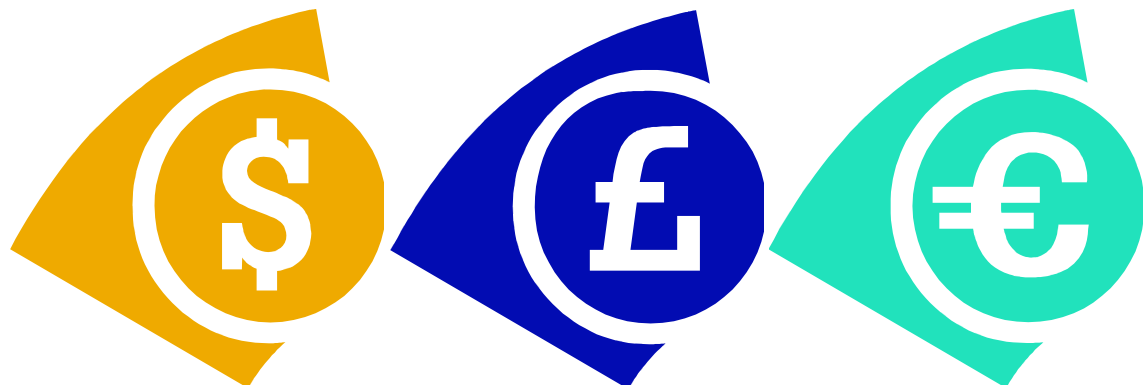


A Summary of International Financial Reporting Standards and International Accounting Standards



by

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for



A Summary of IFRS and IAS

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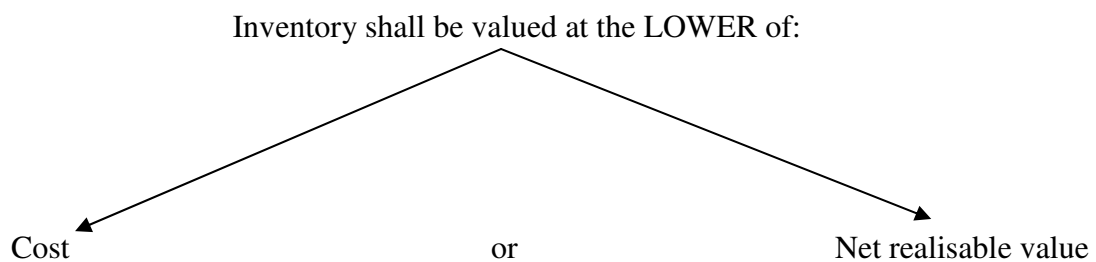
IAS 2

Inventory

OBJECTIVE

IAS 2 prescribes the accounting treatment for inventories.

In summary, IAS 2 says the following:



Cost

IAS 2 states that 'cost' should comprise:

- the cost of purchase;
- the costs of conversion; and
- other costs.

'Other costs' should only be recognised as those costs that have been incurred in bringing the inventories to their present location and condition.

Valuation

IAS 2 prescribes two possible valuation methods for inventories. An entity can adopt either:

- the first-in first-out basis (FIFO); or
- a weighted average basis.

Entities are not permitted to use a last-in first-out (LIFO) basis of valuation.

Net Realisable Value

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

Illustration

Kai Inc imports chemical products from overseas and the reporting date is 31 December 2008. At that date Kai undertakes an inventory count where inventory has been valued at the lower of cost or net realisable value in accordance with IAS 2. It has extracted details of the following chemical products as follows:

Product Number	Cost	NRV	Valuation
	\$	\$	\$
556-009CCV	200.00	450.00	270.00
556-010CCV	150.00	340.00	150.00
556-011CCV	200.00	120.00	200.00

The first product valuation includes an element of administrative salaries because this product is highly valuable and involves a lot of extra administration work.

The second product appears to be fairly stated.

The third product is obsolete and management deem the net realisable to be nil.

Required

Based on the information above, determine the revised product values (where applicable) that should be included within the inventory valuation of Kai Inc as at 31 December 2008.

Solution

Product Number	Cost	NRV	Valuation
	\$	\$	\$
556-009CCV	200.00	450.00	200.00 (W1)
556-010CCV	150.00	340.00	150.00
556-011CCV	200.00	nil	nil (W2)

W1

The administrative salary needs to be deducted because IAS 2 specifically states that general administrative overheads should be excluded from the costs of inventory valuation.

W2

Management's assessment is that the saleable value of this product is nil and this product needs to be written down to nil in order to accord with IAS 2 lower of cost or net realisable value principles.