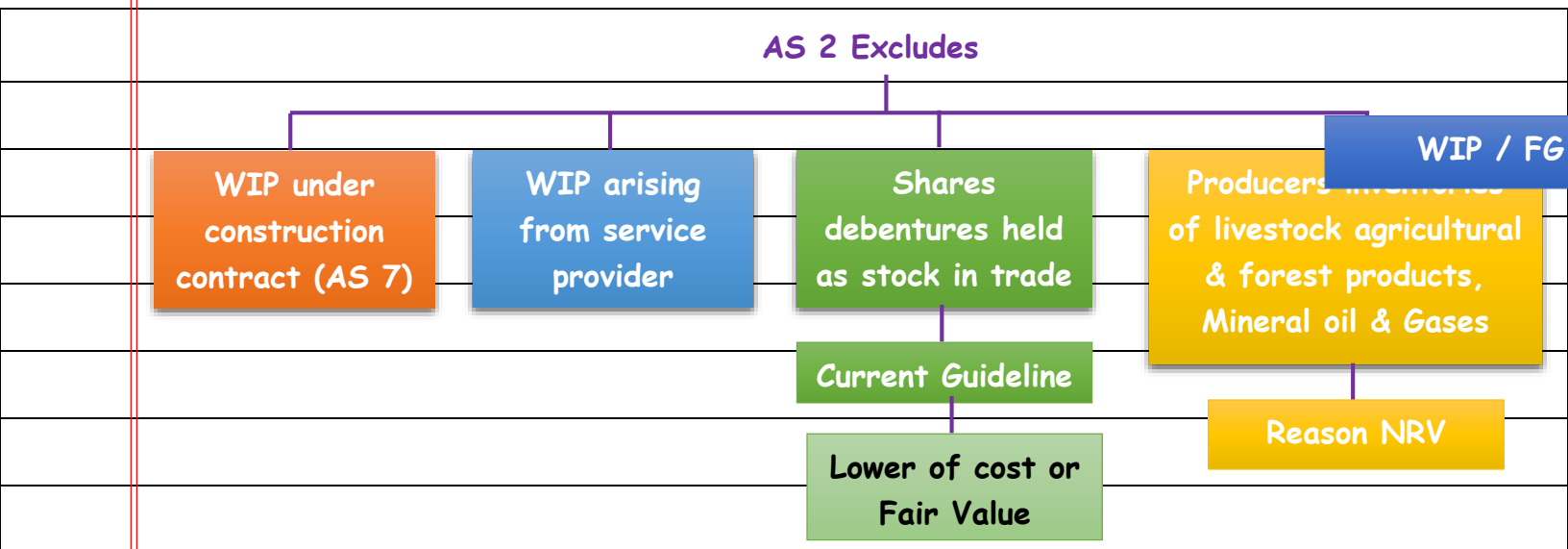


- Guidance on cost & Formulae
- Written down to NRV

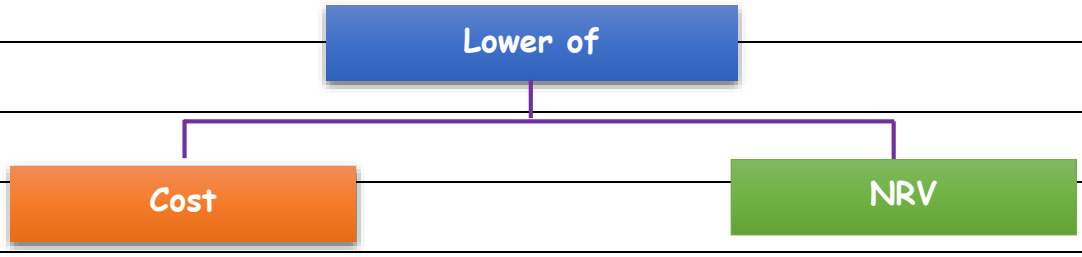
CONCEPT 2 : SCOPE



(Excludes Machinery spare parts, servicing equipment's & Stand by equipment's)



