

Analysis of the Application of IAS 2 Inventories in Financial Reporting

Sayed Ziaullah Aminy¹, Harun Kısacık², Recep Çakar³ and Sayed Alim Samim⁴

^{*}Hitit University, Department of Finance and Banking, Çorum, Türkiye, ^αHitit University, Vocational School of Social Sciences, Department of Management and Organization, Çorum, Türkiye, ^γHitit University, Faculty of Economics and Administrative Sciences, Department of Finance and Banking, Çorum, Türkiye, ^θTakhar University, Faculty of Agriculture, Takhar, Afghanistan.

ABSTRACT The primary objective of this article is to examine the theoretical framework and practical implementation principles of inventories within the scope of Turkish Accounting Standard TAS2. As one of the most dynamic components of current assets, inventories play a vital role in determining a firm's profit-loss structure and conducting liquidity analysis. This study adopts a descriptive and analytical methodology and is approached from a perspective consistent with International Financial Reporting Standards (IAS/IFRS). The findings indicate that valuing inventories at the lower of cost and net realizable value is critically important in preventing the overstatement of assets in accordance with the prudence principle. In addition, the allocation of production costs and their impact on operating profit are analyzed in depth. The study evaluates the FIFO and Weighted Average Cost methods, particularly with regard to their effects on financial statements in inflationary environments. The results demonstrate that the careful determination of net realizable value at the end of each reporting periods serves as a mechanism to prevent the deferral of unrealized losses to future periods. Ultimately, the accurate and comprehensive application of IAS 2 standards not only enhances the transparency of financial statements but also strengthens the international comparability of financial information.

KEYWORDS

IAS 2
Inventories
Net realizable value
Cost methods
Financial reporting transparency

INTRODUCTION

The IAS 2 (Inventories Standard), which constitutes a pivotal component of the Turkish Accounting Standards, regulates the accounting principles related to inventories, which are considered among the most vital assets of enterprises. The primary objective of this standard is to clarify the determination of inventory costs, ensure their accurate presentation in financial statements, and regulate issues such as inventory write-downs at the end of the reporting period. Within the scope of this study, the IAS 2: Inventories Standard, published by the Turkish Accounting Standards Board on January 15, 2005, is comprehensively analyzed. The regulation was issued under the authority and responsibility of the Turkish Accounting Standards Board and entered into force as a legal requirement for accounting periods beginning on or after December 31, 2005. Furthermore, the standard has been revised in line with

evolving financial reporting requirements through various supplementary regulations enacted over time (Boydas Hazar 2020).

Following these updates, IAS 2 consists of a total of 40 articles organized into several major sections that collectively establish the principles for inventory accounting. Article 1 outlines the objective and underlying philosophy of the standard, while Articles 2–5 define its scope and field of application. Articles 6–8 present the key definitions and conceptual framework, followed by Article 9, which introduces the principles of inventory valuation. Articles 10–20 describe the composition of inventory costs, including purchase costs, conversion costs, other cost components, inventory costing for service providers, and products derived from agricultural activities. Articles 21–22 explain the techniques used for cost measurement, whereas Articles 23–27 specify the inventory cost formulas, such as the FIFO and weighted average methods. Articles 28–33 address the determination of net realizable value and inventory impairment, while Articles 34–35 explain the recognition of inventories as an expense. Finally, Articles 36–39 set out the disclosure requirements for financial statements and accompanying notes, and Article 40 specifies the effective date of the standard.

Manuscript received: 7 May 2026,

Revised: 8 July 2026,

Accepted: 10 July 2026.

¹s.ziaullah.aminy1999@gmail.com

²harunkisacik@hitit.edu.tr (Corresponding author)

³recepcahar@hitit.edu.tr

⁴samim@tu.edu.af

While the IAS 2 Standard primarily concerns the asset structure of commercial enterprises from a financial accounting perspective, it also functions as an operational guideline for enterprises engaged in the production of goods or the provision of services within the framework of cost accounting. In this respect, the standard represents an indispensable cornerstone for ensuring transparency and comparability in financial reporting. Although IAS 2 generally covers all inventory items, certain assets are excluded due to their specific characteristics and alternative valuation requirements. In this context, financial instruments within the scope of IAS 32 and IFRS 9, as well as agricultural produce at the point of harvest regulated under IAS 41 Agriculture, fall outside the remit of this standard (Akgün 2012).

Pursuant to the standard, assets possessing the following characteristics are defined as inventories and evaluated within the scope of IAS 2:

- **Commercial Goods:** Assets purchased for resale and intended to be presented to customers without any further processing.
- **Work-in-Progress:** Assets that are not yet completed and remain in the production process at the reporting date.
- **Raw Materials and Supplies:** Materials held in enterprise warehouses for use in production or for consumption in the provision of services.

