# IAS 2: INVENTORY

In April 2001 the International Accounting Standards Board (Board) adopted IAS 2 Inventories, which had originally been issued by the International Accounting Standards Committee in December 1993. IAS 2 Inventories replaced IAS 2 Valuation and Presentation of Inventories in the Context of the Historical Cost System (issued in October 1975). In December 2003 the Board issued a revised IAS 2 as part of its initial agenda of technical projects. The revised IAS 2 also incorporated the guidance contained in a related Interpretation (SIC-1 Consistency—Different Cost Formulas for Inventories).



IAS 2 defines inventory as:
Assets that are held for sale (i.e.finished
in-trade).

Assets that are still undergoing productio
(Work-in-progress)

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# Assets

Real Estate

Buildings - Assets
Non-current
Held for sale

Bund properties → to be sold
those assets are regarded
to as stock-in-trade

IAS 2 defines inventory as:

Assets that are held for sale (i.e.finished goods or stock-in-trade).

Assets that are still undergoing production process (Work-in-progress)

Assets that are in the form of materials or supplies that r... ss into finished goods e.g. raw materials

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Less:
Cost to sale

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Disclosure Requirement for Inventory

IAS 2 requires that the following disclosures must be made in the notes to the accounts:

The accounting policy used in measuring the inventories, including the cost measurement method adopted.

The total carrying value of inventories with proper classification e.g to a manufacturer, inventories are calssified as finished goods, work-in-progress or raw materials and for a retailer it is regarded to as stock-in-trade.

The amount of inventory carried at Net Realisable Value or NRV i.e.

| | |
|---|---|
| Sales | xx |
| Less: | |
| Cost to sale | xx |

The value of inventories that were written down and recognised as expenses during the financial period.

Details of any circumstances that led to the write-down of inventories to Net Realisable Value

The value of any reversal of any write-down that is recognised as a reduction in the value of inventories recognised as expense during the period and

The circumstances or events that led to the reversal of a write-down of inventories

Measurement rule

Measurement rule

IAS 2 requires that inventory must be measured in the financial statements at the lower of:

Cost, and
net realisable value (NRV)

What is cost of inventory?

Cost of inventory according to IAS 2 are all costs of purchase, conversion as well as other costs incurred in bringing the inventories to their current location and condition. The cost consists of the following:

the purchase price

import duties and other non-recoverable taxes (excluding recoverable sales tax)

Transport, handling and other costs that are directly attributable to the purchase e.g. carriage inwards

The purcase price excludes any settlement discounts, and it is seen as the cost incurred after the deduction of trade discount

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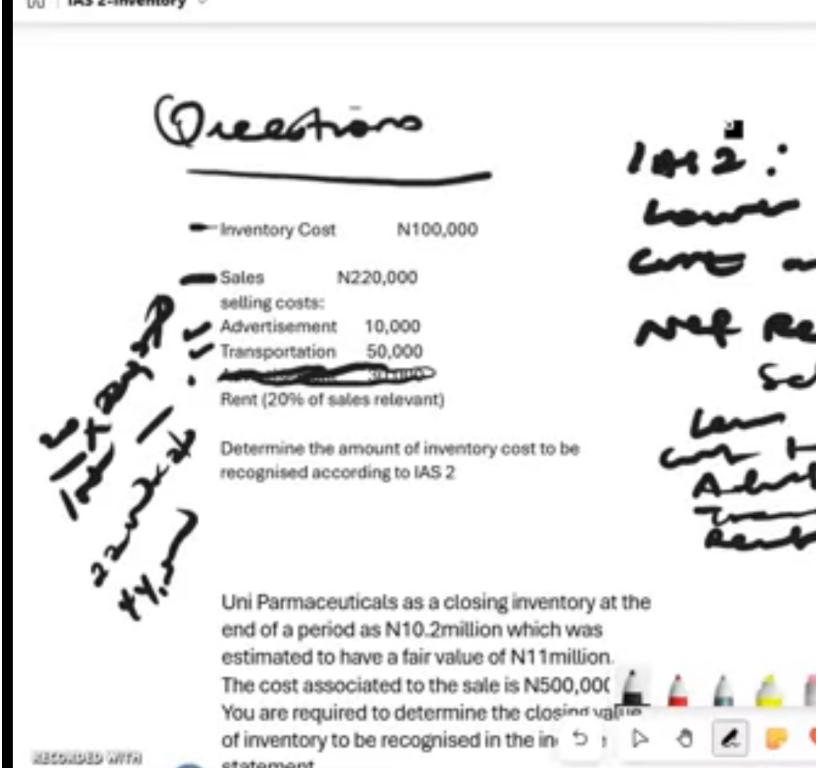