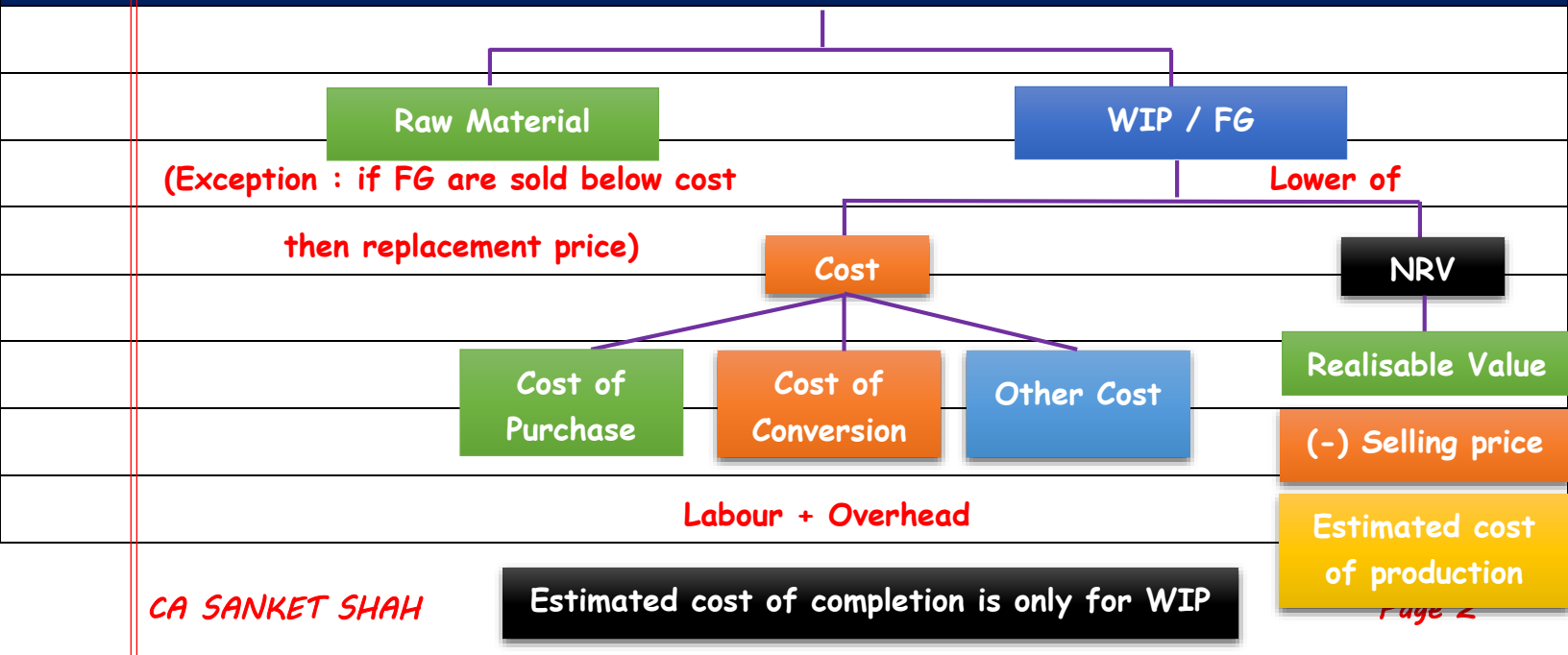
CONCEPT 3 : VALUATION OF INVENTORY / MEASUREMENT OF INVENTORY



Reason : Prudence Concept

If Closing stock is overstated, profit is overstated

CONCEPT 4 : COST



Estimated cost of completion is only for WIP

[a] Cost of Purchase

Purchase Price

(+) Non recoverable duties & Other Taxes

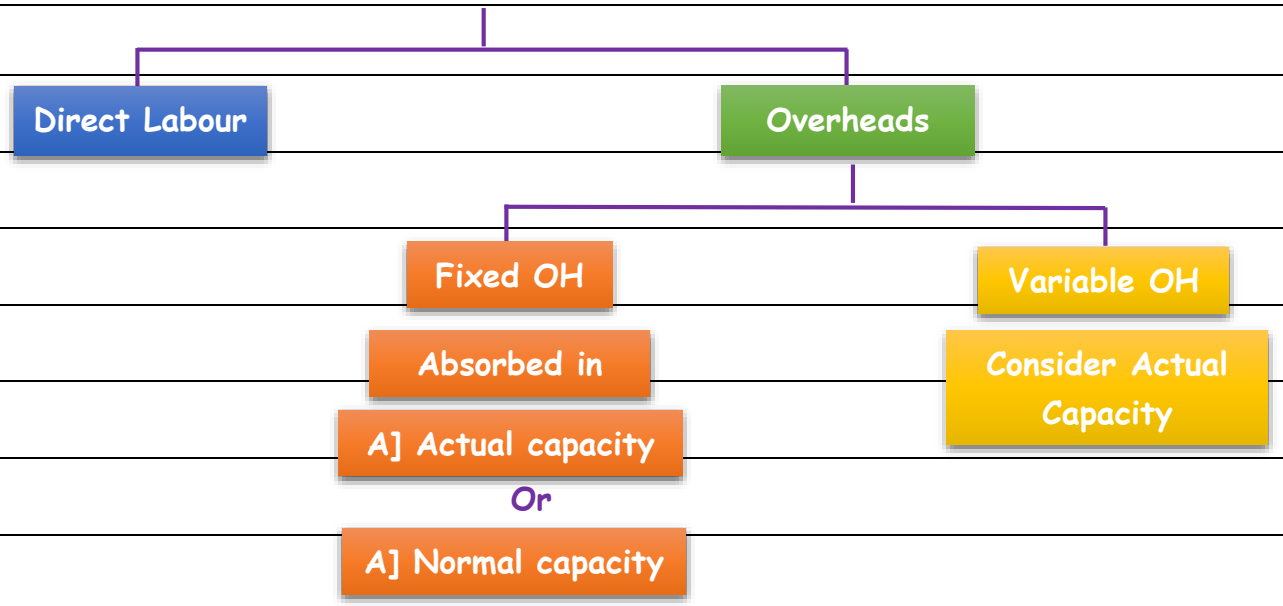
(+) Other expenditure directly attributable to the acquisition

(-) Trade Discount

(-) Rebates

(-) Duty Drawbacks

[b] Cost of Conversion



Whichever is higher

✦ FOH

18,00,000 out of pocket

Actual capacity	Normal capacity	Actual capacity
90,000 units	1,00,000 units	1,20,000 units
	Rs.18 per unit	

Option I

18,00,000 / 90,000

= Rs.20 per unit

Option II

90,000 * 18

= Rs.16,20,000

Closing stock

