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# COMPARISON OF ACCOUNTING STANDARD AND INTERNATIONAL FINANCIAL REPORTING STANDARD ON INVENTORIES

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## MEANING OF ACCOUNTING STANDARD

Accounting standards are written policy documents issued by expert accounting body or by Government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.

An **accounting standard** is a guideline for financial **accounting**, such as how a firm prepares and presents its business income and expense, assets and liabilities. The Generally Accepted **Accounting** Principles is comprised of a large group of individual **accounting standards**

## MEANING OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

(IFRS) is a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board (IASB). The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting

## OBJECTIVE

1) To find out difference between Accounting standard and International Accounying standard on inventories.

2) To determine the value of inventory under Indian Accounting Standard and International Accounting Standard.

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**MEANING OF INVENTORIES**:

Inventories are assets that are:

1) Held for sale in normal course of business- Finished Goods OR
2) In the process of production- Work In Progress OR
3) Held for consumption in the production of goods or rendering of services- Raw material

**Comparison of Accounting Standard and International Financial Reporting standard on Inventories**

| Basis | AS-2 | IAS-2 |
|---|---|---|
| Title | Valuation of inventories | Valuation and presentation of inventoriesin the context of historical cost system |
| Applicability to commodity trader beokers | Applicable | Not applicable to commodity trader brokers |
| Scope | Narrow | Broader |
| Formula used | 1. Standard Cost<br>2. Adjusting Selling price<br>3. Average cost | 1. Weighted Average cost<br>2. Next in first out |
| Valuation | Lower of cost or net realizable value with certain exception to this value. | Lower of cost or net realizable value |
| Historical cost of manufactured goods | 1. Direct Method<br>2. Absorption Costing | Absorption costing only which requires specifically disclosure of carrying amount of inventories at net realizable values. |
| Classification of inventory | Inventories need to be classified as:<br>Raw material, Work in Progress, Finished Goods, Stores and spares, Loose tools and others | No specific classification requirements- classification should be appropriate to the entity |

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| | | |
|---|---|---|
| Cost formula | Not compulsory to use same same cost formula constantly for all inventoriesthat have a similar antureand use to the entity. | Same cost formula should be used for all types of inventories. |
| Exclusions | Agricultural and forest products,mineral oils and gaseswip arising under construction contracts | Biological assets related to agricultural activity and agricultural produce after harvest. |

**MEANING OF COST**

**Cost includes**: Purchase price ***

Add: Taxes on Purchase ***

Less: Purchase expense ***

**MEANING OF NRV( Net realizable Value):**

Estimated selling Price ***

Less: Estimated selling Expenses ***

Less: Estimated Cost of Completion ***

**COMPUTATION OF COST OF INVENTORY WITH EXAMPLE.**

AP ltd. Ordered 16000 kgs of material at rs. 160 per unit. The purchase price includes excise duty rs.10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to rs.140160. Normal transit loss is 2%. The company actually received 15500 kgs and consumed 13600 kg of material. Cost of inventory will be computed as follow:

Computation: Rs.

Purchase price (16000kg *160rs.) = 2560000

Less: CENVAT credit (16000kg*10Rs.)= (160000)

2400000

Add: Freight 140160

Total material cost 2540160

Number of units after normal loss= 16000 kg *98%= 15680 kg

Revised cost per kg= 2540160/15680kg= Rs 162

Closing Inventory= Material actually received- material consumed

= 15500 kg- 13600 kg= 1900 kg

Value of closing stock= 1900 *162Rs= Rs. 307800

Abnormal Loss in Kg= 15680kg-15500 kg= 180 kg

Abnormal loss in value= 180 kg * 162rs=Rs. 29160

**OBSERVATIONS AND CONCLUSION**

1) Inventories are valued at lower of cost or net realizable value
2) Cost formula used for valuation of inventories of all type used should be same as per international accounting standard.
3) For valuation of historical cost of manufacturing goods absorption costing should be used.

**DISCLAIMER**

This paper has been compiled based upon documents and information available in public domain. Anybody wishing to act on the basis of this paper should do so only after cross checking with original document. We do not present any opinion on any matter whatsoever and matters expressed herein should not be taken as directive or opinion for any reason. We have tried to highlight the significant changes.

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