

Accounting for Local Bodies
B.Com. Hons. in Accounting
Semester-VI
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Unit 5: Accounting Standards for Local Bodies (ASLB)

ASLB 12 - Inventories

1. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale.
2. Inventories in the local bodies may include:
 - (a) Consumable stores;
 - (b) Maintenance materials;
 - (c) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment;
 - (d) Work-in-progress, including educational/training course materials; and
 - (e) Land/property held for sale.

Measurement of Inventories

1. Inventories should be measured at the lower of cost and net realisable value, except where paragraph 2 or paragraph 3 applies.
2. Where inventories are acquired through a non-exchange transaction, their cost should be measured at their fair value as at the date of acquisition. Provided a Local Body falling in Level II may not measure an inventory acquired through non-exchange transaction at fair value and may measure the same at nominal value of Re. 1.
3. Inventories should be measured at the lower of cost and current replacement cost where they are held for:
 - (a) Distribution at no charge or for a nominal charge; or
 - (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Cost of Inventories

The cost of inventories should comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Costs of Purchase

The costs of purchase of inventories comprise (a) the purchase price, (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and (c) transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and supplies. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.

Costs of Conversion

The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

Other Costs

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Cost of Inventories of a Service Provider

The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included, but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.

Techniques for the Measurement of Cost

Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency, and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

Cost Formulas

The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, should be assigned by using specific identification of their individual costs.

Net Realisable Value

Net realisable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Disclosure

The financial statements should disclose:

- (a) The accounting policies adopted in measuring inventories, including the cost formula used;
- (b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
- (c) The carrying amount of inventories carried at fair value less costs to sell;
- (d) The amount of inventories recognised as an expense during the period;
- (e) The amount of any write-down of inventories recognised as an expense in the period
- (f) The amount of any reversal of any writedown that is recognised in the statement of income and expenditure in the period;
- (g) The circumstances or events that led to the reversal of a writedown of inventories and
- (h) The carrying amount of inventories pledged as security for liabilities.

References:

<https://shodhganga.inflibnet.ac.in/>

<https://resource.cdn.icai.org/>