Thesis paper
On
The implications of IAS 2 on ACI Limited

Submitted by:

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ID: MBA2101022020

Program: Master of Business Administration

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Sonargaon University (SU)
Dhaka- 1215

Date of Submission: January 15, 2022

Thesis Paper
On
The implications of IAS 2 on ACI Limited

Prepared for:

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Lecturer

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Date of Submission: January 15, 2022

Letter of Transmittal

January 15, 2022

Farjana yeasmin Chowdhury

Lecturer

Department of Business Administration

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Subject: Submission of Thesis paper on the implications of IAS 2 on ACI limited

Dear Madam,

It is my pleasure to submit here with my dissertation, which has been prepared under the sound and dynamic leadership of a personality like you.

This thesis paper is an integral part of my academic program in completion of the degree named Masters of Business Administration, which has assigned me "**The implications of IAS 2 on ACI Limited**" as a part of MBA Program. I have tried my level best to collect the relative information as comprehensive as possible in preparing the thesis. During preparation of the report, I have experienced practically a lot that will help me a great in my career. It has enlightened my practical knowledge regarding the Inventory management systems. I will be able to explain anything for more clarification if necessary.

I would like to thank you, for giving me the opportunity to do a report on the above-mentioned topic.

Sincerely,

_____

Md. Shariful Islam

ID: MBA2101022020

Department of Business Administration

Sonargaon University (SU)

Certificate of Supervisor

This is to certify that the **thesis paper on implications of IAS 2 on ACI Limited** has been prepared as a part of completion of the MBA program from Department of Business Administration, Sonargaon University (SU), carried out by Md. Shariful Islam, bearing ID: MBA2101022020 under my supervision. The report or the information will not be used for any other purposes.

……

Farjana Yeasmin Chowdhury
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Student Declaration

I am Md. Shariful Islam, a student of Master of Business Administration, ID: **MBA2101022020** from Sonargaon University would like to solemnly declare here that this report on "**The implications of IAS- 2 on ACI Limited**" has been authentically prepared by me. While preparing this report, I didn't breach any copyright act internationally. I am further declaring that, I did not submit this report anywhere for awarding any degree, diploma or certificate.

Sincerely Yours

Md. Shariful Islam

ID: MBA2101022020

Program: MBA

Major: Accounting

Semester: Fall'21

Letter of Authorization

This is to certify that **Md. Shariful Islam**, ID: MBA2101022020, MBA (Accounting), is a regular student of Department of Business Administration, Sonargaon University. He has successfully completed his report on "**The implications of IAS- 2 on ACI Limited**" and has prepared this research under my direct supervision. I think that this research paper is worthy of fulfilling the partial requirements of MBA program. I also declare that the study has been prepared for academic purpose only and this paper may not be used in actual market scenario.

I have gone through the report and found it a well written. He has completed the report by himself. I wish him every success in life.

……

Farjana Yeasmin Chowdhury
Lecturer
Department of Business Administration
Sonargaon University (SU)

ACKNOWLEDGEMENT

First of all, I would like to categorical my gratitude to the Almighty Allah. This is my pleasure that I could successfully complete my thesis report by the grace of almighty Allah.

I would like to acknowledge and give my warmest thanks to my supervisor **Farjana Yeasmin Chowdhury** who made this work possible. Her guidance and advice carried me through all the stages of writing my report. I would also like to thank my committee members for letting my defense be an enjoyable moment, and for your brilliant comments and suggestions, thanks to you.

I am also really responsible to my honorable teacher **Abul Kalam**, Associate Professor and Dean of Department of Business Administration, Sonargaon University for this countless support and guidance. It is not my own credit in this effort. I would like to extend my-sincere regards and gratitude to my honorable teachers whose kind's guidance and assistance enable me to complete my MBA program and to develop my career through their invaluable teaching.

I would also like to give special thanks to my wife Karuna Parvin and my family as a whole for their continuous support and understanding when undertaking my research and writing my report. Your prayer for me was what sustains me this far.

Moreover, I like to thanks all people who used to be helped me for preparing this report.

Executive Summary

This report is prepared on the basis of my research experience at ACI (Bangladesh) Limited. This thesis report helped me to learn about the scenario of the implications of IAS-2 on ACI Limited

ACI has been a partner in the development journey of this nation for more than 26 years now. Its business success has been complemented by its commitment to the environment, society and community. There are many different categories of institutions, which play a vital role for changing the social structure and for the economic development of our country. ACI is one of the most important institutions of them. ACI is playing an important role to build, nurture & to enhance of a Capital Market for the economic growth of Bangladesh. ACI has proved itself a caring organization to the existing employees. As a development financial institution, it provides term loan to finance equity gap, provides working capital. As a market maker it has unit certificate, underwriting securities.

It also deals and manages Mutual Funds. The report emphasizes with the analysis of the footwear industry, company in focus, presenting the mission & vision, the values & product, description of 8 associates companies, finance related issues are discussed in detail along with their results and possibilities. That is why it is very much important for us to know about practical functions of ACI which are playing significant roles for the economic development of Bangladesh.

