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FAKULTA FINANCÍ A ÚČETNICTVÍ

VŠE

Inventory

EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
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MINISTERSTVO ŠKOLSTVÍ, MLÁDEŽE A TĚLOVÝCHOVY

1FU59x Intermediate Accounting: Presentation

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IAS 2	IAS 41	IFRS 15
• A general guidance on inventory • Scope: purchased inventory (material, merchandise); produced inventory (products, work-in-progress); commodities held by trade-brokers (except for measurement) • Measurement principle: lower of cost or net realisable value	• Specific treatment of agriculture • Scope: biological assets and agriculture production at the point of harvest • Measurement principle: fair value less cost to sell	• Specific treatment of assets arising under contracts with customers if performance obligation is satisfied over a time • Contract asset/liability includes the measurement of work-in-progress • Measurement principle: cost plus portion of expected profit

1 IAS 2 Inventory

- Inventories are assets:
  - held for sale in the ordinary course of business;
  - in the process of production for such sale
  - in the form of materials or supplies to be consumed in the production process or in the rendering of services
- Inventories shall be measured at the lower of cost and net realisable 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
- The cost of inventories shall comprise all costs of purchase, costs of conversion and other

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costs incurred in bringing the inventories to their present location and condition

1.1 Costs of purchase

- Comprise the purchase price, import duties and other taxes not subsequently recoverable by the entity from the taxing authorities, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services

- Trade discounts, rebates and other similar items are deducted in determining the costs of purchase

1.2 Costs of conversion

- Costs directly related to the units of production, such as direct labour
- A systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods
- Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production (such as depreciation and maintenance of factory buildings and equipment)
- Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production (such as indirect materials and indirect labour)
- The allocation of fixed production overheads to the costs of conversion is based on the

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normal capacity of the production facilities, which is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance

- Costs of conversion include borrowing costs if condition of IAS 23 are met
- Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:
  - 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

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- selling costs

1.3 Cost formulas

- The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs
- The cost of inventories that are not ordinarily interchangeable shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula
- 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

1.4 Inventory expensing

- 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 realisable 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 recognised as an expense in the period in which the reversal occurs

2 IAS 41 Agriculture

- The standard is applied to account for the following assets when they relate to agricultural activity:
  - biological assets, except for bearer plants
  - agricultural produce at the point of harvest
  - government grants related to agriculture
- The standard is not relevant for:
  - land related to agricultural activity → IAS 16 and IAS 40
  - bearer plants related to agricultural activity → IAS 16 (however, IAS 41 applies to the produce on those bearer plants)

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- government grants related to bearer plants → IAS 20
- intangible assets related to agricultural activity → IAS 38

- Definitions:
  - biological asset is a living animal or plant
  - agricultural produce is the harvested produce of the entity’s biological assets
  - harvest is the detachment of produce from a biological asset or the cessation of a biological asset’s life processes
  - A bearer plant is a living plant that is used in the production or supply of agricultural produce and is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales

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- An entity shall recognise a biological asset or agricultural produce when, and only when:
  - the entity controls the asset as a result of past events
  - it is probable that future economic benefits associated with the asset will flow to the entity
  - the fair value or cost of the asset can be measured reliably
- Measurement:
  - a biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case where the fair value cannot be measured reliably
  - there is a presumption that fair value can be measured reliably for a biological asset; however, that presumption can be rebutted only on initial recognition for a biological

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asset for which quoted market prices are not available and for which alternative fair value measurements are determined to be clearly unreliable

- agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest; such measurement is the cost at that date when applying IAS 2 Inventories or another applicable standard
- a gain or loss arising on initial recognition of a biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset shall be included in profit or loss for the period in which it arises

- Government grants:
  - an unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the

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government grant becomes receivable

- if a government grant related to a biological asset measured at its fair value less costs to sell is conditional, including when a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss when, and only when, the conditions attaching to the government grant are met