Paid

18,00,000

16,20,000 * 1,80,000

Cl. Stock Exp.

Conclusion :

Divide by normal capacity

Under Absorption

Option I

18,00,000 / 1,20,000

= Rs.15 per unit

Option II

18,00,000 / 1,00,000

= Rs.18 per unit

Reason

1,20,000 * 18

= 21,60,000

Out of pocket 18,00,000

Conclusion :

Consider actual capacity

Over Absorption

[c] Other cost

[i] Cost incurred to bring inventory to its present location & condition

e.g. Cost of design

[ii] Interest on borrowing

Qualifying Asset → Takes substantial time to get ready for use

[iii] Amortisation of intangible asset related to production

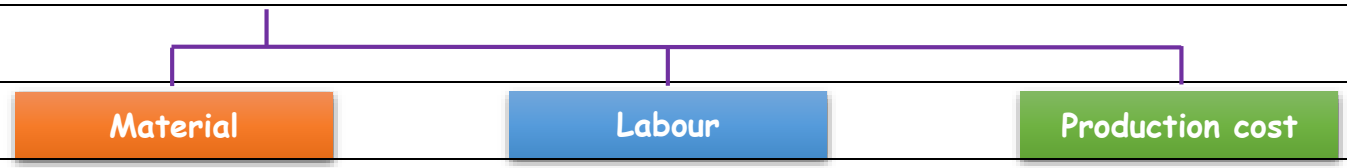
e.g. Patent rights of production

$$\frac{\text{Cost of Production}}{\text{Units Produced}} * \text{Units left}$$

❖ Exclusions (of cost) :