I was assigned at Hygiene plant for making a documentation on 12 major leading companies of Bangladesh and I chose ACI among them for the accomplishment of my research on the implications of IAS-2 and I have tried to present my report on the basis of my research and survey which I gained during the thesis period. The basis of my report is Implications of IAS-2 on ACI Limited. I try to focus on implications of IAS-2 by evaluating its inventory present condition and location inventory carried at net realisable value; I also try to evaluate its cost of inventory is recognised as an expense in the period in which the related revenue is recognised. At the last phase of my report, I present my major findings, problems that have faced the company during investment period and give recommendation which I though important.

LIST OF ACRONYMS

Abbreviation	Definition
ISO	International Organization for Standardization
ACI	ACI Advanced Chemical Industries
MBA	Master of Business Administration
PGM	Product group Manager
BM	Brands Manager
R&D	Research and development
ICI plc	Imperial Chemical Industries PLC
CC&PH	Crop Care & Public Health
NRV	Net realizable value

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CHAPTER- ONE

INTRODUCTION



1.1 Origin of the Report:

The report was done as a part of the thesis paper of MBA. The report focuses on **the implications of IAS 2 on ACI limited** as I was working as an intern in ACI Hygiene Plant at Sonargaon University and during my thesis period I was assigned on a documentation making program. So, i grab this topic as my thesis topic and started to work on it as it relates with my academic major background. The thesis started on September 30, 2021 and ended on January13, 2022.

1.2 Objectives of the Report

- ✓ To analyze the activities of the company.
- ✓ To implication of IAS-2 on ACI Ltd.
- ✓ To find out the problems of the company.
- ✓ To provide some recommendations about the problems of the company.

1.3 Scope of the Report

The basic area for the report is analyzing the activities and performance of management operation of ACI Limited. In this work, the general view of the economic overall performance in in line with the industry, records, and Mechanism, guidelines of ACI Limited and other sports are drastically analyzed and the locating s are clarified at the side of intensity observe

1.4 Background of the Report

ACI has been a partner in the development journey of this nation for more than sixty years now. It has set itself the highest standards in responsible corporate behavior and its passion for success is aligned with the development of the country. It is committed to playing a leading role in driving growth, prosperity, ethical values and social responsibility. ACI continues to serve its customers through unparalleled quality excellence and service superiority. In corporate investment it plays an important role. Its business success has been complemented by its commitment to the environment, society and

community. Over the decades, ACI has grown in size, scale, and diversity. The Group today has fourteen operating companies, three other business ventures, and a not-for-profit social enterprise. ACI operates in different broad segments like Formulations, Food, chemicals, Automobiles and Engine, motors, agro, healthcare and Biotech.

1.5 Methodology

This report has been prepared based on experience gathered during the period of project paper. For preparing this report, I studied different circulars and files of the organization. As well as, I have searched about other organizations in this industry and collect financial data. I hope these criteria will be enough to find out different picture of industry as well as and financial Performance of the selected organization (ACI Limited.)

Primary Data:

Primary Data was derived from the practical deskwork. Moreover, the survey also helped me to get information directly from the employees.

Secondary Data:

- ✓ Annual report of other companies in this industry
- ✓ Different books, training papers, manuals etc. related to the topic
- ✓ Official Website of the Organization and others.
- ✓ Product details given by the organization

1.6 Limitations of the Report:

From the beginning to end, the study has been conducted with the intention of making it as a complete and truthful one. However, many problems appeared in the way of conducting the study. The sources of

the information are collected from different company's website and annual report and also from ACI Limited Website. Every task has some limitations. I faced some usual constraints during preparation of this Thesis report. These are as follows:

- Collecting Information
- Inadequacy and lack of availability of required Current data
- Confidential data of the ACI Limited
- Communication
- Busy working Environment of the offices
- Lack
- Different Format Data
- Technological Problem
- Financial Data Complexity
- Lack of in-depth knowledge and analytical ability for writing such report

CHAPTER TWO

Overview Of The Organization

Introduction

Imperial Chemical Industries, a British multinational established a Branch in the then East Pakistan which was converted into a company after liberation, named ICI Bangladesh Manufacturers Limited. In 1992 ICI divested its investment in Bangladesh to the Management, when its name was changed to Advanced Chemical Industries (ACI) Limited. ACI follows International Standards on Quality Management System to ensure consistent quality of products and services to achieve customer satisfaction. ACI also meets all national regulatory requirements relating to its current businesses and ensures that current Good Manufacturing Practices as recommended by World Health Organization is followed properly. ACI has been accepted as a Founding Member of the Community of Global Growth Companies by the World Economic Forum which is the most prestigious business networking organization. Advanced Chemical Industries (ACI) Limited, being one of the largest conglomerates in Bangladesh with a multinational heritage operates across the country through its four diversified strategic business units. 'ACI Pharmaceuticals' is dedicated to improve the health of the people of Bangladesh through introduction of innovative and reliable pharmaceutical's products.

