

# *Inventory Valuation*

# What is Inventory?

## Inventory – As per IAS 2

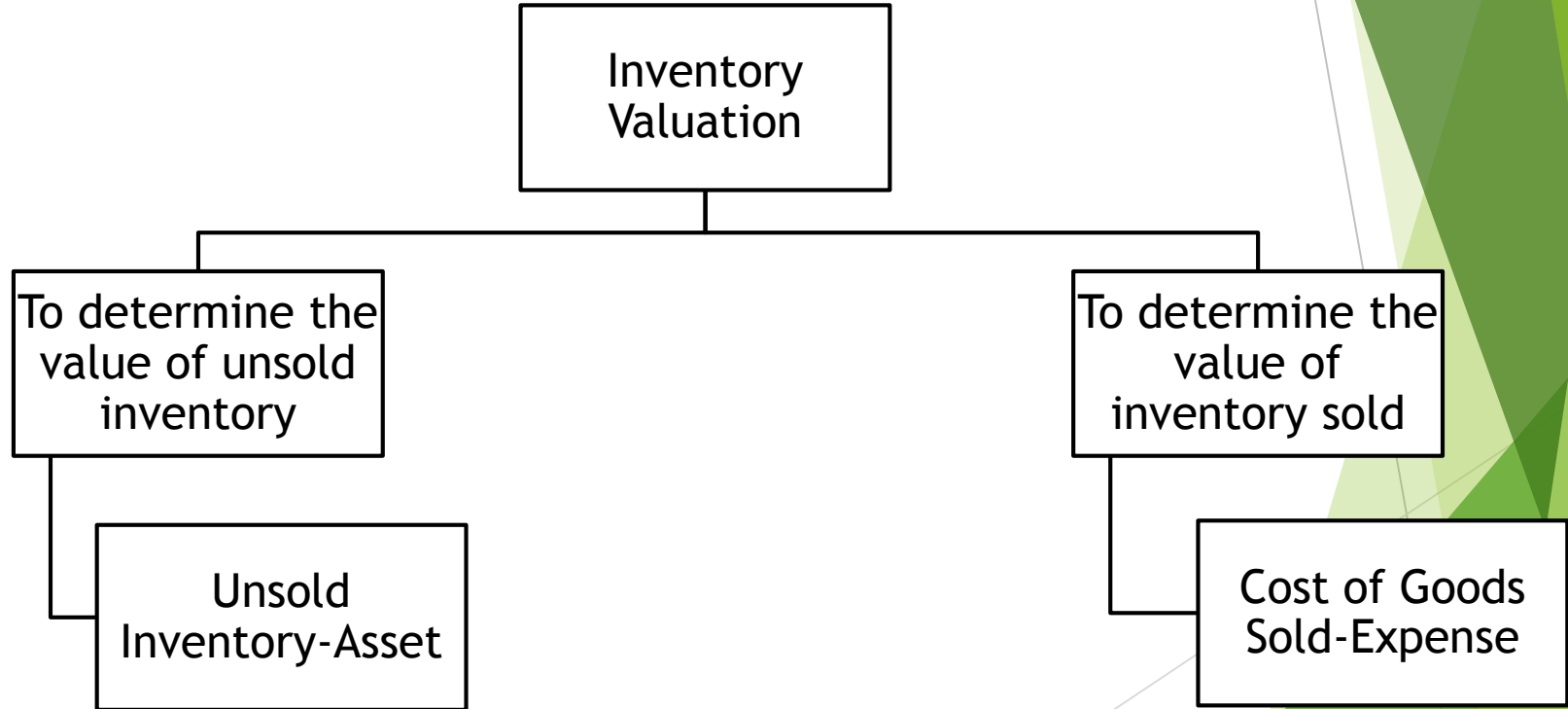
```
graph TD; A["Inventory –  
As per IAS 2"] --- B["Held for sale in the  
ordinary course of  
business-Merchandise or  
finished goods"]; A --- C["In the process of  
production of  
such sale-Work-  
in-process"]; A --- D["In the form of material  
or supplies to be  
consumed in the  
production process or  
in the rendering of  
services-Raw Material"];
```

Held for sale in the  
ordinary course of  
business-**Merchandise or  
finished goods**

