

Approved by the decree № İ -73/1
dated 23 July 2007,
Ministry of Finance of the Republic of Azerbaijan

**NATIONAL ACCOUNTING STANDART FOR
COMMERCIAL ORGANIZATIONS № 8
“INVENTORIES”**

CONTENTS

GENERAL PROVISIONS	3
SCOPE.....	3
DEFINITIONS	4
MEASUREMENT OF INVENTORIES	4
COST OF INVENTORIES OF A SERVICE PROVIDER	5
RECOGNITION AS AN EXPENSE	7
DISCLOSURE	7
EFFECTIVE DATE	8
Appendix 1 - Comparison with IAS 2 Inventory	8

NATIONAL ACCOUNTING STANDART FOR COMMERCIAL ORGANIZATIONS № 8

“INVENTORIES”

GENERAL PROVISIONS

Purpose of the Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic and is based on International Accounting Standard 2 “Inventories”.

Objective

2. The objective of this Standard is to prescribe the accounting treatment for inventories by providing guidance on the amount of costs that are to be recognized as assets until the related revenues are recognized and the determination and recognition of expenses.
3. The Standard will identify the circumstances when costs must be written down to net realizable value
4. The Standard will provide guidance on the techniques that may be used in determining the costs of inventories

SCOPE

5. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
6. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
7. This Standard will be applied in accounting for all inventories by commercial enterprises, except:
 - a) work in progress arising under construction contracts including directly related service contracts (see NASCO 16 Construction Contracts),
 - b) Financial instruments
 - c) Biological assets that relate to agricultural activity and produce at the point of harvest
8. This Standard does not apply to the measurement of inventories held by:
 - (a) producers of agricultural and forest products, agricultural products after harvest, minerals and mineral products if they are measured at net realisable value. When such inventories are measured at net realisable value, changes in that value are recognised in the Income Statement in the period of the change.
 - (b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in the Income Statement of the period of the change.

DEFINITIONS

The following terms are used in this Standard with the meanings specified:

Inventories are assets:

- (a) held for sale in the ordinary course of business;
- (b) in the process of production for such sale; or
- (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Margin is the difference between revenue and cost; e.g. difference between sales and direct costs or between sales and cost of sales.

MEASUREMENT OF INVENTORIES

10. Inventories shall be measured at the lower of cost and net realisable value.

Cost of Inventories

11. 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.

Cost of Purchase

12. The costs of purchase of inventories includes the purchase price, import duties and other taxes (other than those that are recoverable by the entity from the tax authorities), transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in calculating the costs of purchase.

Costs of Conversion

13. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include an allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.
14. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

15. A production process may result in more than one product being produced simultaneously. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. When by-products are produced, they are often, by their nature, immaterial. When this is the case, they are normally measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost. Such practice is consistent with this Standard.

Other costs

16. Other costs are included in the cost of inventories only when they are incurred in bringing the inventories to their present location and condition.
17. The following costs are to be excluded from the cost of inventories and should be recognised as expenses in the period in which they are incurred are:
- (a) abnormal amounts of wasted materials, labour or other production costs;
 - (b) storage costs, unless those costs are necessary in the production process before a further production stage;
 - (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
 - (d) selling costs.
18. Borrowing costs may only be included in the cost of inventories when permitted by NASCO 13 – Borrowing Costs
19. If an entity purchases inventories on deferred settlement terms and there is a difference between the cash price and the deferred settlement price, then that difference is to be recognised as an interest expense over the period of the financing.

COST OF INVENTORIES OF A SERVICE PROVIDER

20. When service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often included in the prices charged by service providers.

Cost of agricultural produce harvested from biological assets

21. Agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of this Standard

Techniques for the measurement of cost

22. Techniques for the measurement of the cost of inventories, such as the use of the standard costs method and the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly

changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

Cost techniques

23. The cost of inventories of items that are not normally replaceable with similar items and goods or services produced and segregated for specific projects shall be identified by using specific identification of their individual costs.
24. Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are normally replaceable with similar items.
25. The cost of inventories, other than those dealt with in paragraph 23, shall be identified by using the first-in, first-out (FIFO) or weighted average cost methods of inventory valuation. An entity shall use the same cost methods of inventory valuation for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost methods of inventory valuation may be justified.

Net realisable value

26. If the cost of inventories are found to be not fully recoverable, for any reason, then that cost must be written down to the net realisable value. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use.
27. Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular industry or geographical segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.
28. Estimates of net realisable value are to be based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Estimates of net realisable value should also take into consideration the purpose for which the inventory is held.
29. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the

Отформатировано:
английский (США)

replacement cost of the materials may be the best available measure of their net realisable value.

30. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realisable value.

RECOGNITION AS AN EXPENSE

31. 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. 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.
32. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

DISCLOSURE

33. The financial statements shall disclose:
- (a) the accounting policies adopted in measuring inventories, including the cost methods of valuation used;
 - (b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
 - (c) the carrying amount of inventories carried at fair value less costs to sell;
 - (d) the amount of inventories recognised as an expense during the period;
 - (e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 32;
 - (f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 32;
 - (g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 32; and
 - (h) the carrying amount of inventories pledged as security for liabilities.
34. If an entity adopts the form of Income Statement where costs are disclosed by the nature of the expense (see NASCO 1 – Presentation of Financial Statements), the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

EFFECTIVE DATE

35. This National Standard for Commercial Organisations becomes operative after the date determined by the Minister of Finance of the Azerbaijan Republic

Appendix 1 - Comparison with IAS 2 Inventory

This National Accounting Standard for Commercial Organisations (NASCO) 8 - Inventory is drawn primarily from International Accounting Standard (IAS) 2 (2006) – Inventory. The main differences between NASCO 8 and IAS 2 are as follows:

- There are no significant differences between NASCO 8 and IAS 2
- Paragraph 1 is added to NASCO 8 and relates the standard to the Accounting Law. IAS 2 does not contain such a section.
- Paragraphs 5, 6, 7, 8 of NASCO 8 define the scope of the organisations required to apply the standard as set out in the Accounting Law. IAS 2 does not contain such a section.
- IAS 2 contains a number of illustrative examples and introductions. In line with established policy, all examples have been removed from NASCO 8 and will be covered in the Explanations document
- Within the Definitions section of NASCO 8, 'Margin' has been added for additional clarity within the Standard. There is no such definition in IAS 2
- Paragraphs in IAS 2 that refer to other IASs for which there is no comparable NASCO have been omitted.
- A number of paragraphs in IAS 2 have been simplified by using different words in the English draft or removing certain sentences

Отформатировано:
Шрифт: (по умолчанию)
Times New Roman, 12 пт, не
полужирный, английский
(США), выделение цветом