IND AS 2

J P Chawla & Co. LLP

Chartered Accountants

Taxation | Audit | Outsourcing | Regulatory | Transaction Advisory | Consultancy Services

FOREWORD

The Ind AS are converged IFRS standards, which have been introduced to standardize the way Indian companies report their financial information to various stake holders.

Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty-nine Indian Accounting Standards converged with International Financial Reporting Standards are (henceforth called IND AS) are currently notified by the Ministry. These are: IND ASs 1, 2, 7, 8, 10, 12, 16, 19, 20, 21, 23, 24, 27, 28, 29, 32, 33, 34, 36, 37, 38, 40,41, 101, 102, 103, 104, 105, 106, 107, 108, 109, 110,111,112,113,114,115, 116.

Companies follow Ind AS either Voluntarily or Mandatorily. Once a company follows Indian AS, either mandatorily or voluntarily, it cannot revert to old method of Accounting.The Mandatory Applicability from Accounting Period beginning on or after 1 April 2017 is for :

- Every Listed Company or company in process of being listed.
- Unlisted Companies with Net worth greater than or equal to Rs. 250 crore (2.5 billion)

The Ministry of Corporate Affairs has implemented the IFRS converged Indian Accounting Standards in a phased manner after various issues including tax related issues have been resolved with the concerned departments.

We have prepared a simple analysis for below mentioned Ind AS for your ready reference which can act as ready-reckoner for your day to day use.

Hope you enjoy reading our Analysis.

Happy reading!!

Team J P Chawla & Co. LLP

Rajat Chawla

He is a Fellow member of the Institute of Chartered Accountants of India. He is also a C.P.A; Certified Public Accountant from The American Institute of Certified Public Accountants, United States of America. He is also a commerce honours graduate from Delhi University, Delhi, India. He is also a Certified Information System Auditor (C.I.S.A) and a member of Information system Audit and Control Association, United States of America.

His area of expertise includes Audit and Assurance, International Taxation ,Transfer Pricing, International business advisory, Valuations, FEMA/ RBI advisory, Goods & Service tax (GST), Merger and Acquisitions, Management consultancy, Due Diligence, Information system audit and development, reporting under US GAAP and IFRS, Accounting process improvement, Business process outsourcing, Knowledge process outsourcing and Business process off shoring.

He has been a regular speaker at various forums on various topics related to Tax, finance and commerce. He has also contributed in various tax publications as author / co-author. He has also co-authored two books on transfer pricing, published by Lexis – Nexis and Taxmann respectively.

Mohit Dixit

He is a member of the Institute of Chartered Accountants of India and he is also a commerce honours graduate from Delhi University.

He is having 5 + years of experience in the area of statutory audits, internal audits, assurance & Transaction Advisory related engagements in industries such as manufacturing, retail, infrastructure, information technology, e-commerce, banking, telecommunication, health and aviation sectors.

His area of expertise includes Indian GAAP and IND AS Advisory, Management accounting, outsourcing, audit & assurance, financial reporting and valuation.

Ind AS-2 Inventories

What are Inventories?

Inventories are assets:

- held for sale in the ordinary course of business (Finished Goods or Traded Goods)
- in the process of production for such sale (WIP) or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services (Raw material).

A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised.

Why Ind AS 2?

Ind AS 2

- Prescribes the accounting treatment for inventories.
- Deals with the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value.
- Provides guidance on the cost formulas that are used to assign costs to inventories.

Non Applicability of Ind AS-2

Ind AS 2 applies to all inventories, **except:**

a) Financial instruments (Ind AS 32)

b) Biological assets and agricultural produce at the point of harvest (Ind AS 41)

Net Realisable Value	Fair Value
Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Measurement of inventories

Inventories shall be measured at the lower of Cost and Net Realisable Value.

