

INVENTORY VALUATION

This discussion paper has 2 parts

Part 1: based on the development in different internationally and Indian accepted standard up to 2024.

Part 2: based only on IVS which is effective from 31.01.25. IBBI in 01.04.26 has declared IVS as the valuation standards applicable for the purposes of the valuations conducted under the Code and regulations.

Part 1

This discussion paper tries to identify the competency of the valuers who can do the valuation of inventory and stock.

IVS 2022

Just analysis

What is written in IVS2022

Analysis

<p>Competency At the time the valuation is submitted, valuers must have the technical skills and knowledge required to appropriately complete the valuation assignment.</p> <p>IVS Framework Competence 50.1. Valuations must be prepared by an individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a valuation in an</p>	<p>It says about the competency of a valuer such as Possessing the necessary qualifications, ability and experience to execute a valuation with the appropriate technical skills, experience and knowledge. Also, the valuation must be in an objective, unbiased, ethical and competent manner.</p>
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objective, unbiased, ethical and competent manner and having the appropriate technical skills, experience and knowledge of the subject of the valuation, the market(s) in which it trades and the purpose of the valuation.

50.2. If a valuer does not possess all of the necessary technical skills, experience and knowledge to perform all aspects of a valuation, it is acceptable for the valuer to seek assistance from specialists in certain aspects of the overall assignment, providing this is disclosed in the scope of work (see IVS 101 Scope of Work) and the report (see IVS 103 Reporting).

50.3. The valuer must have the technical skills, experience and knowledge to understand, interpret and utilise the work of any specialists.

It also says of recruitment of a specialist if the valuer does not have the necessary knowledge or skill and must be sceptic while accepting data for input from the specialist.

IVS 2022 - 230 Inventory

20.1. Inventory broadly includes goods which will be used in future production processes (i.e., raw materials, parts, supplies), goods used in the production process (i.e., work-in-process), and goods awaiting sale (i.e., finished goods).

20.2. This standard focuses on valuation of inventory of physical goods that are not real property, as the numerous and varied aspects of real property inventory were not considered or contemplated in the

IVS 230 of 2022 covers finished goods, semi-finished goods, work in progress etc. but not **real property**.

What is **real property**: Real property is a parcel of land and structures that are permanently attached to the land. The owner of real property has all the rights of ownership, including the

<p>preparation of this standard. The valuation of real property is covered in IVS 400 Real Property Interests.</p>	<p>right to possess, sell, lease, and enjoy the land.</p> <p>Example: a real Estate Company or builder builds hundred buildings. Out of which eighty sold and twenty remained. From finance point of view, twenty may be kept as stock/inventory or may be as fixed assets, from the eye of valuation it shouldn't be come under IVS 230 as inventory.</p>
<p>20.3. While the book value of inventory only includes historical costs, the profits earned in the production process, which reflect returns on the assets utilised in manufacturing (including working capital, property, plant, and equipment and intangible assets), are not capitalised into book value. As a result, the market value of inventory typically differs from, and is usually higher than the book value of inventory.</p>	<p>It says that, book value shows only the historic value, it doesn't reflect the returns on the assets utilised in manufacturing. Which are not capitalised and hence the market value differs from the value arrived only from historic cost. The valuation involving only book value usually does not arrive at the "market value" as defined in IVS. IVS says it is usually lower because it does not involve the profit earned during the process of Manufacturing.</p>
<p>20.4 As inventory is seldom transacted at an interim stage (eg, work-in-process) or may</p>	<p>Since, the work in progress goods or semi-finished goods</p>