"**ACI Consumer Brands**" is adding value to the daily life of consumers through its Toiletries, Home Care, Hygiene, Electrical, Electronics, Mobile, Salt, Flour, Foods, Rice, Tea, Edible Oil, Paints and International Businesses. 'ACI Agribusinesses' is the largest integrator in Bangladesh in Agriculture, Livestock, Fisheries, Farm Mechanization, Infrastructure Development Services and Motorcycle. 'ACI Retail Chain' is the largest retail chain in Bangladesh operating through its 144 SHWAPNO outlets including 34 newly opened express outlets across the country by touching the lives of over 45,000 plus households each day. The Company contributed Taka 4,318 million to the National Exchequer during FY 2020-2021 in the form of corporate tax, custom duty and value added tax.

2.2 Mission

ACI's Mission is to enrich the quality of life of the people through responsible application of knowledge, technology and skills. ACI is committed to the pursuit of excellence through world-class products, innovative processes and empowered employees, to provide the highest level of satisfaction to our customers.

2.3 Vision

To realize the Mission, ACI will:

- Provide products and services of high and consistent quality, ensuring value for money to our customers.
- Endeavour to attain a position of leadership in each category of our businesses.
- Develop our employees by encouraging empowerment and rewarding innovation.
- Promote an environment for learning and personal growth.
- Attain a high level of productivity in all our operations through effective utilization of resources and adoption of appropriate technology.
- Promote inclusive growth by encouraging and assisting our distributors and suppliers in improving efficiency.
- Ensure superior return on investment through judicious use of resources and efficient operations, utilizing our core competencies.

2.4 STRATEGY

To build long-term partnership with the customers and with their support, we aim to maximize the potential of our business through a combination of enhanced quality of product, service, creative marketing, competitive pricing and cost efficiency.

2.5 VALUES


Quality


Customer Focus


Fairness


Transparency


Continuous Improvement


Innovation

2.6 Financial Year

Financial Year (July 2020- June 2021)

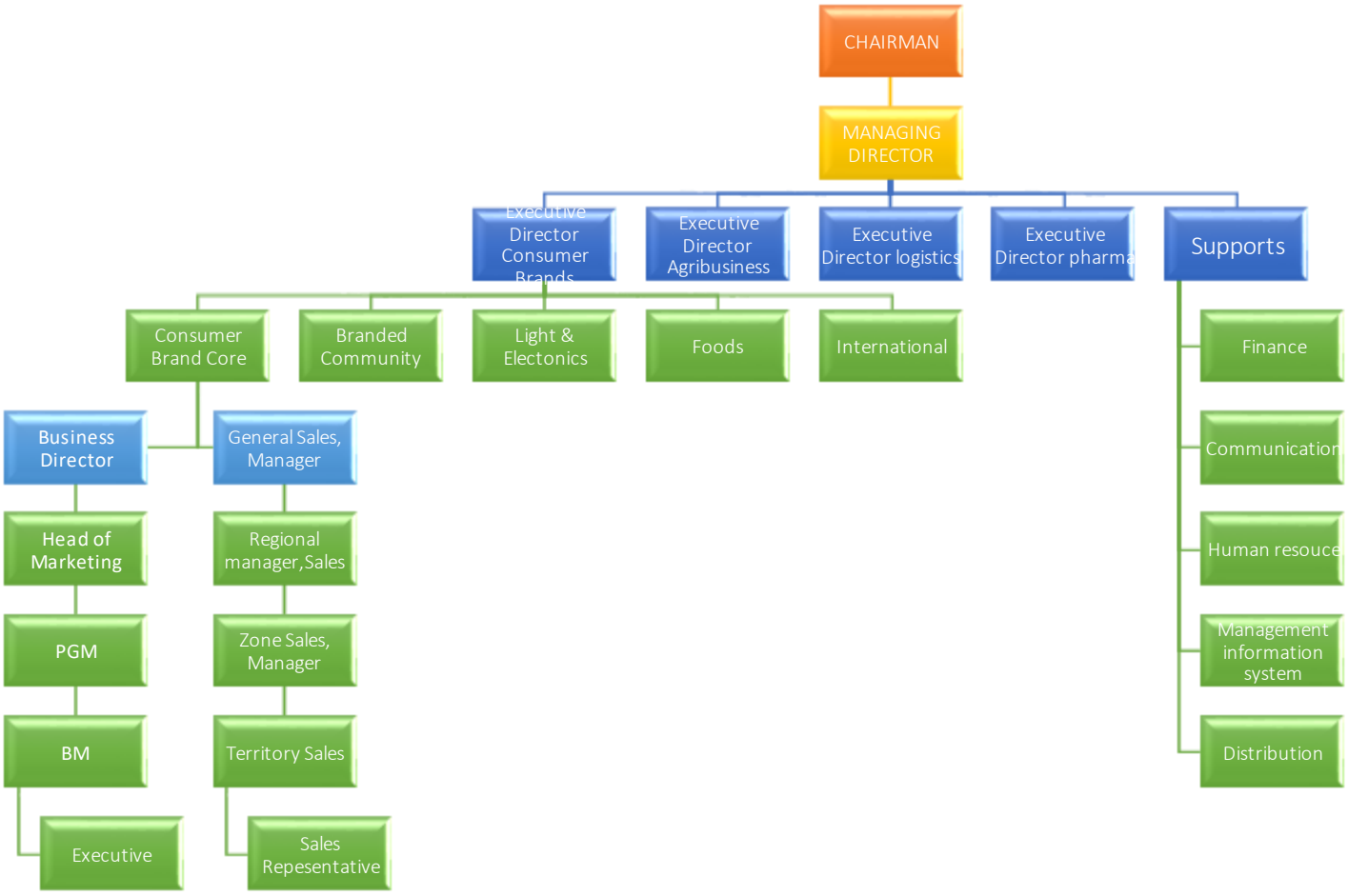
Full Name:	**Advanced Chemical Industries Ltd.**
Incorporation Date:	24 January 1973
Registration No:	C-3885
Company Type:	Public Limited
Number of employees:	8,364
Authorized capital:	150,00,00,000
Issued and paid capital:	57,37,29,550
No of Shares:	5,73,72,955
Face Value:	10
Year End:	30 June

