Accounting Standards on Valuation of Inventories

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Introduction

Accounting standard is a written agreement issued by institution of accounting professions. The accounting standards are issued by Institution of Chartered Accountants of India (ICAI). The basic objectives of accounting standards are to be**Harmonies**diversified accounting policies and practices.It also provides framework for preparation of financial statements.Now accounting standards are replaced by Institution of Financial Reporting Standards (IFRS).

Objectives

1) To ascertain correct profit or loss.
2) To reduce uncertainty and increase overall efficiency in terms of finance.
3) Disclosure of true and fair financial position.
4) Calculation of claims for loss of stock.
5) To determine the value of consignment stock.
6) To determine the value of goods sold on sale or return basis.

Inventory

Inventory is an asset of the business which includes raw materials,goods are work in progress, and goods which are ready to sale. i.e.finished goods. An inventory consists of goods purchased and held for resale.

I. Inventory Management

Inventory management refers to the process of ordering,storing,controlling, and using of inventories.i.e.raw materials, components, and finished goods. In short inventory management means the overall management of inventory and stock.The inventory management make proper planning for what, where, how much and when to producing the goods**.** The basic objective of inventory management is to keep enough inventories to meet customer demand. Inventory must be insured. Because large inventory carries the risk of spoilage, theft, damage etc. Inventory management is important for reducing the all risks regarding of an inventories.

❖ **Advantages of Inventory management :-**

1) Inventory management helps to save cost and time.
2) Inventory management helps to increasing efficiency level of an organization.
3) Inventory management helps to Wholesalers, Retailers, and Distributors for organizing of warehouses.

❖ **Disadvantages of Inventory management :-**

1) Inventory management is a complicated process.
2) Inventory management is unable to remove all kinds of risks of business.

AS – 2 :- Valuation of Inventories :-

The ICAI issued this standard in June 1981 and it is applicable from 1 April, 1999. It gives guidelines regarding the value at which inventories should be valued.This standard prescribes the accounting treatment for inventories and sets the guidelines to determine the value at which the inventories are carried in the financial statements. An inventory valuation helps to every business for determining theactual value of every units which useful for making of inventories.Inventories are treated as an Asset of every business organization, and for preparing the true and accurate financial statementsevery business required to measurethe value of inventories properly. We can calculate the value of inventories by shortage of cost and net realizable value.If inventory is not valued systematically, then income and expenses of a company cannot be tallied and it may leads to incorrect business decisions.

Following are the major points for valuation of inventories.

a) Determination of cost of inventories.
b) Determination of net realizable value of inventory.
c) Comparison between the cost and net realizable values.

Applicability of Inventories :-

AS - 2 should be applied in accounting for all inventories except the following -

a) Work in progress under construction contracts
b) Work in progress of service industries

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c) Spare parts of machinery which are used as item of fixed assets
d) Shares, debentures, and other financial instruments held as stock in trade
e) Inventory of livestock , agricultural and forest products

Cost of conversion :-

According to AS – 2 the cost of conversion of inventories include –

a) Direct cost such as labour
b) Proportionate cost of fixed and variable overheads
c) Shortage cost
d) Selling and distribution cost
e) Other cost – such as administration overheads

Methods / Techniques of inventory management :-

AS -2 explains the different methods of accounting the inventory or closing stock which has a huge impact on the business revenue and the assets.

a) First in first out (FIFO)
b) Last in first out (LIFO)
c) Highest in first out (HIFO)
d) Weighted average cost method
e) Average cost method

First-in, first-out (FIFO)

The FIFO method of inventory costing assumes that the costs of the first goods purchased are those charged to cost of goods sold when the company actually sells goods. FIFO method assumes that the first purchasing goods may be first selling goods.The goods that purchased initially (First), it must be sold out immediately (First) for reducing the losses from theft, fire, spoilage, damage etc.Some perishable products like- dairy products, fruits, vegetables, etc must be sold out on a FIFO basis for earning expected profit and decreasing the percentage of loss.

Last-in, first-out (LIFO)

The LIFO method of inventory costing assumes that the costs of the most recent purchases are the first costs charged to cost of goods sold when the company actually sells the goods.

Research Methodology

In this research paper, the data is collected from secondary sources .This research paper is prepared by collecting secondary data and analyzing them for conclusions.

Conclusions

We have learned from this research that, how to calculate the actual value of inventory by using appropriate steps. We also learned the different methods of inventory management. We have learned in detail the concept of inventory management throughout this research paper and also learned the applicability and non-applicability of inventories.

Refrences:-

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