

## **Inventories**

1. Which of the following categories of assets can be recognized as inventories
  - a) assets held for sale in the ordinary course of business (finished goods).
  - b) assets being in the process of production for further sale (work in process).
  - c) assets in the form of production halls held by real estate agency for further resale.
  - d) assets expected to be used in >1 period.
  
2. Inventories should be measured at :
  - a) cost.
  - b) purchase price.
  - c) the lower of cost and estimated selling price less costs to complete and sell
  - d) the lower of cost and fair value less costs to complete and sell.
  
3. Cost of inventories is the sum of:
  - a) costs of purchase and costs of conversion.
  - b) direct costs, indirect costs and other costs (allocated production overheads).
  - c) costs of purchase, costs of conversion (e.g. allocated production of overheads) and other costs incurred in bringing the inventory to their present location and condition.
  - d) salaries of factory staff and storage costs necessary in the production process before a further production stage and selling costs.
  - e) abnormal amounts of wasted materials and selling costs.
  
4. Impairment test for inventories is carried out by:
  - a) comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and sell.
  - b) comparing the carrying amount of each item of inventory (or group of similar items) with its fair value.
  - c) comparing the carrying amount of each item of inventory (or group of similar items) with its recoverable amount.
  
5. When inventories are sold, the entity shall recognize the carrying amount of those inventories as:
  - a) an expense in the period in which the related revenue is recognized.
  - b) a revenue in the period in which the related expense is recognized.
  - c) an expense in the period in which the related receivable is paid off.
  - d) a revenue in the period in which the related payable is settled.

### Example 1: Estimate the cost of purchase

A retailer buys a good priced at CU 500 per unit. However, the supplier awards the retailer a 20 per cent discount on orders of 100 units or more. Furthermore, when the retailer has paid invoice within first 15 days instead of normal business terms of 45 days, the supplier awards the retailer a further settlement discount of 10 per cent of the list price.

On 1 January 20X8 the retailer bought 1,000 units from the supplier in a single order and paid the invoice on January 10. What is the recognized cost of purchase of inventories?

Example 2: Estimate the cost of purchase

A retailer imported goods at a unit cost of CU 410, excluding CU 50 non-refundable import duties and CU 15 refundable purchase taxes. The risks and rewards of ownership of the imported goods were transferred to the retailer upon collection of the goods from the harbor warehouse. The retailer incurred CU35 to transport the goods to its retail outlet and a further CU 30 in delivering the goods to its customer. Further selling costs of CU 5 were incurred in selling the goods.

Calculate the cost of purchase of inventories.

Example 3: Estimate the cost of stock at reporting date

See scan

Example 4: Estimate the cost of stock at reporting date

An entity manufacturing engines for its business activity purchased:

- on 10. 4. 2015 first supply - 800 components for engines at total price of CU 176,000 (220 CU/per unit)
- on 20. 4. 2015 second supply - 200 components for engines at total price of CU 36 000 (180 CU/1 per unit).
- According to withdrawal notes there were consumed 900 components.

Account for purchase and consumption of engine components under: (a) FIFO method; and (2) weighted arithmetic average.

Example 5: Estimate the cost of stock at reporting date

See scan

Example 6: Estimate the cost of stock (main product and by-product) at reporting date

An entity manufactures a chemical 'A' for use in the agriculture industry. The production process requires a mixture of base chemicals followed by a maturation process, and from which, a product 'A' and a by-product 'C' are produced.

The total costs of a production run (i.e. including direct costs and the allocation of overheads) are CU 100 000.

Each production run produces:

- 5,000 litres of product A, sales value = CU 250 000
- 1,000 litres of (by-product) C, sales value = CU 2 000

The entity accounts for the by-product by deducting its selling price from the cost of the main product. In this example, the costs to complete and sell the by-product are negligible and have been ignored.

What are the per unit costs of product A?

Example 7: Estimate the cost of stock (joint products) at reporting date

The facts are the same as in example 6. However, in this example, instead of the by-product there is another joint product 'B' resulting from the maturation process. Furthermore, the total costs (i.e. including direct costs and the allocation of overheads) of a production run are CU 300 000.

Each production run produces:

- 5,000 litres of product A, sales value = CU 250 000
- 4,000 litres of product B, sales value = CU 400 000

The entity allocates the joint process costs to the products produced on the basis of their relative sales values.

What are the per unit costs of by-products A and B?