2.7 Board Of Directors

The list of Board of Directors of the company is given below:

CHAIRMAN:	Mr. M. Anis Ud Dowla
MANAGING DIRECTOR:	Dr. Arif Dowla
DIRECTORS:	Mr. Golam Mainuddin Ms. Shusmita Anis Mr. Juned Ahmed Choudhury Mr. Kamran Tanvirur Rahman Mr. Anisuddin Ahmed Khan
INDEPENDENT DIRECTORS:	Mr. Adil Husain Mr. Kamran Tanvirur Rahman

2.8 Company Organogram



2.9 Product Portfolio

Since the beginning of the journey in 1992, the product quality image of ACI is impressive and it is increasing day by day. There are some important drivers of ACI's growth. They are:

- Quality products manufactured in world class manufacturing plants
- Diversified product portfolio
- Fast new product development capability
- Own R&D facilities to develop formulations
- Innovative and market focused marketing
- Professional management and
- Experience in international market

2.10 Major Departments

Like every other corporation ACI has different departments for carrying out several activities. The major departments of ACI are:

2.10.1 Human Resource Department:

The Human Resource Department is responsible for the management of the employee in order to achieve organizational goals and coordinates with other departments for the effective utilization of resources. This department works for recruiting, training and evaluating employees who collects raw materials from the specific vendors at suitable quantity. In addition to that this department also purchases required machineries and stationery products for the organization. This department received the bills from the third party and sends them to Finance and Treasury.

2.10.2 Financial Department

ACI has accomplished a brand image of financially sustainable in both money and capital markets of Bangladesh. Some of the prominent features of being financial sustainable are as follows:

1. This prepares both short- and long-term financial plans following bottom-up approach. This has given two edges-management and effective implementation.

2. All directors of the Board are actively involved in financial plans and financing both capital structures and working capital at least cost for value generation of the stakeholders.
3. All in the ACI are well informed about financial plans and programs well ahead of implementation. This has increased the degree of employee participation;
4. The financial and operating risk is very low;
5. Credit Rating –Long term Liquidity AA-3 indicates the long-term financial soundness of ACI.

2.10.3 Marketing Department

ACI has been able to maintain its growth through its innovative marketing strategies. In Bangladesh, ACI introduced the concept of quality management system by being the first company to achieve ISO 9001 certification that reflects its commitment to quality in every aspect of business.

ACI covers the health care community of whole Bangladesh based in both urban and rural markets, through its 18 strategically located depots. Also started exploring international markets. The quality of ACI products, strengthened by its ISO 9001 certification, has brought immediate success in Sri Lanka, Yemen, Myanmar and Vietnam.

2.10.4 Information Technology Department

The Information Technology (IT) Department develops and maintains an internal network of workstations equipment, operating systems and servers to tie the departments together. This department uses the software programs to manage the information electronically.

2.10.5 Research & Development

ACI‟s research and development department play an integral role. They find out whether the existing products need any change and upgrades according to the requirements. New product research and development, quality check etc. are the main activities of this department.

2.11 ACI Quality Policy

ISO 9001 Quality Management System
ACI is the first company in Bangladesh to have obtained ISO 9001 Certification for Quality Management System across all categories

One of important vision is to provide products and services of high and consistent quality, ensuring value for money to customers.

To attain the Vision ACI will:

- Aim to achieve business excellence by understanding, accepting, meeting and exceeding customer expectations.