<p>not be frequently sold to a third party to conduct the selling effort (eg, finished goods sold via distributor networks), the valuation techniques and considerations for inventory frequently vary from those of other assets.</p>	<p>are not sold frequently in the market (the market is limited for these) and even the market is not available readily, the valuer has to know the techniques, the considerations and assumptions, which are different from the other assets. The valuer also should understand the limitation of such market.</p>
<p>20.5. Inventory valuations are performed for a variety of purposes. It is the valuer's responsibility to understand the purpose of a valuation and whether the inventory should be valued, whether separately or grouped with other assets. A non-exhaustive list of examples of circumstances that commonly include an inventory valuation component is provided below:</p> <p>(a) _ For financial reporting purposes, valuations of inventory are often required in connection with accounting for business combinations, asset acquisitions and sales, and impairment analysis.</p> <p>(b) _ For tax reporting purposes, inventory valuations are frequently needed for transfer pricing analyses, estate and gift tax planning and reporting, and ad valorem taxation analyses.</p>	<p>IVS has identified four purposes as non-exhaustive list, there are other purposes also.</p> <p>Purposes are generally</p> <p>a) for financial</p> <p>b) for tax</p> <p>c) for litigation, requiring valuation analysis in certain circumstances</p> <p>d) for general consulting, collateral lending,</p>

<p>(c) _ Inventory valuation may be the subject of litigation, requiring valuation analysis in certain circumstances.</p> <p>(d) _ Valuers are sometimes asked to value inventory as part of general consulting, collateral lending, transactional support engagements and insolvency.</p>	<p>transactional support engagements and insolvency. For d) determination of market value is required.</p>
<p>Bases of Value</p> <p>30.1. In accordance with IVS 104 Bases of Value, a valuer must select the appropriate basis(es) of value when valuing inventory.</p> <p>30.2 says about basis/bases which are other than the IVS. We will not discuss about those which are not in IVS.</p>	<p>IVS clearly says that while doing the valuation of inventory, to select the “Bases of Value” for inventory, a valuer must follow IVS 104.</p> <p>A Plant & Machinery valuer has to assume the appropriate basis/bases as per IVS 104.</p> <p>Now, for inventory valuation, it has to be conducted by a person who is competent to follow strictly IVS104 for assuming basis/bases and who is a valuer.</p> <p>This can be interpreted in another way that the same valuer, who can choose the appropriate bases in P&M valuation is competent do the valuation of corresponding* inventory.</p>

40. Valuation Approaches and Methods

40.1. The three valuation approaches described in IVS 105 Valuation Approaches can all be applied to the valuation of inventory. The methods described below simultaneously exhibit elements of the cost approach, market approach, and income approach. If necessary for the valuer to classify a method under one of the three approaches, the valuer should use judgement in making the determination and not necessarily rely on the classification below.

40.2. When selecting an approach and method, in addition to the requirements of this standard, a valuer must follow the requirements of IVS 105 Valuation Approaches, including para

And IVS 105 Valuation Approaches, para 10.3 says

10.3. The goal in selecting valuation approaches and methods for an asset is to find the most appropriate method under the particular circumstances. No one method is suitable in every possible situation. The selection process should consider, at a minimum:

the appropriate basis(es) of value and premise(s) of value,
determined by the terms and purpose of the valuation

Same as above. All the three approaches with methods, if those can be followed be a **competent valuer** while doing the valuation for plant and machines, the **same valuer** may be **competent** to choose the appropriate approach /method in **inventory valuation.**

<p>assignment,</p> <p>the respective strengths and weaknesses of the possible valuation approaches and methods,</p> <p>the appropriateness of each method in view of the nature of the asset and the approaches or methods used by participants in the relevant market, and</p> <p>the availability of reliable information needed to apply the method(s).</p>	
<p>IVS 105 also says about Depreciation/Obsolescence</p> <p>80. Depreciation/Obsolescence</p> <p>80.1. In the context of the cost approach, “depreciation” refers to adjustments made to the estimated cost of creating an asset of equal utility to reflect the impact on value of any obsolescence affecting the subject asset. This meaning is different from the use of the word in financial reporting or tax law where it generally refers to a method for systematically expensing capital expenditure over time.</p>	<p>This is to be understood that IVS clearly says that the term “depreciation” used in valuation is not same as the “depreciation” used in finance. No typical method for standard systematically reduction of value, this meaning is related with obsolescence. This also to be understood that if a valuer adopts “Cost Approach /method” in inventory valuation (70 of IVS 230), the competent valuer must understand and can check the obsolescence factor of the marketability and other factors of “inventory”.</p>
<p>IVS 2025 says</p> <p>Current Replacement Cost Method (CRCM)</p>	<p>Above, in the considerations of CRCM, number c) is</p>

The current replacement cost method (CRCM) may provide a good indication of market value if inventory is readily replaceable in a wholesale or retail business (eg, raw materials inventory).

