ACCA FINANCIAL ACCOUNTING DUMP SHEET

Inventories

Measurement (IAS 2)

- **Measurement rule:** lower of cost and NRV
- **NRV** $= \text{estimated selling price} - \text{cost of completion} - \text{selling costs}$
- **Cost of sales** $= \text{opening inventory} + \text{purchases} - \text{purchase returns} + \text{carriage in} - \text{closing inventory}$

What cost includes

Included in cost	Excluded from cost (expense immediately)
Purchase price	Abnormal waste of materials or labour
Import duties and non-recoverable taxes	Storage costs (unless required for the production process)
Transport and handling costs	Administrative overheads
Less: trade discounts and rebates	Selling costs
Direct labour (conversion costs)	
Factory/production overheads	

Cost formulas

IAS 2 permits **FIFO** and **AVCO** only; **LIFO is prohibited**

Method	Assumption	Effect of rising prices
FIFO (first in, first out)	Oldest inventory sold first; closing inventory at recent cost	Higher profit, higher closing inventory value
Periodic AVCO	One average cost calculated at period end: $\frac{\text{opening inventory cost} + \text{purchases cost}}{\text{opening inventory units} + \text{purchased units}}$	Smooths price fluctuations
Continuous AVCO	Average recalculated after *each* purchase	More accurate but complex