1. Thought you could kindly bring in the difference between Basis & Method which generally is being mixed up.

   Ans. Question raised is in form of Suggestion.

2. Sir in case of Sales or return model of revenue model do we recognise the material lying unsold at the customer end as inventory. If yes how do, we value the same.

   Ans. If all risk and rewards belong to us than we should record inventory in our books, and we shall value inventory at the cost or NRV Whichever is lower. In majority of cases it shall value at the cost, but if the product is return due to quality or some issue than it shall value at realisable value.

3. During the COVID crisis, labour was paid without production. Was the cost of this labour proportionately built into the cost of the 31 Mar 2020 inventory?

   Ans. No, Variable cost needed to be added to Cost of Inventory only if there is direct nexus with production. In given scenario if labour cost paid post-production than its direct expenses and charge to P&L instead of adding to Cost of production.

4. what are indirect expenses shown in profit and loss account shall be included in cost of valuation of stock?

   Ans. Indirect cost mostly comes in cost of Goods sold and not under my cost of Production. And Inventory valued based on cost of production.

5. whether depreciation on machinery is part of valuation?

   Ans. Since depreciation charge on account of purchase of Fixed assets. Charging depreciation in other hand is allocation of expenses over the life of asset. So, including depreciation in part of valuation is depend on type of asset depreciated.

   If asset purchase is directly link to Production and if depreciation is charge based on its uses, like no. of hour basis or production run, then depreciation forms parts of valuation.

   But if Depreciation charge on Fixed Assets which is associated with selling, General and administration purpose. Like vehicle use for delivery or office equipment etc.

6. Do we follow equivalent cost concept for valuation of stock work in progress?

   Ans. Yes, Equivalent costing is used to value unit with accumulated cost in WIP. Equivalent costing follows in Process of production or series of production. Where material at various stages passes from one to another process. In that case WIP is measure at accumulated cost till that stage.

7. what if a raw material is used in 2 different end products and one of the end products can be realised above the cost and the other product is to value at below the sale price. In that case how does one value the RM? notebook and pen were a different example ...this is SAME RM for 2 diff products??

   Ans. If same material used in Both Product and if both products is main product and if one sale at above the cost other at below the cost. Then material needs to value at cost only because the product which sold above the cost has higher margin and the one which sold below the cost is temporary in nature.

8. If RM purchase price is negotiated with lower price than last purchase price and have old stock in hand. How to value this.

   Ans. Inventories are valued on FIFO basis or Weighted Average basis. So, if company is using FIFO than it will not affect RM Purchase with Price variance. So, it picks the price of material of FIFO basis. If it follows Weighted Avg, then cost of inventory will reduce due to decline in cost of material purchase

9. Company has made investment in Franklin Mutual fund as Long term investment, but since that fund is not marketable now. What will be cost of such mutual funds as we currently don't know what will be net realisable value.

   Ans. Since the investment mentioned over here is long term, Due to circumstance of fund if it is assumed that the hit is permanent than the carrying amount must be reduced by the amount of decline and charge to Profit & Loss. And the decline needs to be subsequently reverse when the value rise to normal.

10. What if the shares are purchased cum dividend?

    Ans. Dividend is deducted from cost of investment. Also, as 13 also covers Dividend as Pre-acquisition cost.

11. How to value investment in private company?

    Ans. Investment in Private company can value depending on holding period. I.e. Valuation depends on Whether investor treats the investment as Current or Long Term. If its Current than Value is determine by lower of cost or Fair Value. And if its long term than value is determine at Cost only.

12. if the current investments value has declined, the management may classify it as long term in order not to account for diminution??

    Ans. As per AS 13, When you convert your short-term investment into Long term, then transfer is made at the lower of cost or fair value at the date of transfer. So, if value declines than cost, then as per AS, we must value the investment at Fair value being lower than cost. So, there is no question that by doing conversion we can save and loss being charge to P&L.

14. Whether Investment in Overnight MF, Liquid MF should be considered as cash / cash equivalents? Since these are used instead of short-term bank deposits for want of better returns with the purpose of parking the money being same

    Ans. For investments to qualify as cash equivalents:

    1. An investment must be easily convertible into cash and

    2. Must be subject to a very low level of risk with respect to changes in its value

    Hence, an investment would qualify to be a cash equivalent only when such an investment has a short maturity of three months or less from its acquisition date.

    Hence, its classification will depend upon the level of risk attached to it.

15. AS - 3 .... If a manufacturing co indulges in futures and forward contracts relating to its raw material or sale of fixed products, then such expenses should be under operating

    Ans. In case of futures and forward contracts being held related to its raw material, it will fall under operational activity whereas if held for sale of Fixed asset, the same is to be classified under investing activities.