The market value of raw materials and other inventory may be similar to the net book value at the valuation date. The adjustments that should be considered include but are not limited to:

the book value may need to be adjusted to FIFO(First In, First Out) basis,

if raw material prices fluctuate and/or the inventory turnover is slow, the book value may need to be adjusted for changes in market prices,

the book value of raw materials may also be decreased to account for **obsolete and defective goods**,

the book value may also need to be decreased for shrinkage, which is the difference between inventory listed in the accounting records and the actual inventory due to theft, damage, miscounting, incorrect units of measure, evaporation, etc,

the book value may need to be increased for any costs incurred in connection with raw material preparation (eg, purchasing, storage and handling).

concerned about **obsolete and defective goods**. It is clearly said that the valuer must have the competency to identify the **obsolete and defective goods**.

OTHER STANDARD	Uniform Standards of Professional Appraisal Practice (USPAP)
<p>BEING COMPETENT</p> <p>An appraiser must determine, prior to agreeing to perform an assignment, that he or she can perform the assignment competently. Competency requires:</p> <ol style="list-style-type: none"> 1. the ability to properly identify the problem to be addressed; 2. the knowledge and experience to complete the assignment competently; and 3. recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment. <p>Comment: Competency may apply to factors such as, but not limited to, an appraiser’s familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method.</p> <p>If such a factor is necessary for an appraiser to develop credible assignment results, the appraiser is responsible for having the competency to address that factor or for following the steps outlined below to satisfy this COMPETENCY RULE.</p> <p>For assignments with retrospective opinions and conclusions, the appraiser must meet the requirements of this</p>	<p>It is clearly mentioned here about” an appraiser’s familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method.” The valuer must have adequate knowledge to identify the asset, its intended use and intended user and is market.</p>

<p>COMPETENCY RULE at the time the assignment is performed.</p>	
<p>OTHER STANDARD</p>	<p>RICS Valuation global standard Guideline VPGA 5 Valuation of plant and equipment</p>
<p>4. Plant and equipment separately valued</p> <p>4.1 Plant and equipment valued separately from the property interest can be divided into broad categories of assets. ‘Fixed assets’ are often defined by the accounting standards applicable in the relevant country or state. The different categories may need to be identified and valued separately, depending on the purpose of the valuation.</p> <p>4.2 Examples of ‘fixed assets’ include:</p> <ul style="list-style-type: none"> process and production plant and machinery transport infrastructure exploration, mining and metals vehicle, rail, shipping and aviation computing, technology and office furniture classification mobile plant health, education and defence general manufacturing utilities. 	<p>RICS guideline clearly says that the valuation of items includes but not limited to spare parts and consumables, inventory (stock), product-dedicated items (for example, moulds, jigs and dies) and work in progress to be valued by plant and equipment valuers.</p>