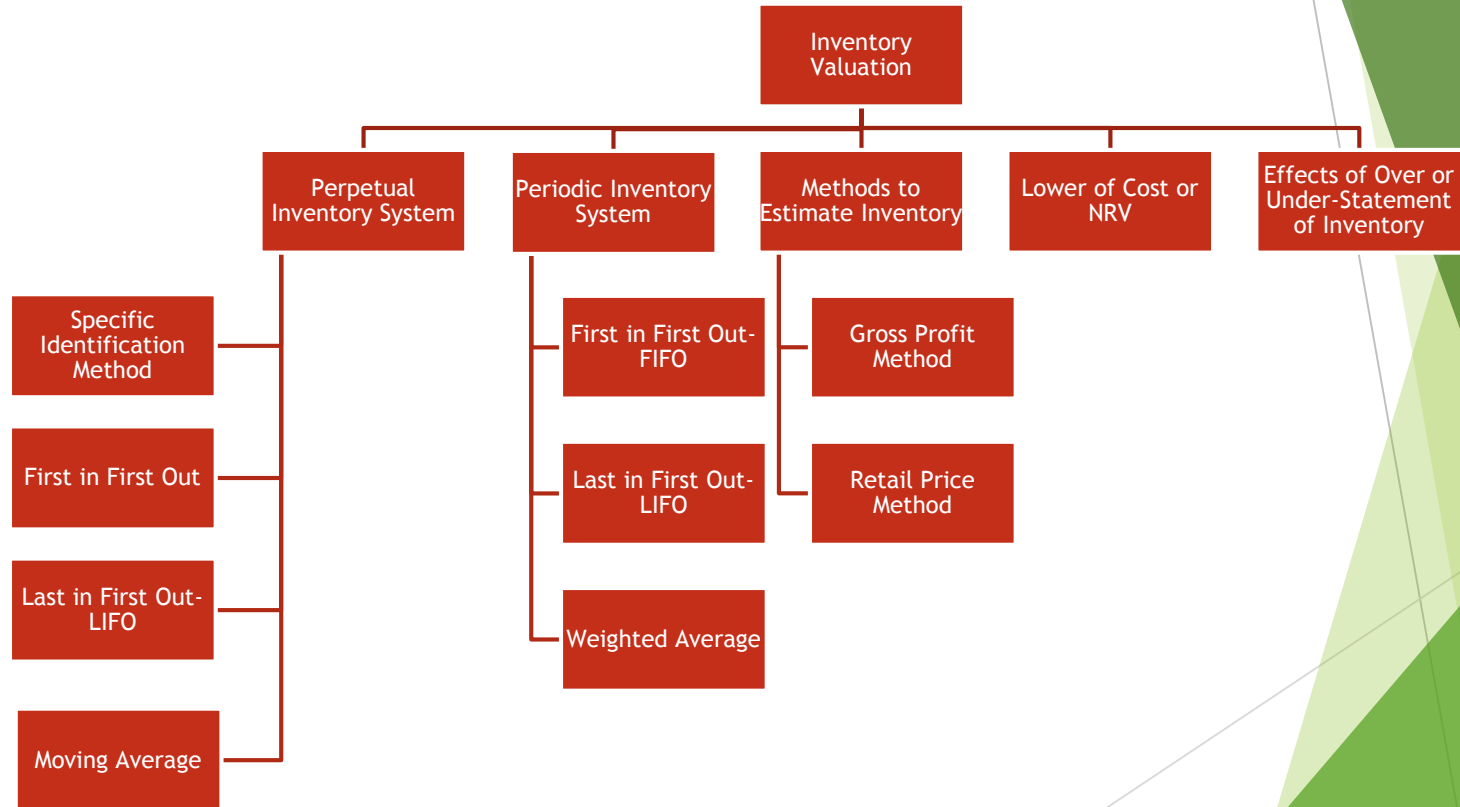
In the process of  
production of  
such sale-**Work-  
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in the rendering of  
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**Inventory Valuation**-*The process of determining the value of inventory to be reported in the financial statement*



# Inventory Valuation Systems and Methods



# *Cost of Inventory*

## **Includes**

1. All costs incurred in bringing inventory to its present location and condition
2. Purchase price (Less trade discounts, rebates, duty drawbacks etc.)
3. Irrecoverable taxes
4. Freight Inwards
5. Handling and other costs directly attributable to the acquisition
6. Costs of conversion in finished goods i.e. direct labor and fixed and systematically allocated fixed and variable overhead

## **Does not Include**

1. Abnormal Waste
2. Storage Costs
3. Administrative Overheads unrelated to production
4. Selling costs
5. Foreign Exchange Differences
6. Interest cost for deferred payments
7. Recoverable taxes

# *Net Realizable Value-NRV*

**Net Realizable Value(NRV) is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make a sale.**

- 1. Estimated Selling Price**
- 2. Estimated Costs of Completion**
- 3. Estimated Costs Necessary to Make a Sale**

# Inventory Valuation-Basic Rule-Lower of Cost or NRV

**Inventory must be measured in the financial statements at *Lower of Cost or NRV***

## **Steps:**

- 1. Compute cost of inventory**
- 2. Compute NRV**
- 3. Compare cost and NRV and select the lower.**
- 4. If NRV is lower, record NRV loss and bring inventory down to NRV.**
- 5. If cost is lower, retain inventory at cost.**

## Reasons of Lower NRV

**Inventory must be measured in the financial statements at *Lower of Cost or NRV***

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