- Follow International Standards on Quality Management System to ensure consistent quality of products and services to achieve customer satisfaction. ACI will also meet all national and regulatory requirements relating to its current businesses and ensure that current Good Manufacturing Practice (cGMP) as recommended by World Health Organization is followed for its pharmaceutical operations and conform to all other guidelines and best practices relating to its other businesses.

- Commit itself to quality as the prime consideration in all its business decisions. All employees of ACI follow documented procedures to ensure compliance with quality standards.

- Develop a pool of human resources of the Company to their full potential through regular training and participation in seeking continuous improvement of the Quality Management System.

2.12 ACI Environmental Policy

ISO 9001 Quality Management System
ACI is the first company in Bangladesh to have obtained ISO 9001 Certification for Quality Management System across all categories

ACI is committed to formulate and conduct all its operations in an environmentally friendly manner, ensuring continual improvement in the utilization of resources and prevention of pollution or degradation of the environment.

In pursuit of this Goal, ACI will:

- Comply with all local and national legislations and regulations.
- Conserve natural resources like water and energy for sustainable development, and adopt environmentally safe processes.
- Ensure appropriate treatment of all effluents prior to discharge.
- Ensure appropriate communication with internal and external interested parties on environmental issues.
- Create awareness on environmental issues among our employees and contractors.
- Ensure waste management in an environmentally responsible manner through continuous upgradation of technology.

CHAPTER Three

Theoretical Background

Overview of IAS-2

The revised IAS 2 inventories or International Accounting Standard 2 Inventories has replaced IAS 2 inventories in 1993. These standards were applied annually from January 1, 2005. It superseded the earlier SIC-1 Consistency-Different Cost Formulas for Inventories.

The International Accounting Standards Board (IASB) revised IAS 2 to improve the International Accounting Standards. The IASB launched the project following questions and doubts about the Standards from regulators of securities, professional accountants and other concerned quarters. The aim was to reduce and remove options, delays and clashes between the norms of the Standards and also to manage few inter-related matters.

The Board's main objective was to introduce a limited revision to reduce the options for the measurement of inventories. But the Board refrained from reconsidering the basic method of accounting regarding the inventories in IAS 2

This standard applies to all inventories, except financial instruments and agricultural products before they are harvested. All finished products that are produced or bought, work in progress goods, raw materials and supplies needed for production or rendering a service are considered inventories by this standard.

The cost of a service is accumulated in an inventory account until its related revenue is recognized. The costs incurred by the ongoing services, like the work in progress for auditors, are recorded as inventories. The cost of a service includes labor expenses and other costs of employees, who are directly related in rendering the service and overhead costs associated with them, but it does not include expenses that are not related to the production of these services.

Net realizable value is the selling price, where the costs of completion and costs related to making the sale are deducted. Fair value is the sales price, which is negotiated between the related parties.

3.1 THE VALUE OF INVENTORIES

According to the conservatism principle of accounting, inventories cannot be recorded in the financial statements at a higher price than expected to be obtained as a result of their use or sale. The Standard is in compliance with the conservatism principle. It states that the value of an inventory should be recorded with the lower of cost or net realizable value (IASB 2003, AIS 2: 9). Therefore, an inventory should be

recorded with its acquisition (cost) value or with the selling price, where the costs of completion and costs related to making the sale are deducted (net realizable value), whichever one is lower.

The following example clarifies whether the cost value or the net realizable value is recorded as the inventory value at the valuation date:

The inventory is recorded at its cost value, TL 60,000 at its acquisition date. At the end of the accounting period, which is also the valuation date, the estimated selling price of the inventory is TL 50,000. Moreover, the estimated expenses to sell the inventory are TL 4,000. As seen, its net realizable value (TL 46,000) is less than its cost (TL 60,000). Hence, the difference, TL 14,000, is written out as an expense of the period, leaving the books to show TL 46,000 as the value of the inventory. If the net realizable value were TL 65,000 at the valuation date, the cost value of TL 60,000 would have remained unchanged in the books.

3.2 COST OF INVENTORIES

Cost of an inventory includes all expenses related to purchasing, conversion and bringing the inventory to its present condition and location.

3.2.1 Determining the Cost of Inventories

The fundamental characteristics that comprise the cost of an inventory are as follows:

- Purchasing costs are included. These costs are related to the acquisition of finished goods, materials and services. The following costs are included in the purchasing cost:
  - The purchase prices
  - Import duties
  - Other taxes, except the ones which are recoverable from the taxing authorities
  - Transportation costs
  - Handling costs
  - Other costs related to the acquisition of the inventory.
  - Discounts and rebates are deducted from the purchasing costs.
- Costs of conversion are included. These costs are related to production. Following principles are valid when calculating the costs of conversion:
  - Direct costs of production, e.g., direct labor, are included.
  - Allocated portion of the general production expenses to the finished goods inventory is included. These are indirect costs. Some examples of these costs are as follows: indirect materials, indirect labor, general production expenses like depreciation of assets related to

production site, maintenance of factory buildings, cost of factory management and administration.

