FINANCIAL ACCOUNTING II

II. IAS

IAS 2 – Inventories

- This IAS applies to the accounting treatment of inventories.
- The main aspects about this IAS relates to the value to recognize as initial acquisition cost and with the subsequent measurement.

FINANCIAL ACCOUNTING II

II. IAS

IAS 2

- Definition
- Initial Recognition
- Measurement
- Recognition as expense
- Other measurement techniques

FINANCIAL ACCOUNTING II

II. IAS

IAS 2 – Definition

- Inventories are assets:
  - For sale during the normal activity of the firm;
  - Obtained during the production process and and then for sale;
  - Materials that are incorporated in the production process or in the services.

FINANCIAL ACCOUNTING II

II. IAS

IAS 2 – Initial recognition

- From the moment that:
  - Is controlled by the firm as a result os past events;
  - Is expected to obtain future economic benefits for the firm.

IAS 2 – Measurement

- Inventories shall be measured at the lower of :
  - cost
    - The *cost* of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
  - net realisable value.
    - *Net realisable value* is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

IAS 2 – Measurement

- **Cost:**
  - Acquisition Cost = Purchase price + import or other non reimbursable taxes + transport costs + other inventory acquisition costs– commercial discounts
  - Production cost:
    - Direct Costs – MP e MOD
    - Variable Indirect Costs – GGF
    - Other fixed indirect costs - GGFf

FINANCIAL ACCOUNTING II

II. IAS

IAS 2 – MEASUREMNT

- *Net realisable value*
  - is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

  Examples:
  - damaged inventories
  - Obsolete inventories
  - Decreasing in the sales price
  - Increase in the estimated production cost or cost to realize the sale

Inventories should be decreased until reach the net realisabe value!

FINANCIAL ACCOUNTING II

II. IAS

IAS 2 – Measurement

- **Net realisable value**
  - When the Net realisable value increases or that the situations that originate the reductions of inventories in previous years do not longer exist. The reduction value is reverted until the limit of the original value.

IAS 2 – Measurement

- The cost of inventories shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula.

- An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

IAS 2 – Measurement

- When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

- The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

IAS 2 – Measurement

- The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

IAS 16 – Fixed Tangible Assets

- The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 –

- Definition
- Recognition
- Initial Measurement
- Subsequent Measurement

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 – Definition:

Property, plant and equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
(b) are expected to be used during more than one period.

IAS 16 – Recognition:

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) it is probable that future economic benefits associated with the item will flow to the entity; and
(b) the cost of the item can be measured reliably.

IAS 16 – Measurement at recognition:

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

- The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date.

FINANCIAL ACCOUNTING II

II. IAS

The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

FINANCIAL ACCOUNTING II

II. IAS

- Examples of costs:
  - Preparation of the local;
  - Initial costs of delivery and similar;
  - Assembling costs;
  - Tests to see if the asset is working.

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 – Subsequent costs

- Should be add to the value of the asset
- Examples
  - substitution;
  - Increase of capacity
  - Increase in the economic life
  - That reduce the production costs
  - That improve the quality of the output

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 – 2 models

Cost model: After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalue amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 –Depreciation

- is the systematic allocation of the depreciable amount of an asset over its useful life.
- *Depreciable amount* is the cost of an asset, or other amount substituted for cost, less its residual value.
- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 –Depreciation

- The depreciation charge for each period shall be recognized in profit or loss unless it is included in the carrying amount of another asset. The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

FINANCIAL ACCOUNTING II

II. IAS

- The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- To determine whether an item of property, plant and equipment is impaired, an entity applies IAS 36 Impairment of Assets.
- The carrying amount of an item of property, plant and equipment shall be derecognized:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

FINANCIAL ACCOUNTING II

II. IAS

IAS 16 – Depreciation Methods

- ☐ Straight Line Method
- ☐ Double Digit Base
- ☐ Others

At the end of each period it should be revises:

- ☐ The residual value and the useful life of the asset..
- ☐ The depreciation method used

IAS 16 – Removal from accounts

- When the asset is sold
- When it is expected that there are no economic future benefits from the utilization of the asset

- The gain or loss should be written-off in the results!