<p>4.3 Many borderline assets that may not qualify as fixed assets are valued by plant and equipment valuers, including:</p> <p>computer and technology software, licences and consents</p> <p>spare parts and consumables</p> <p>inventory (stock)</p> <p>product-dedicated items (for example, moulds, jigs and dies)</p> <p>work in progress.</p>	
<p>OTHER STANDARD</p>	<p>IFRS</p>
<p>International Accounting Standard IAS2 does not apply to commodity broker-traders who acquire inventories principally for the purpose of selling in the near future and generating a profit from fluctuations in the price or to earn a broker-trader’s margin.</p> <p>KEY CONCEPTS of valuing Inventory</p> <p>16.3.1 Inventories should be measured at the lower of cost and net realizable value.</p> <p>16.3.2 Cost of inventories comprises all the costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.</p> <p>16.3.3 The net realizable value (NRV) is the estimated selling price less the estimated costs of completion and costs necessary to make the sale.</p> <p>The net realizable value (NRV) is the estimated selling price less the estimated costs of completion and costs necessary to make the sale.</p> <p>What Is Net Realizable Value (NRV)?</p> <p>Net realizable value (NRV) is the estimated sale price for an asset after deducting any selling costs. Businesses commonly use NRV as a <u>valuation method</u> for their financial reporting or cost accounting.</p>	<p>International Accounting Standard IAS2 says about valuation of inventory.</p> <p>Cost of inventories comprises and The net realizable value (NRV).</p> <p>IAS2 also suggests the measurement should be the lower of Cost and NRV.</p> <p>Fair value defined in IFRS 13” IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. “</p> <p>Cost and NRV are far away from the definition of fair value in IFRS</p>

<p>16.3.4 When inventories are sold, the carrying amount of those inventories should be recognized as an expense in the period in which the related revenue is recognized .</p> <p>16.3.5 The amount of any write-down of inventories to NRV and all losses of inventories should be recognized as an expense in the period of the write-down or loss.</p>	
<p>OTHER STANDARD</p>	<p>AS-2</p>
<p>Indian Accounting Standard 2 - Inventories</p> <p>How are Inventories Measured? Inventories are measured at cost or NRV, whichever is lower.</p> <p>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.</p> <p>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.</p> <p>(Similar as IAS-2)</p>	<p>As-2 says about fair value :Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See Ind AS 113, Fair Value Measurement.)</p> <p>Cost and NRV are far away from the definition of fair value in AS113</p>

IVS 2022 says on inventory in IVS230

- **IVS 2022 - 230 Inventory**

- 20.1. Inventory broadly includes goods which will be used in future production processes (ie, raw materials, parts, supplies), goods used in the production process (ie, work-in-process), and goods awaiting sale (ie, finished goods).
- 20.2. This standard focuses on valuation of inventory of physical goods that are not real property, as the numerous and varied aspects of real property inventory were not considered or contemplated in the preparation of this standard. The valuation of real property is covered in IVS 400 Real Property Interests.
- IVS 230 of 2022 covers finished goods, semi-finished goods, work in progress etc. but not **real property**.
- What is **real property**: Real property is a parcel of land and structures that are permanently attached to the land. The owner of real property has all the rights of ownership, including the right to possess, sell, lease, and enjoy the land.
- Even: a real Estate Company or builder builds hundred buildings. Out of which eighty sold and twenty remained. From finance point of view, twenty may be kept as stock/inventory or may be as fixed assets, from the eye of IVS, it shouldn't be come under IVS 230 as inventory.

We are concerned about determination of value of the inventory which would be sold in the market.

Considerations on IVS 2022, IVS 2025, USPAP 2020 ,RICS 2022, IFRS 13, AS-13, IAS-2, AS-2.

IVS says about purpose. When it comes to sale of the inventory for recovering debts, for determining the **fair value** and **liquidation value of inventory** as per **IBC** or **Market value** as per **IVS**, it is understandable that the valuer should have the following competency

- 1) know about the macro and micro market and its limitation.
- 2) Know about the three types of obsolescence.

- 3) the detailed workmanship/labour/money involved in semi-finished goods, part of finished goods and finished goods (waiting for sale) etc.
- 4) They can consider other minor details also while doing the inventory valuation. Standards also says the competency of the valuer in this light only. Depending on the purpose of valuation, the necessary assumption, basis and methodology of valuing a particular type of inventory can be considered by the valuers of corresponding* asset class only. This also pertinent to mention here that, purpose wise it may change for different jurisdiction.

USPAP, generally practised in USA, Clearly said about the competency of doing valuation of Inventory. They said about familiarity with a specific type of property or asset.