- Indirect fixed costs are allocated as if the production site is working at normal capacity. If the actual production is lower than the normal capacity, the increased overhead cost per unit is not allocated to the inventory. It is recognized as the period's expense. If the production is much higher than the normal, the overhead cost per unit of production is lower than normal periods. The allocated overhead cost is calculated using the actual costs.
- Variable indirect costs are allocated with respect to the actual usage of the production site.
- If more than one product is being produced, the allocation of general production expenses should be done on "a rational and consistent basis" (IASB, 2003, ais 2: 14).
- Sometimes the production process yields by-products. They are usually immaterial and are measured by net realizable value. Net realizable value is the selling price, where the costs of completion and costs related to making the sale are deducted. This value is deducted from the cost of the main product.

- Costs to bring the inventory to its present location and condition are included. Costs incurred to change the design of a product that is specific to a customer are included to the cost of the inventory. Indirect costs that are not related to the production are not part of the cost of the inventory.
- Agricultural products are considered as inventories after harvesting them. The initial recognition value of such inventories is equal to their fair value minus the selling costs.
- The following costs are not included into the cost of an inventory:
- The costs related to wasted amounts: costs due to the abnormal usage of materials, labor or other production costs are not included in the cost of the inventory.
- Storage costs: costs related to storing the inventory should not be included. However, the storage costs necessary for the production process, such as storing materials or work in progress goods before a production stage, are included in the cost of the inventory.
- Administrative costs: if an administrative cost, which is not related to bringing inventories to their present location and condition, should not be included into the cost of the inventory.
- Sales costs: costs related to the sale of the inventory are not included into the cost of the inventory.
- Financial costs: Interest expenses related to a purchase are not included in the purchasing costs. If an inventory is purchased on credit, the difference between the purchasing price and the amount that is paid is considered as an interest expense. This amount is not included in the cost of the inventory. However, an asset that requires a significant time for its production, namely a qualifying asset, is an exemption to this rule (IASB, 2007, AIS 23: 5). IAS 23 Borrowing Costs standard states that financial

costs related to the acquisition, construction or production of a qualifying asset are included in the cost of the inventory. The financial expenses, which are not excluded from the cost of the inventory, are considered improper accounting application.

3.2.2 Techniques to Measure the Cost of Inventories

The following methods can be used to measure the cost of inventories (IASB, 2003, AIS 2: 21, 22):

- **Standard cost method**
- **Retail method**

The standard cost method is a costing system that traces direct costs to the inventory by multiplying the standard prices by the standard quantities and allocates overhead costs using the standard overhead-cost rates multiplied by the standard quantities of the allocation bases. The word standard here means planned or estimated. The standard quantities of materials, supplies and labor are what the entity estimates to use at its normal level of capacity utilization.

Reducing the sales value of an inventory by a margin to find its cost is called the retail method. The same percentage is used on homogenous items. This method is applicable when prices of inventory change with similar margins.

3.3 Assigning Costs to Inventories

Inventory value is material to the total asset value of the entity. Therefore, utmost care should be shown for accurate valuation. The valuation methods are used to find the cost of inventory.

Specific identification, First-in, First-out (FIFO), Last-in, First-out (LIFO) and weighted average are methods to calculate the cost of inventories. The entity has to choose one of these methods and has to be consistent within the accounting year and the years to come for the comparability of its financial statements.

Last-in, First-out (LIFO) method states that inventory which is acquired last should be sold first. LIFO method usually causes highest value of cost of goods sold and the lowest profit. The International Accounting Standards Board does not allow the use of LIFO method on the basis that the value of the inventory is not presented fairly when the entity uses this method for calculating the cost of the inventory.

Specific identification method can be used for identifiable costs related to an inventory, which cannot be substituted with one another, or cost of goods that are produced or sold for special projects are assigned to that inventory for this to happen, the product or service has to have unique features and the costs can

be attributed as the costs the inventory in question. This treatment of costs is valid for both bought and produced inventories.

It is not likely to assign costs to inventory when the inventory consists of large number of interchangeable items. The costs need to be calculated for this type of inventory. Two methods are allowed by the Standard, namely the first-in first-out (FIFO) method and weighted average method.

In First-in, First-out (FIFO) method, the value of the inventory is based on the cost of items bought earliest in the accounting period. FIFO method presumably calculates lower inventory values. Therefore, if the entity is using the FIFO method, it is expected that it will have lower cost of goods sold and higher profit values.

In the weighted average method, the value of the inventory is based on the weighted average cost of the items. This method is a good representation of value if the purchase prices of the items do not change much over the accounting period

The choice of the costing method is a strategic decision-making tool. As it is seen, the cost of the inventory directly affects the cost of goods sold value, and hence, the profit of the period. High profits are desirable, but they lead to paying higher taxes. The entity may choose a method which would enable to show the net profit higher or lower.