16. Sir, what about loan and advances made to the group companies or subsidiaries

    Ans. As per AS 3, Investing activities include buying and selling assets like property and equipment,

    lending money to others and collecting the principal, and buying/selling investment

    securities. Hence, any loans and advances given to group companies will be considered as a part of investing activity.

17. Sir, whether the security deposits given to customers / vendors will be classified under operating activity or investment activity?

    Ans. It will be classified under operating activity as they form a part Increase/(Decrease) in Other Current asset under operating activity.

18. Is there any difference in treatment of bank overdrafts and CC balances with respect to cash and cash equivalents as per AS and Ind AS? If yes, please explain the differences

    Ans. Bank OD will be shown under cash and cash equivalents in indAS whereas as per AS, it forms a part of current liability. CC will be shown under financial liabilities under Ind AS and current borrowing under as per AS

19. what are spare parts considered in AS2 versus AS10

    Ans. As per para 4 of AS 2, spare parts i.e. loose tools used in the production process.

    Whereas as the machinery spares, which are used in connection with only an item of fixed asset for its effective use and its use is irregular, such spare parts are treated in accordance with AS 10

20. How to value Equity Shares Held for Sale versus Current Investment

    Ans. Equity shares held for sale are nothing but current investment. Their valuation will be done in accordance with AS13 – lower of cost or net realizable value. Also, the term held for sale depends on investor that what period he wants to hold, based on that valuation criteria will apply.

    Other Questions Shown in Excel File

    AS 2

21. "A manufacturing plant was shut-down on 25th March 2020 consequent to announcement of the country-wide lockdown. The plant restarted the operations on 2nd April 2020 to cater to market requirements and after obtaining the required permissions. The company is taking all necessary precautions, including ensuring social distancing for all personnel. Due to this, it can manufacture to the extent of only 50% of the normal capacity. It expects the situation to continue in foreseeable future and at least for the next few months. Fixed overheads are allocated based on normal capacity. Working at reduced capacity will mean significant portion of fixed overhead will be charged off to P/L account. In the instant case, it is expected that the facility will work at reduced capacity for considerable amount of time. Can the reduced capacity be treated as a new-normal

capacity, and overhead allocation done considering the reduced capacity to be the "normal capacity"?

Ans. Yes, in that case company can temporary shifted their Working capacity to new reduced capacity. And Hence Higher Fixed Overheads rate will charge to Product. In that case cost of production will increased to that extent. Also, if company follows the same operating capacity, then due pandemic this unabsorbed overhead need to charge to PL or to include in Cost of Goods sold in Cost Sheet.

22. As per Para 5 of AS 2 Inventories shall be measured at the lower of cost and net realisable value. Whether Inventory of Work in Progress and Stores and Spares (which do not qualify for capitalisation and which would be consumed during normal production process) is required to be assessed at net realisable value at each balance sheet date and the same needs to be compared with cost?

    Ans. As per para 4 of AS 02, Inventories also encompass finished goods produced, or work in progress being produced, by the enterprise and include materials, maintenance supplies, consumables and loose tools awaiting use in the production process.

    In case of WIP and stores and spares, if finished product in it is used is sold at cost or above cost, then the estimated realisable value of such WIP and stores and spares are considered more than its cost. Therefore, it will be valued at cost.

    If finished product in which WIP and stores and spares are used is sold below cost. Then the estimated realisable value is equal to replacement price of WIP or supplies and hence will be valued at replacement price.

23. Whether Stores and spares are to be valued at NRV?

    Ans. As per para 4 of AS 02, Inventories also encompass finished goods produced, or work in progress being produced, by the enterprise and include materials, maintenance supplies, consumables and loose tools awaiting use in the production process.

    In case of WIP and stores and spares, if finished product in it is used is sold at cost or above cost, then the estimated realisable value of such WIP and stores and spares are considered more than its cost. Therefore, it will be valued at cost.

    If finished product in which WIP and stores and spares are used is sold below cost. Then the estimated realisable value is equal to replacement price of WIP or supplies and hence will be valued at replacement price.

AS 03

24. The entity holds a long-term investment. On 10th March, it enters into a binding agreement to sell the investment subject to receipt of statutory approvals. The approvals were received on 29th March and the actual sale transaction took place on 2nd April. At which point should the gain be recognised.

    Ans. As per AS 4, Events occurring after the Balance Sheet date, Since the approvals were received on 29th March and merely transaction took place after closure of Year. Hence gains shall be recognised in same year of approval

25. ABC Ltd. having Building which they used for their Administrative purpose. Now they shifted their entire administrative activity at plant. Management wants to let this property and earn rental till the time the alternative usage of the building is not decided.

    Can they classify this building from PPE to Investment Property? If yes how long?

    Subsequently if they have alternate usage can it again be classified as PPE?

    Ans. IT can be classified as investment property till the management intends to lease it, subsequently it can be reclassified to PP once the manufacturing is started but then it will have to follow the guidelines as mentioned in the standard.