

Objective

IAS 2 outlines how to account for inventories. The main goal is to ensure inventories are stated at the lower of cost and net realizable value (NRV).

Company Goal

Inventory ↑
COS ↓

Cost Formulas

First-In, First-Out (FIFO):

Assumes oldest inventory items are sold first.

Weighted Average Cost:

Cost of inventory is based on the average cost of all similar items.

Specific Identification:



Used for unique, non-interchangeable items (e.g., custom products).

Disclosures

Entities must disclose:

- Accounting policies for inventories.
- Total carrying amount of inventories.
- Amount of inventory recognized as expense (cost of sales).
- Any write-downs or reversals of write-downs.

Financial Line Items

- Inventory (BS) 
- COS (IS) 

Definitions

Inventories:

Assets held for sale, in production for sale, or as materials/supplies for production.

Cost:

Includes purchase cost, conversion costs (labor, overhead), and other costs to bring the inventory to its present condition.

Net Realizable Value (NRV):

Estimated selling price in the normal course of business minus the estimated costs of completion and selling.

Measurement

- Inventories are initially measured at cost.
- Subsequently, inventories are measured at the lower of cost and NRV:
 - If $NRV < Cost$, the inventory is written down.
 - Write-downs can be reversed if the circumstances change.