3.4 LOSS IN THE VALUE OF INVENTORIES

The values of inventories may decrease after their initial recognition. The reasons for the loss in value can be listed as follows:

- Damages
- Becoming obsolete
- Declined selling price
- Increased costs of completion and sales

Inventories should not be presented in the financial statements of the entity above their net realizable value. At the end of each accounting period, the impairment of inventories has to be assessed. It is considered a financial statements fraud not to take the impairment of inventories into account.

Industry factors may also cause material misstatements in inventory

Improper valuation and obsolescence of inventory due to technology changes are the major industry risk factors.

The principals in setting the net realizable value of an inventory are as follows:

- Net realizable value is an estimate. This estimate should base on the most reliable evidence at the time of estimation.

❖ The reason to have that inventory should be taken into consideration.

If there is a change in the circumstances and the new assessment of net realizable value increases, the amount of write-down is reversed up to the original amount.

3.5 RECOGNITION AS AN EXPENSE

When an inventory is sold, its value is deducted from inventories and it becomes an expense of the period. In case of any write-downs from the net realizable value, the amount is recognized as an expense of the period and this amount is deducted from the value of inventories.

3.6 ACCOUNTING APPLICATIONS

Some accounting applications for this standard are given below. The account codes and names of the Turkish Uniform Chat of Accounts are used in journal entries

CHAPTER FOUR

IAS 2 INVENTORIES STANDARD IN ACCOUNTING PRACTICES

Application 1:

ACI limited buys trade goods with a list price of TL 10,000 (18% VAT not included). The value added tax (VAT) of the merchandise is TL 1,800. The goods are sent by cargo for TL 200, and insured for TL 100. The shipment costs are paid by the company. The company rents a storage room to put the merchandise, and pays TL 500 until the end of the current accounting year. The general administrative expenses for which the period the merchandise is owned by the company is TL 5,000.

The cost of the inventory is calculated as follows:

List price	TL 10,000
Transportation cost	TL 300 (cargo TL 200 + insurance TL 100)
Total cost	TL 10,300

The rent and the administrative expenses are not related to the acquisition of the inventory. Therefore, they are not included in the cost. The value added tax on the merchandise will be deducted eventually. Hence, it is not included in the cost as well.

Application 2:

ACI limited buys trade goods on credit. Their list price is TL 20,000 (18% VAT not included). However, the company will pay TL 21,000 three months after the purchase.

As it is seen, the company is paying TL 1,000 extra for the three months between the purchase and the payment. This TL 1,000 is considered a borrowing cost, and is not included to the cost of the

inventory. If the purchase and the payment are in the same accounting period, this purchase can be recorded as follows:

---------- Aug 21 ----------

	153 Trade Goods	20,000
	780 Financial Expenses	1,000
	320 Suppliers	21,000

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the purchase and the payment are in different accounting periods, this transaction can be recorded as follows:

At the date that the trade goods are purchased:

---------- Sep 21 ----------

153 Trade Goods	20,000	
182 Deferred Expenses		1,000
320 Suppliers		21,000

The date when the credit contract ends:

---------- Oct 21 ----------

780 Financial Expenses		1,000
182 Deferred Expenses		1,000

Application 3:

In the following example, the calculations for the first in first out method (FIFO) and the weighted average method are stated, and their impact on the value of the inventory and the profit of the period is discussed.

ACI limited buys inventory A, which is a trade good, from wholesalers and sells it to public.
The transactions of the inventory A during the accounting period are as follows:

	Amount (kg)	Unit Price (TL)
Inventory at the beginning:	30	3
Purchases:		
18 January	40	4
22 February	20	5
31 March	30	4
14 April	10	5
Sales:		
7 January	20	
10 March	40	
18 March	20	

If ACI limited is using the first in first out method (FIFO), the following calculation is done:

Table 1. Calculation table for the first in first out method (FIFO)

Date	Explanation	In			Out			Remaining		
		Amount	Unit Cost	Total Value	Amount	Unit Cost	Total Value	Amount	Unit Cost	Total Value
01.01	Beginning	30	3	90				**30**	**3**	**90**
07.01	Sales				**20**	**3**	**60**	**10**	**3**	**30**
18.01	Purchase	**40**	**4**	**160**				**10** **40**	**3** **4**	**30** **160**
22.02	Purchase	**20**	**5**	**100**				**10** **40** **20**	**3** **4** **5**	**30** **160** **100**
10.03	Sales				**10** **30**	**3** **4**	**30** **120**	**10** **20**	**4** **5**	**40** **100**
18.03	Sales				**10** **10**	**4** **5**	**40** **50**	**10**	**5**	**50**
31.03	Purchase	**30**	**4**	**120**				**10** **30**	**5** **4**	**50** **120**
14.04	Purchase	**10**	**5**	**50**				**10** **30** **10**	**5** **4** **5**	**50** **120** **50**
Total		**130**		**520**	**80**		**300**	**50**		**220**