# Questions

| | |
|---|---|
| Inventory Cost | N100,000 |
| Sales | N220,000 |
| selling costs: | |
| Advertisement | 10,000 |
| Transportation | 50,000 |
| [illegible] | [illegible] |
| Rent (20% of sales relevant) | |

Determine the amount of inventory cost to be recognised according to IAS 2

Uni Parmaceuticals as a closing inventory at the end of a period as N10.2million which was estimated to have a fair value of N11million. The cost associated to the sale is N500,000 You are required to determine the closing value of inventory to be recognised in the in statement

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Solution

Cost

NRV:

The following is the Trial Balance of Patience is a virtue Limited as at 31st of December, 2024:

| | DR | CR |
|---|---|---|
| | N'000 | N'000 |
| Revenue | | 900,000 |
| Capital | | 400,000 |
| Earnings Retained | | 150,000 |
| Non-current assets | 300,000 | |
| Receivables | 180,000 | |
| Payables | | 120,000 |
| Inventory at Start | 200,000 | |
| Purchases | 650,000 | |
| Operating Expenses | 200,000 | |
| Cash balance | 410,000 | |
| Other income | | 370,000 |
| | 1,940,000 | 1,940,000 |

The inventory that was on hand as at 31st of December, 2025 amounted to N350,000 being the original cost of the inventory. However, it was estimated that this inventory can be sold for N420,000 after incurring selling cost of N120,000. The income tax for the year was estimated at N170,000.

1. Prepare the statement of profit or loss for the year ended 31st of December, 2024

Prepare the statement of financial positior

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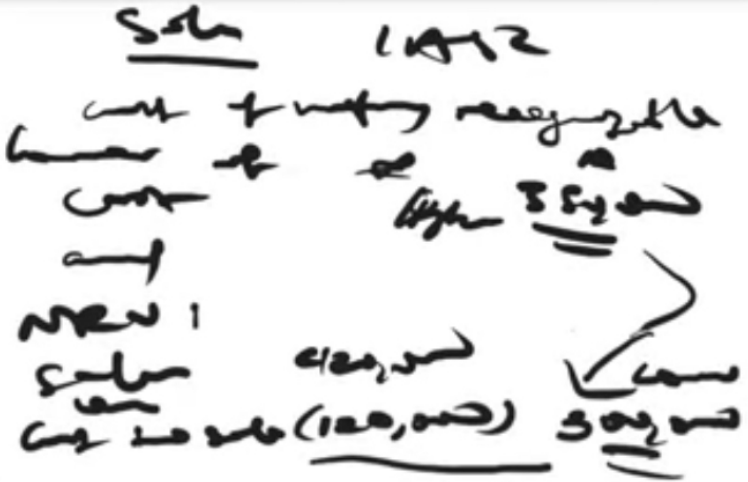

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|---|---|---|
| Operating Expenses | 230,000 | |
| Cash balance | 410,000 | |
| Other income | | 370,000 |
| | 1,940,000 | 1,940,000 |

The inventory that was on hand as at 31st of December, 2025 amounted to N350,000 being the original cost of the inventory. However, it was estimated that this inventory can be sold for N420,000 after incurring selling cost of N120,000. The income tax for the year was estimated at N170,000.

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Prepare the statement of financial position as at 31st of December, 2025



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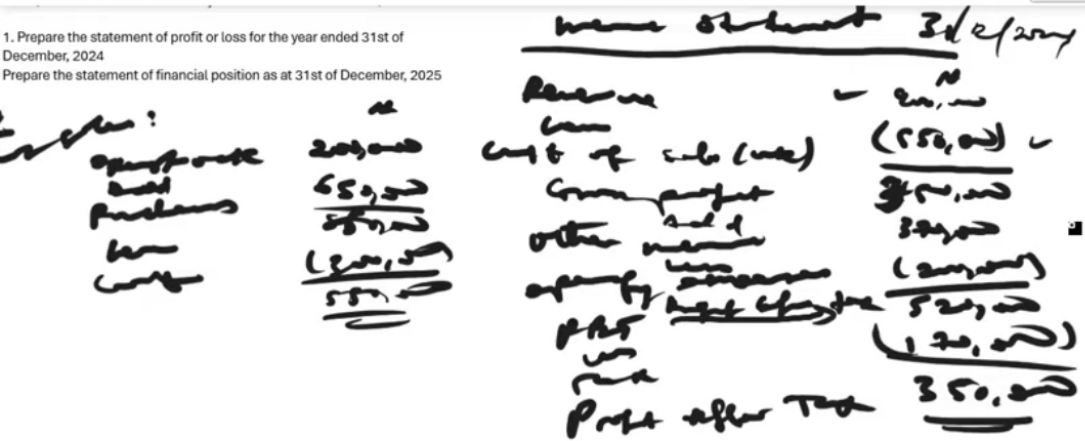
Prepare the statement of financial position as at 31st of December, 2025



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