RICS 2022, Valuation global standard Guideline VPGA 5 Valuation of plant and equipment says “The guidance below provides additional commentary on the *valuation of plant and equipment* and the practical application of **IVS 300 Plant and Equipment**. “

“In order to prepare a *valuation*, the valuer first needs to establish matters such as the type, specification, capacity and purpose of the items, then consider matters such as age, efficiency, condition, functional and economic obsolescence, and estimated total and remaining useful economic working life.”

And RICS **RICS 2020 and 2022** finally says “any borderline assets that may not qualify as fixed assets are valued by ***plant and equipment valuers***, including: **spare parts and consumables, inventory (stock), product-dedicated items (for example, moulds, jigs and dies), work in progress.** “

It is very clear who are competent to do the valuation of corresponding* asset class

We also considered International **Accounting Standard-2, AS-2**(which are being used in India) both have provisions of Inventory Valuation. Both have same provisions as **Cost** and **NRV**. Between these two, whichever is lower.

But, these are far away from the Definitions of “**fair value**” given in **IFRS 13** and **AS113**.

We see the main motive of this discussion paper is to arrive at the **Fair Value (IBC), Liquidation Value (IBC) or Market Value (IVS) or Fair Value(IFRS)** and the purpose is to sale of inventory at the highest value. The valuation methods of inventory as per IAS or AS are far from achieving fair value.

So, Inference can be drawn that it would be easier for the valuers of particular asset class to do the valuation for the inventory which falls under corresponding* category. It should be interpreted in the way that a valuer, none other than of asset class P&M should be competent to do valuation of finished goods, semi-finished goods, work in progress of corresponding* asset class. A plant and machinery valuer with its educational back ground and experience can be competent to do the valuation of corresponding* inventory valuation. They have the eligibility to assume its applicability, marketability and even HABU.

Corresponding inventory which covers finished goods, semi-finished goods, work in progress, stock items of similar category which includes but not limited to machined items but not for sale in the open market or finished item but it is manufactured for use in a particular machine.*

In case of special items, when specialists are appointed, the valuer for a particular asset class only can understand and be sceptic cautious while accepting data to input in valuation model.

Part ~ 2

Very latest

IBBI Circular No. IBBI/RV/93/2026, dated 1st April 2026.

- Valuation Standards for the purpose of valuation conducted under the Insolvency and Bankruptcy Code, 2016.
- In exercise of the powers conferred by the afore-mentioned regulations, the Board hereby notifies the International Valuation Standards (IVS), as issued and updated from time to time by the International Valuation Standards Council (IVSC), as the valuation standards applicable for the purposes of the valuations conducted under the Code and regulations made thereunder, until further orders.
- This circular shall come into force from the date of its issue and shall apply to all valuation conducted under the Code and regulations made thereunder.

CONFUSION on doing inventory valuation

Which standard to follow : IBBI circular says to follow IVS

What are the differences in definitions of basis/bases

What are the approaches and methods

Which should be considered

Now, **IVS 230 of 2025 says**

- *Same as said in IVS 2022*
- The principles contained in the General Standards apply to *valuations* of inventory and *valuations* with an inventory component. This standard contains additional requirements for *valuations* of inventory.
- While the book value of inventory only includes historical costs,
- the profits earned in the production process, which reflect returns on the *assets* utilised in manufacturing (including working capital, property, plant, and equipment, and *intangible assets*), are not capitalised into book value.
- As a result, the **market value** of inventory typically differs from, and is usually higher than, the book value of inventory.