For enterprises operating in the service sector, inventory costs include all costs incurred up to the completion of the service. In particular, wages paid to personnel who are directly involved in the production or provision of services are classified as direct production costs. Conversely, expenses related to general administrative personnel that do not have a direct connection with production activities are excluded from inventory costs and are recognized directly as period expenses (Korga and Aslanoglu 2024).

Two critical concepts are particularly significant in the year-end valuation of inventories:

- **Net Realizable Value:** 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:** The amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction under market conditions.

According to IAS 2, inventories must be measured at the lower of cost and net realizable value. This valuation approach is consistent with the principle of conservatism and aims to prevent the overstatement of assets in financial statements.

LITERATURE REVIEW

The findings related to listed companies indicate that, although the level of compliance with the disclosure requirements of IAS 2 is generally satisfactory, significant information gaps still exist in areas such as the reversal of inventory write-downs and the disclosure of pledged inventories. Moreover, the results demonstrate that firm size and the type of audit firm, particularly large international audit firms have a direct and positive impact on the quality of inventory-related disclosures (Polachová 2019). Morshed and Ramadan (2023) conclude that IAS 2 functions as a safeguard or filtering mechanism that prevents the inclusion of inappropriate cost items such as marketing expenses or costs arising from inefficiencies into the cost of inventories reported on the balance sheet. This approach ensures that the value of a company's assets is not overstated in annual financial reports.

Ferreira and Viana (2010) employed a case study method and comparative statistical analysis to examine the financial statements of companies listed on Euronext Lisbon. They concluded that the transition to international accounting standards resulted in statistically significant changes in inventory valuation. The authors found that the elimination of the LIFO method in accordance with the requirements of IAS 2 led to an increase in the book value of inventories reported on the balance sheet, thereby enhancing the quality and comparability of financial information. Their findings further indicate that by restricting the types of expenditures eligible for inclusion in inventory cost, the standard prevents artificial inflation of asset values and improves reporting transparency. Ultimately, the study demonstrates that compliance with IAS 2 provides a more realistic representation of corporate profitability and the status of current assets compared to the previously applied local standards. Öztürk (2017) employed comparative analysis and library-based research methods to examine differences in the measurement and accounting of inventories within the framework of Turkish tax legislation (VUK), national and international accounting standards (IAS/IFRS), and draft standards developed for small and medium-sized enterprises. He concluded that significant gaps exist between tax regulations and accounting standards regarding the calculation of inventory cost and related ancillary expenses, necessitating corrective adjustments. His findings indicate that modern standards, by emphasizing fair value and net realizable value, provide a more accurate representation of current assets. Ultimately, Öztürk emphasized the need to harmonize reporting practices in order to reduce accounting complexity within economic entities.

Kaya (2018) employed content analysis to compare Turkish Accounting Standard TMS 2 and the Financial Reporting Standard for Large and Medium-Sized Enterprises (BOBİ FRS) with respect to inventory accounting. She concluded that although the two sets of standards are largely compatible, notable differences exist in the determination of inventory cost and, in particular, in the recognition of revenues related to service-oriented entities. Her findings indicated that the majority of provisions concerning the measurement and reporting of inventories are aligned across both standards, and that the differences are mainly confined to specific technical details. Ultimately, Kaya emphasized the importance for auditors to clearly understand these distinctions in order to prepare accurate financial reports that comply with the applicable standards. Sellhorn and Gornik-Tomaszewski (2006) employed qualitative analysis and a comprehensive review of the research literature to examine the implications of International Accounting Standards (IAS) regulations on cross-country differences in accounting systems. They concluded that although the mandatory adoption of these standards within the European Union led to apparent convergence, institutional and national differences continued to influence the quality of financial reporting. Their findings suggested that researchers should move beyond a sole focus on formal rules and pay greater attention to environmental characteristics and managerial incentives that shape the implementation of these standards. Özyapıcı (2019) employed a case study methodology to examine the impact of Turkish Accounting Standard TMS 2 (equivalent to IAS 2) on the analysis of idle capacity and the management of production costs. He concluded that by requiring fixed production overheads to be allocated on the basis of normal capacity, this standard enables a clear distinction between actual idle capacity and unavoidable idle capacity in managerial reports. His findings indicated that this approach prevents inefficiency-related costs from being transferred to product cost and provides

managers with a critical tool for strategic decision-making in cost control.

