IAS 2: Guidance on Accounting Treatment for Inventories IAS 2 provides guidelines for the accounting treatment of inventories, aiming to ensure consistency and clarity in their reporting. The standard applies to all inventories except work-in-progress under construction contracts, financial instruments, and biological assets related to agricultural activity. Inventory costs consist of three components: 1. **Cost of Purchase**: Includes purchase price, import duties, transport, handling, and other costs directly attributable to acquiring goods. 2. **Cost of Conversion**: Includes direct labor costs and systematic allocation of fixed and variable production overheads. 3. **Other Costs**: Necessary costs to bring inventories to their present location and condition. Certain costs are excluded from inventory costs: - Abnormal amounts of wasted materials, labor, or other production costs - Storage costs unless necessary for the production process - Administrative overheads that do not contribute to bringing inventories to their present location - Selling and distribution costs Inventories are valued at the lower of cost and net realizable value (NRV). The cost is determined using either the First-In, First-Out (FIFO) method or the Weighted Average Cost method. Net Realizable Value (NRV) is estimated selling price minus estimated costs of completion and necessary sale costs. Example: A retailer has 100 units of an item purchased at $10 each, with an estimated selling price of $12. Given article text here

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