Topic : AS-2

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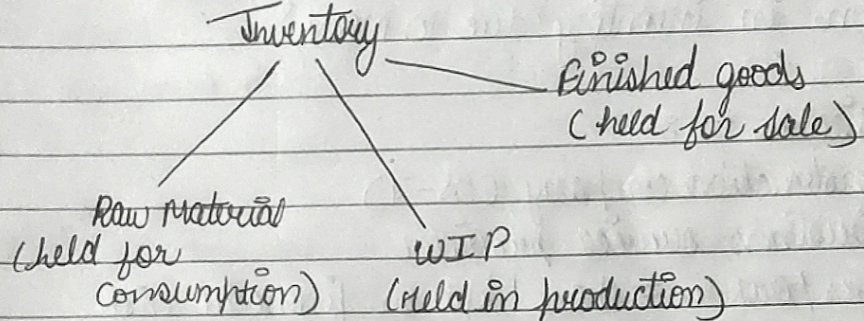
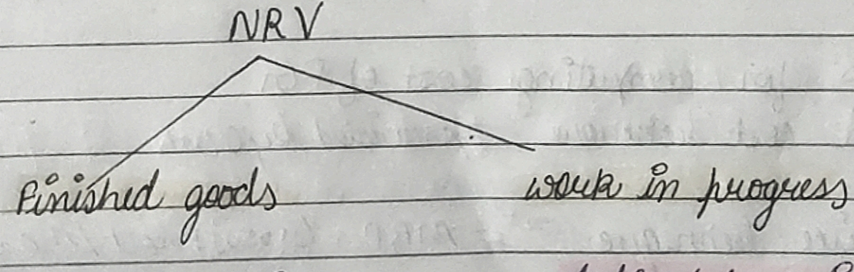
Accounting standard - 2

⇒ AS define inventory as assets held
- for sale in the ordinary course of business
- In the process of production for such sale
- for consumption in production of goods or services for sale.



Note : If spare used for general then its inventory, but if used for special message (fixed asset) then it termed as fixed asset.

⇒ valuation of inventory
work in progress / finished goods = cost price or NRV (whichever is lower)



Finished goods	work in progress
Estimated selling price	Estimated price
(−) Estimated selling expenses	(−) Estimated cost of completion
	(−) Estimate selling expenses
NRV	NRV

⇒ Factory cost (Both direct or indirect) nikalna fir ma cost nikalegi, usse cost nikalegi

cost of purchase

Purchase + Taxes or duties (ITC Not available) + cost directly attributable — Trade discount.

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note: (a) cash discount not reduced

(b) Refund any amt from 3rd party also not included.

(c) Expenditure directly attributable

↳ eg: Transportation cost, commission on Purchase.

⇒ It give guidance on:-

- computation of inventory value - cost formula
- write down in inventory due to NRV

⇒ AS-2 not applicable on:-

- WIP of construction company (AS-7)
- WIP of a business service provider
- share traders / Broker = share / debt or financial inst
- livestock, agricultural & forest produce
- Mineral oil, ores & gases.

⇒ we took lower of NRV or cost because of principle of prudence / conservatism.

↳ DO not anticipate provide but provide for all future loss.

⇒ Techniques for computing cost of FG

1° standard cost technique - provided by CMA

2° Retail price technique cost = MRP - Gross Profit / margin

3° calculation of cost

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⇒ Proportionate : unitary method

Raw material consumed	XXX
labour cost	XXX
Direct expense	XXX
Factory variable OH	XXX
fixed OH	XXX
	XXX
(–) scrap	XXX
(–) By product	Cost

Fixed factory cost = Total fixed factory cost
A or B (whichever is higher)

A → Actual Production
B → Normal capacity

Eg :- FFC = 19,00,000
Actual production = 1,00,000
Normal capacity = 1,20,000

Fixed factory OH / Absorption Rate per unit = 19,00,000 / 1,20,000 = ₹10/unit

[concept of prudence (WIP whichever is lower) if in this Question stock is higher, result in decreasing of cost, then closing stock decrease, profit will be decreasing]

⇒ no accounting treatment of normal loss, due to this cost increased.

CPU = material cost − scrap (normal loss) / unit purchased − Normal loss.

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Example 6 units purchased : 200 @ 40/unit
NL : 10%
unit sold : 155
Abnormal loss : 15
closing stock : 10

$\frac{8000}{180} = 44.45$

value of closing stock = 44.45 × 10 = 444.5
value of Abnormal loss = 44.45 × 15 = 666.6

⇒ Following are not include in cost
* selling and distribution expenses
* Abnormal loss
* Interest / finance expenses (unless allowed by AS-16)
* General adm OH / administration OH
* Storage cost & finished goods tayaar hone ke baad.

⇒ Raw material is not held for sale, thats why NRV is not impossible.
Generally, Raw material is always valued at CP.

⇒ Exception of Raw material at cost
Raw material which is used for finished goods, if finished goods below cost / NRV / Replacement value which is less than Raw material will be reduced at NRV or cost whichever is less.

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⇒ Allocation of joint cost

If common input cost (joint cost) is incurred for multiple outputs in a joint process then allocation of join cost over the multiple outputs will be required for the separate valuation of each product. As per the provision of AS-2, allocation of joint cost over the multiple outputs shall be made in the ratio of "sales value of separation point" of each output.

sales value at separation point: output produced of each × sales value per unit at each separation point output of separation unit.

⇒ Treatment of "By product"

As per the provision of AS 2, it may be possible that some by product is produced in joint process along with main. In the given case, we will compute "NRV" for such by product and the computed NRV will be deducted from "joint cost"

Net joint cost = total joint cost − NRV of By product

⇒ valuation of stock of defective goods

Defective goods or damaged goods means item of stock which can not be sold at market price of new items these item are generally sold at price below cost. Hence, NRV of such damaged stock is always lower than cost. Damaged stock is valued at NRV.