- Again, we say the “market value” depends on the demand and supply, may not be typically higher than book value.
- Book value shows only the historic value, it doesn’t reflect the returns on the assets utilised in manufacturing

IVS 230 of 2025 says

- 20.04 As inventory is seldom transacted at an interim stage (eg, work-in-process) or may not be frequently sold to a third party to conduct the selling effort (eg, finished goods sold via distributor networks), the *valuation* techniques and considerations for inventory frequently vary from those of other.
- 20.05 *Valuations* of inventory are performed for a variety of *intended uses*. It is the *valuer’s* responsibility to understand the *intended use* of a *valuation*. It is also the *valuer’s* responsibility to understand whether the inventory *should* be valued separately or grouped with other *assets*.
- 20.6 Circumstances requiring the *valuation* of inventory includes but is not limited to:
 - Financial reporting purposes, such as accounting for business combinations, asset acquisitions and sales, and impairment analysis,
 - Tax reporting purposes, such as transfer pricing analyses, estate and gift tax planning and reporting, and *ad valorem* taxation analyses,
 - Litigation, in instances such as shareholder disputes, damage calculations and marital dissolutions (divorce),
 - General consulting, collateral lending, transactional support engagements and insolvency.
 - In accordance with IVS 102 *Bases of Value*, (previously it was in IVS 104) the *valuer must* select the appropriate *basis(es) of value* when valuing inventory.
 - the *valuer must* understand and follow the legislation, regulation, case law, and other interpretive guidance related to those *bases of value* effective at the *valuation date*.
 - Basically, the IVS is suggesting to use same and commiserating definitions as postulated in IVS 102 of 2025

- IBBI latest (Amendment) Regulations, 2026. Gazette No.BBI/2025-26/GN/REG135 , dated 1st April 2026
- The new definition (hb) **“fair value”** means the estimated realizable value of the **corporate debtor** or the assets of the corporate debtor, as the case may be, if they were to be exchanged on the insolvency commencement date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing, and where the parties had acted knowledgeably, prudently, and without compulsion.
- **Explanation** (given in the circular).- The estimated realizable value of the corporate debtor shall be computed after taking into account the total estimated realizable value of all the assets of the corporate debtor including but not limited to tangible and intangible assets, along-with their **underlying synergies.**”
- IBBI also says about the coordinating valuer of a set shall compute the fair value of the corporate debtor after considering the fair value of the assets as computed by the registered valuers within that set, **along with their underlying synergies**, and submit the same to the resolution professional

Bases of value: IBC & IVS

IBC says “Liquidation Value” means the estimated realizable value of the assets of the corporate debtor, if the corporate debtor were to be liquidated on the insolvency commencement date.

IVS Says Market Value The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

IVS Says Liquidation value is the amount that would be realised when an asset or group of assets are sold from a liquidation sale, with the seller being compelled to sell as of a specific date. Liquidation value can be determined under two different premises of value: an orderly transaction with a typical marketing period, or

a forced transaction with a shortened market period.

- Other premise of value
 - (a) highest and best use,
 - (b) current use/existing use,
 - (c) orderly liquidation, and
 - (d) forced sale.

IVS 103 says **Valuation Approaches and Methods**

- *3 Valuation approaches and Methods as said in IVS 103 can be applied to the valuation of inventory.*
 - *include elements of the cost approach, market approach, and income approach*
- IVS 103 of 2025**
- *The same approach and method should be applied for asset and inventory*

Market Approach

- (a) inventory of commodity products, or
 - (b) inventory in which a market exists for the inventory at an interim stage in the production process.
 - (c) For non-commodity traded products or products that a market exists at an interim production stage, such selling prices *must* be adjusted to account for the disposal effort and related profit.
- It depends on the marketability of **the commodity**, if these are saleable.
 - For **Non commodity** products where general open market is not available example maybe semi finished where the particular market exist

Income Approach Top-Down method

- The *valuer must* comply with IVS 103 Valuation Approaches
- **Estimate the price for selling**
 - (i) The *valuer should* rely on direct observations of selling prices
 - (ii) If such data is not available and the selling price is can be estimated by applying an appropriate gross profit margin to the net book value of finished goods on the individual product level or the aggregate level.

