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THE COST OF INVENTORY ACCORDING TO IAS 2

The relevance. The fundamental questions of inventory control theory are all about determining the proper timing and size of replenishment, each particular problem may be notably different from another. Furthermore, real-world problems are diverse and replete with specialties and subtleties. It emphasizes importance of inventory accounting and control models, and sparks the high degree of interest to study them. These facts make it a daunting task to subsume and summarize the gargantuan spectrum of literature related to inventory control theory in one treatise.

General issues of inventory accounting reserves are highlighted in the works of well-known domestic and foreign economists (Li Chen, A. Gürhan Kök, & Jordan D. Tong, 2012; Kovalenko I. M., & Laktionova N. S., 2020; M. Rahimi, A. Baboli, & Y. Rekik, 2016; Khan, A., & Thomas J. K., 2007; Bhattacharya, H., 2021). However, a number of significant problems inventory accounting remains relevant and urgently needed item.

Results of the research. The conservative recordation of inventory values is important, because an overstated inventory could result in a business reporting significantly more assets than is really the case. This can be a concern when calculating the current ratio, which compares current assets to current liabilities. Lenders and creditors rely on the current ratio to evaluate the liquidity of a borrower, and so might incorrectly lend money based on an excessively high current ratio.

According to IAS 2 "Inventories", inventories are valued at the lower of the following two values: cost and net realizable value.

The cost of inventories according to IAS 2 includes (Fig. 1): acquisition costs; processing costs; other expenses.

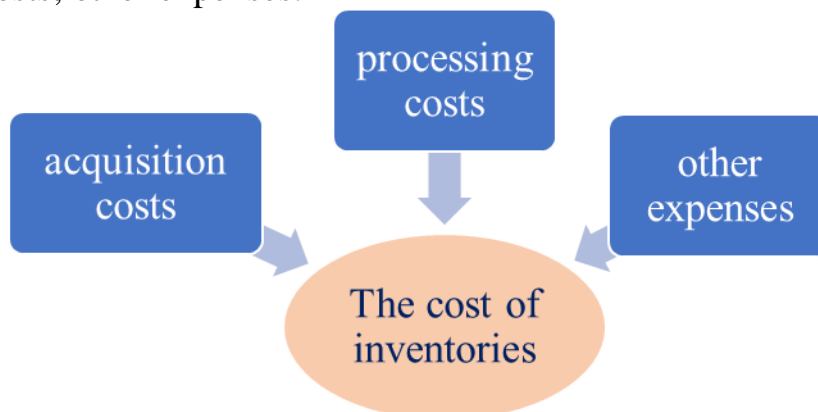


Figure 1 – The cost of inventories structure

Source: builded by authors

Acquisition costs, which consist of the purchase price, import duty and other taxes (except for those that are subsequently reimbursed to the enterprise by the tax authorities), as well as transportation, loading and unloading costs and other costs



associated with acquisition of stocks.

Processing costs include costs directly related to production units, in particular, production staff wages. They also involve a systematic distribution of constants and variables production overheads arising from the processing of materials into finished products. Fixed production overheads include those indirect costs of production that do not depend on changes in the volume of production, for example, depreciation, maintenance of buildings and equipment plant, as well as management and administrative expenses of the enterprise. Variable manufacturing overhead costs - production costs that change directly in proportion to changes in production volume, in particular costs of auxiliary materials and indirect costs of salary.

Other expenses incurred during the delivery of stocks to them appropriate location and bringing them to their current state. Such costs are included in the cost of inventory only to the extent necessary to deliver the inventory to the appropriate location and bring it to current state In particular, it may be appropriate to include non-manufacturing overhead costs or product design costs for specific contractors in the inventory cost.

Net realizable value is the estimated selling price in the ordinary course of business minus the estimated closing costs and the estimated costs necessary to complete the sale. Thus, the formula for net realizable value is as follows: Inventory market value - Costs to complete and sell goods = Net realizable value.

Conclusions. In conclusion, it should be noted that there is an ongoing need to examine the value of inventory to see if its recorded cost should be reduced, due to the negative impacts of such factors as damage, spoilage, obsolescence, and reduced demand from customers. Further, writing down inventory prevents a business from carrying forward any losses for recognition in a future period. Thus, the use of net realizable value is a way to enforce the conservative recordation of inventory asset values.

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