[1] Exchange difference

[2] Abnormal Amounts



$$\frac{\text{Rs.90,000}}{\text{1,000 Units}} = \text{Rs.90 / Unit}$$

Suppose normal loss = 10%

In hand 850 units

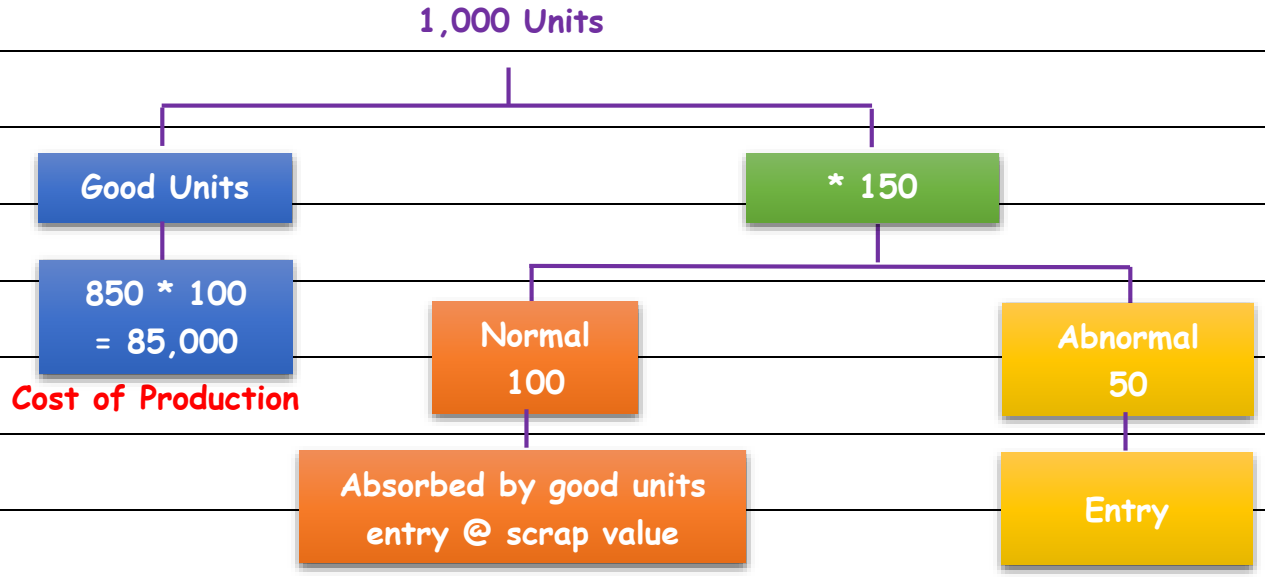
Rate / Unit

[a] Rs.90 / unit [b] Rs.100 / Unit [c] Rs.105.88 / unit [d] None of above

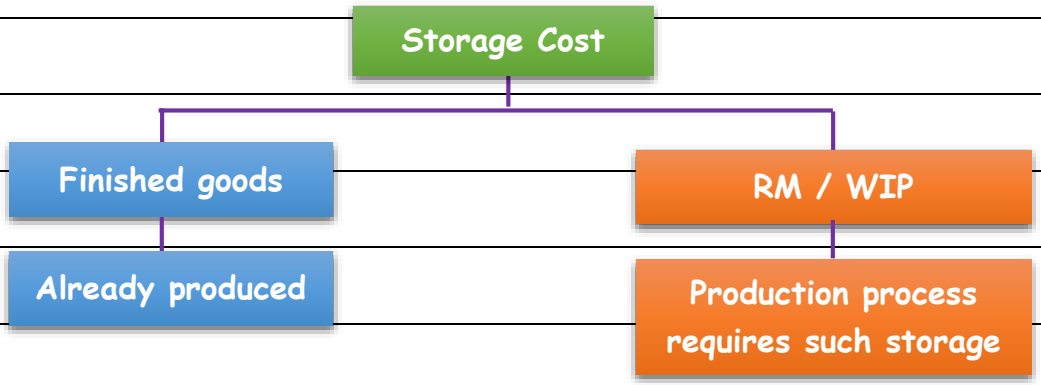
$$\text{Cost per Unit} = \frac{\text{Total Cost} - \text{Scrap Value}}{\text{Total Units} - \text{Normal Loss}}$$