- (iii) Typically, the projected gross profit margin in the period the inventory will be sold is used – The time period assumed for selling the inventory
- (iv) Estimate the *costs* to complete (for work-in-process only): **That means may be ready for selling**
- (v) Completion costs should include all the balance expenditures directly or indirectly remaining to be incurred **after the valuation date** in bringing the work in progress inventory to its finished condition.
- (vi) *Costs* to complete *should* be adjusted to remove expenses benefitting future periods;
- (vii) Subtract the *costs* of disposal:
- (viii) *Costs* of disposal represent *costs* that would be incurred after the *valuation date* to deliver the finished goods to the end customer.
- (ix) *Costs* of disposal *should* be adjusted to remove expenses benefitting future periods.
- (x) *Costs* of disposal generally include selling and marketing expenses, whereas procurement and manufacturing expenses have typically already been incurred for finished goods inventory.
- (xi) To accurately determine *costs* of disposal
- (xii) All expense in the inventory cycle (including indirect overheads) *should* be categorized either as having been incurred and, therefore, have contributed to the *value* of the finished goods inventory, or as remaining to be incurred during the disposal process

Subtract the profit allowance on the completion effort (for work-in process only) and the disposal process.

- **For WIP**

- (i) An initial starting point may be to utilise the operating profit of the business.
- (ii) However, this methodology assumes the profit margin on the inventory is proportional to the *costs* incurred.
- (iii) In most circumstances, there is rationale to assume profit margins which are not proportional to *costs*
- (iv) Holding costs may need to be estimated the cost associated with the time required to sell the inventory.

- (v) The *valuer should* consider the risk borne during the holding period
- (vi) Risks may be a function of the length of inventory life cycle (eg, the manufacturer bears the risk of fluctuation in *costs* of completion and disposal).
- (vii) Holding costs may be immaterial and ignorable if the inventory turnover is high and/or the borrowing rate is low.
- (viii) When determining the *cost* to complete,
 - (ix) *costs* of disposal and
 - (x) profit allowance,
 - (xi) the *valuer should* identify and exclude any expenses that are intended to provide future economic benefit and are not necessary to generate the current period revenue.
 - (xii) When utilising the top-down method,
 - (xiii) the *valuer should* consider whether sufficient *data* are available to appropriately apply the necessary steps.
 - (xiv) If sufficient *data* are not available, it may be appropriate to apply other methods or techniques.

Income Approach Bottom up Method

- (i) Determine the book value of the subject inventory. Check the book value from the accounts
- (ii) add any *cost* of buying and holding already incurred Check the cost for buying and holding
- (iii) Add *costs* typically include procurement and manufacturing expenses
- (iv) Add profit on total *costs* already incurred.
- (v) When determining the *costs* already incurred, the internally developed *intangible assets* that have contributed toward the completion effort to be considered.

Cost Approach

- I. The replacement cost is to be considered as primary method for Raw material
- II. Current Replacement Cost Method (CRCM)
- III. The current replacement cost method (CRCM) may provide a good indication of market value if inventory is readily replaceable in a wholesale or retail business (eg, raw materials inventory)

- IV. The market value of raw materials and other inventory may be similar to the net book value at the valuation date. The adjustments that should be considered include but are not limited to
- V. The market value of raw materials and other inventory may be similar to the net book value at the valuation date. The adjustments that should be considered include but are not limited to
- VI. the book value may need to be adjusted to FIFO(First In, First Out) basis,
- VII. if raw material prices fluctuate and/or the inventory turnover is slow, the book value may need to be adjusted for changes in market prices,

The book value of raw materials may also be decreased to account for **obsolete and defective goods**,

(i) The book value may also need to be decreased for shrinkage, which is the difference between inventory listed in the accounting records and the actual inventory due to theft, damage, miscounting, incorrect units of measure, evaporation, etc,

(ii) The book value may need to be increased for any costs incurred in connection with raw material preparation (eg, purchasing, storage and handling). in the considerations of CRCM, it is concerned about **obsolete and defective goods**. It is clearly said that the valuer must have the competency to identify the **obsolete and defective goods**.