After recording the transactions using the FIFO method, the account balances for inventory A are as follows:

153 Trade Goods: TL 220 (This account shows the cost of the remaining inventory A)

621 Cost of Trade Goods Sold: TL 300 (This account shows the cost of inventory A which is sold in the period)

ACI limited is using the weighted average method, the following calculation is done:

Table 2. Calculation of the cost of goods sold of inventory A using weighted average cost method

Date	Transaction	Production (units)	Sales (units)	Cost Per Unit (TL)	Total (TL)
01.01	Beginning	30		**3**	**90**
07.01	Sales		**20**		
18.01	Purchase	**40**		**4**	**160**
22.02	Purchase	**20**		**5**	**100**
10.03	Sales		**40**		
18.03	Sales		**20**	**10**	
31.03	Purchase	**30**		**4**	**120**
14.04	Purchase	**10**		**5**	**50**
Total	**130**		**80**		**520**

Total cost of purchases in the period: TL 520

Total number of purchased units in the period: 130 units

Period ending weighted average cost per unit: 520 / 130 = TL 4 /unit

Total number of units sold: 80 units

Cost of trade goods sold: 80 units x TL 4 /unit = TL 320

Inventory remaining at the end of the period:

beginning inventory + purchases – sales = 130 – 80 = 50 units

Value of the remaining inventory: 50 units x TL 4 /unit = TL 200

After recording the transactions using the weighted average method, the account balances for inventory A are as follows:

153 Trade Goods: TL 200 (This account shows the cost of the remaining inventory A)

621 Cost of Trade Goods Sold: TL 320 (This account shows the cost of inventory A which is sold in the period)

80 units of inventory A is sold in the period. If the sales price is TL 5 /unit, total sales value is 400 TL (80 units x TL 5 /unit = TL 400).

If the entity is using the FIFO method, the gross sales profit is as follows:

Sales: TL 400

Cost of Trade Goods Sold: TL 300

Gross Sales Profit: TL 100

If the entity is using the weighted average method, the gross sales profit is as follows:

Sales: TL 400

Cost of Trade Goods Sold: TL 320

Gross Sales Profit: TL 80

As it is seen, the choice of the valuation method has an impact on the gross sales profit, and hence, on the period's profit. Therefore, the valuation method to find the cost of the inventory can be considered as a decision-making tool of the management.

CHAPTER FIVE



FINDINGS, RECOMMENDATION & CONCLUSION

FINDINGS

- √ Inconsistent Tracking
- √ Limited Visibility
- √ Documentation inaccurate
- √ Irregularities of Delivery system
- √ Incapable Process
- √ Supply Chain Complexity
- √ It is found that some items are misplaced.
- √ Keeping every item in its assigned place.
- √ It is found that there are some codification errors.
- √ Easy and prompt issue and receipt of items.
- √ Keeping items in an orderly fashion.
- √ Providing production against damage and pilferage.
- √ Issuing oldest material first.
- √ Inventory is managed by ABC analysis; problem is occurred as stock of A items is less as it carries more amount, sometimes if Supplier is not available at time of requirement of A items it may lead to stop whole production line also.
- √ Inventory is managed following ABC analysis; it is based on monetary value of the items insure. So, the other important factors one ignored.
- √ Providing enough space and storage equipment like alarmist, shelves, racks, bins etc.
- √ Having regular programmer of inspection, physical verification and maintenance of Store.

Recommendation

1. Keeping records and inventory of store up to date above are the importance recommendations.
2. Ensure consistent Tracking
3. Ensure Documentation accurate.
4. More Attention on ABC Analysis

Conclusion

IAS 2 Inventories is an accounting standard, which is part of the International Financial Reporting Standards (IFRS). This standard regulates the accounting treatment of inventories. It sets the framework to determine the value of inventories and its presentation in the financial statements.

Products that are produced and bought, raw materials, work in progress and services in progress are considered inventories. Financial instruments and agricultural products before harvesting are taken into account in different standards; hence, they are not included in IAS 2 Inventories standard.

Inventory is a major part of the total asset value. Therefore, value determination and presentation of inventories is an integral part of accounting. IAS 2 Inventories standard defines the components of the inventory value and gives options of valuation methods.

According to the standard, the value of the inventory is the cost value or the net realizable value, whichever one is lower. The cost includes purchasing costs, conversion costs and other costs related to bring the inventory to its present location and condition. Net realizable value is the selling price from which the costs of completion and costs related to making the sale are deducted.

The costs are assigned to inventory by using one of the three methods, namely, specific identification, first-in first-out and weighted average. The cost calculation slightly differs from one method to another one. Since inventory is part of the total asset value and it is written off as the cost of goods sold after its sale, the value of the inventory has an effect on the total asset value and the profit of the period. Therefore, the choice of the valuation method is related to the strategic managerial decisions.

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