$$= \frac{90{,}000 - 0}{1{,}000 - 10\%}$$

= Rs.100 per unit



[3] Storage Cost



[4] Administration OH (other than cost of bringing inventory to their present location & condition)

[5] Selling Exp. & Distribution

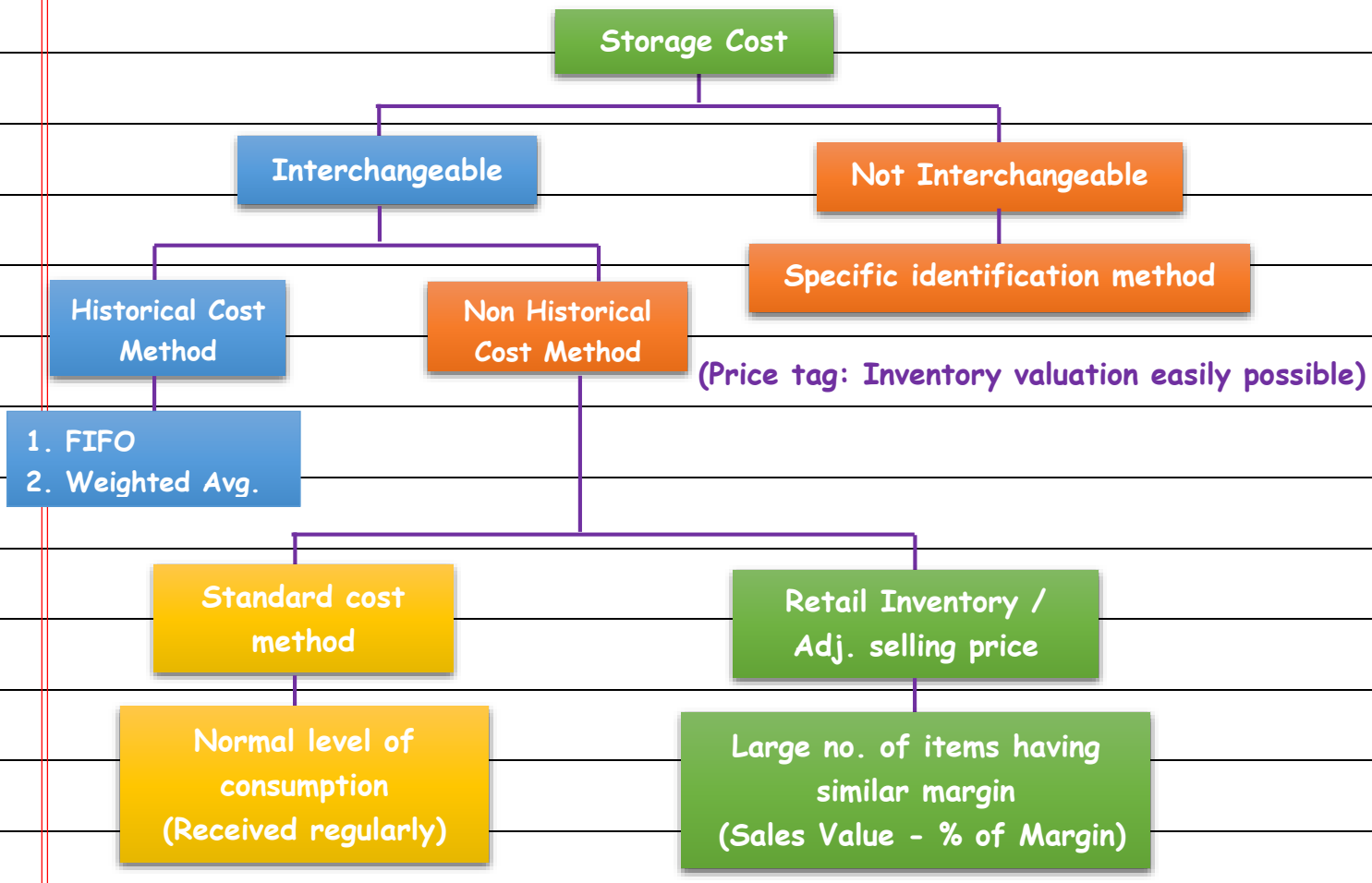
[d] Joint cost & By Product

- If immaterial deducted from cost
- If material by product treated as joint product

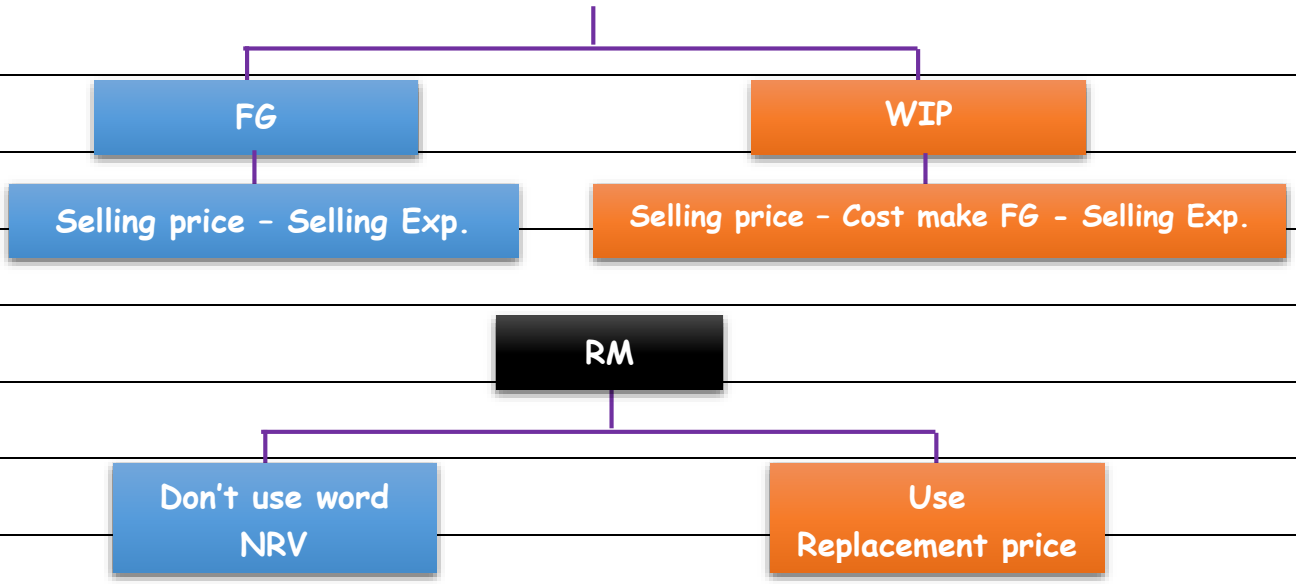
Sales value @ split off

Always recorded @ NRV

CONCEPT 5 : COST FORMULAE



CONCEPT 6 : NRV



e.g. RM purchase price Rs.10

RM current price Rs.9

FG

RM + Conversion cost = FG (Cost)

10 + 20 = 30 Cost

Option I	Option II
FG NRV = 32	FG NRV = 27
As FG cost < NRV	FG cost > NRV
RM = Cost = Rs.10	RM = Replacement Price = Rs.9

CONCEPT 7 : DISCLOSURES

[1] Accounting policy adopted (Cost Formulae)

[2] Carrying amount (together with classification)