Cost of inventories

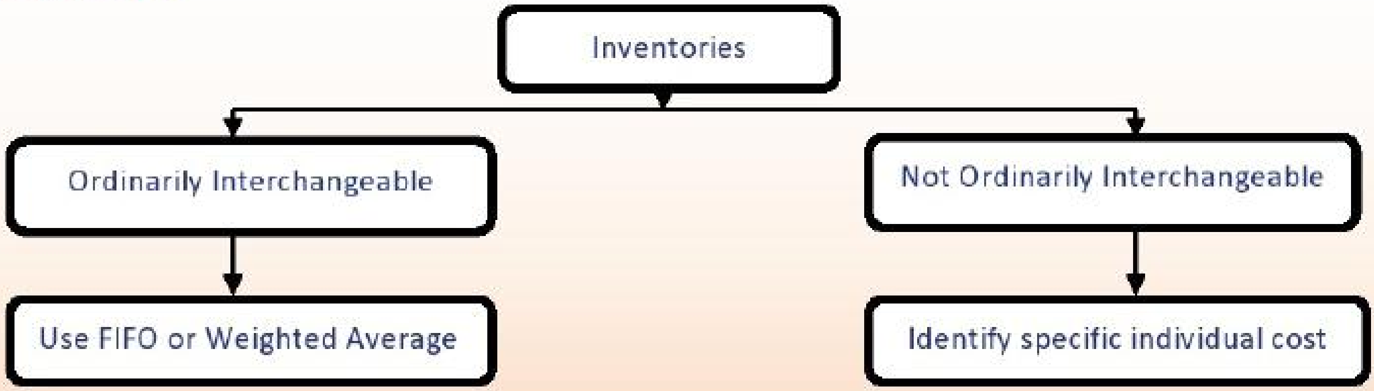
The cost of inventories shall comprise:

Costs of Purchase	Costs directly attributable to the acquisition of finished goods, materials and services less Trade discounts, rebates.
Costs of Conversion	Costs directly related to the units of production including a systematic allocation of fixed and variable production overheads.
Other Costs	cost only to the extent that they are incurred in bringing the inventories to its present location and condition including Borrowing Cost (Ind AS 23)

Costs excluded from the cost of inventories

- Abnormal amounts of wasted materials, labour or other production costs
- Storage costs, unless those costs are necessary in the production process before a further production stage
- Administrative overheads that do not contribute to bringing inventories to their present location and condition and
- Selling costs

Cost Formulas



Note:
An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. However, a difference in geographical location of inventories (or in the respective tax rules), is not sufficient to justify the use of different cost formulas. e.g. inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment.

Recognition as an expense

When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price.

If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

Disclosure

The financial statements shall disclose:

- the accounting policies adopted in measuring inventories, including the cost formula used
- the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity
- the carrying amount of inventories carried at fair value less costs to sell
- the amount of inventories recognised as an expense during the period
- the amount of any write-down of inventories recognised as an expense in the period
- the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognized as expense in the period
- the circumstances or events that led to the reversal of a write-down of inventories and
- the carrying amount of inventories pledged as security for liabilities.

Dear Valuable Client / Colleague,

In case you require any further detailed analysis on above mentioned content, please do get back to us and we shall be happy to provide you the same.

With Best Regards,

Team JPC

About JPC

JPC is a professional services firm based in Noida- National Capital Region and New Delhi, India. We were established in the year 1974 with the aim to create value for our clients by delivering quality, comprehensive, timely, practical and innovative services. We offer a comprehensive range of services, including taxation services, regulatory services, transaction advisory services, financial & management consultancy services, assurance & risk services, and outsourcing services. Over the past several decades, we have established significant competitive presence in the country. Our vast and diversified client base includes Multinational enterprises, domestic companies, high net worth individuals, government companies and institutions in all leading industry verticals. We are a team of distinguished Chartered Accountants, Management Accountants, Corporate Financial Advisors and Tax Consultants. Our team has the requisite skills and experience to provide complex business, financial, assurance, tax and regulatory services to our clients. Our strength lies in our timely performance-based, industry-tailored and technology-enabled services which are delivered by some of the most talented professionals in the country. For more information about JPC's service offerings, visit www.jpc.co.in

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