PRINCIPLES OF INVENTORY VALUATION

The fundamental philosophy underlying IAS 2 Inventories is based on the principle of prudence. Accordingly, inventories should not be presented in the financial statements at amounts exceeding the economic benefits expected to be realized from their sale. The standard seeks to enhance the reliability and faithful representation of financial statements by preventing the overstatement of assets. In line with the prudence principle, IAS 2 requires inventories to be measured at the lower of cost and net realizable value. Net realizable value is defined as 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 (Sellhorn and Gornik-Tomaszewski 2006). To clarify the application of this principle, the following examples are presented:

Situation A: Assume that the cost of a product held in inventory is 40,000 TL. If the estimated selling price is 30,000 TL and the expected selling expenses amount to 4,000 TL, the net realizable value will be 26,000 TL ($30,000 - 4,000$). In accordance with the lower of cost and net realizable value rule, the inventory should be recognized in the financial statements at 26,000 TL.

Situation B: If the net realizable value of the same inventory item were higher than its cost, for example, 45,000 TL, the inventory would continue to be measured at its historical cost of 40,000 TL. Under IAS 2, unrealized increases in inventory value are not recognized as gains. Conversely, any decline in value is recognized immediately as an expense, ensuring that the financial statements present a true and fair view of the entity's financial position.

DETERMINATION OF INVENTORY COSTS

In accordance with IAS 2, the cost of inventories comprises all costs incurred in acquiring the inventories, converting them, and bringing them to their present location and condition. Inventory costs are generally classified into two main categories: purchase costs and conversion costs.

Purchase Costs

Purchase costs include expenditures directly attributable to the acquisition of finished goods, raw materials, and services. The components of purchase costs are as follows (Özyapıcı 2019).

- **Purchase Price:** The net price paid to acquire the inventory.
- **Import Duties and Customs Charges:** Mandatory costs incurred during the importation process.
- **Transportation Costs:** Expenses related to transporting inventories to the entity's premises.
- **Loading, Unloading, and Handling Costs:** Costs incurred during the physical movement and initial handling of inventories.
- **Non-refundable Taxes:** Taxes and duties that cannot be recovered from tax authorities.
- **Trade Discounts and Rebates:** These are deducted from the purchase price when determining the cost of inventories.

Conversion Costs

Conversion costs are incurred once inventories enter the production process and represent the costs necessary to transform raw materials into finished goods. These costs include:

- **Direct Labor Costs:** Wages and related costs of personnel directly involved in the production process.
- **Production Overheads:** Both fixed and variable indirect costs related to production activities, such as factory depreciation, maintenance, and energy expenses, which are systematically allocated to units of production.

Costs that do not contribute directly to bringing inventories to their present location and condition such as general administrative expenses are excluded from inventory cost and recognized as period expenses. Financing costs are also expensed unless capitalization is permitted under the provisions of IAS 23 Borrowing Costs (Berli 2014).

INVENTORY COST MEASUREMENT METHODS

The IAS 2 standard permits specific cost measurement techniques that enable enterprises to determine inventory costs in a manner consistent with their operational structures and the nature of their inventories. Especially in complex production environments or in the retail sector where a large number of inventory items exist these techniques are applied to ensure that inventory costs are measured as faithfully as possible (Aygün 2014).

Standard Cost Method

The standard cost method is based on the principle of multiplying predetermined standard quantities by standard prices established prior to the commencement of production. Under this method, pre budgeted data relating to raw materials, direct labor, and manufacturing overheads are used to calculate inventory costs. According to IAS 2, the use of the standard cost method is permitted only if the resulting cost figures closely approximate actual costs. If significant variances arise between standard costs and actual costs, such differences must be analyzed and adjusted at the end of the accounting period.

Retail Method

In the retail sector such as supermarkets and apparel stores where inventories consist of numerous items with rapidly changing prices and relatively similar profit margins, determining the cost of each individual item may be impractical. In such cases, the retail method is applied (Yılmaz 2020). The retail method determines the cost of inventories by deducting an appropriate average gross profit margin from their sales value (tag price). Under this approach, the estimated cost of inventories is calculated by subtracting the average gross profit rate applicable to a specific product group from the total sales value of those inventories. This method provides a practical and efficient solution, particularly for large scale retail enterprises where detailed cost tracking and physical inventory counting are difficult to perform.

ALLOCATION OF INVENTORY COSTS AND COST FORMULAS

Since inventories constitute a significant portion of an enterprise's current assets, the accurate allocation and valuation of inventory costs are crucial for the reliability and integrity of financial statements. IAS 2 specifies several cost formulas that may be used to determine the flow of inventory costs and the valuation of ending inventories.

FIFO Method (First-In, First-Out)

The FIFO method is based on the assumption that inventories acquired first are sold first.

- Mechanism:
Under the FIFO method, inventories remaining at the end of the accounting period are valued using the most recent acquisition costs.
- Analysis:
In inflationary environments where purchase prices are rising the FIFO method generally results in higher gross profit and, consequently, a higher taxable income, as older inventories with lower costs are assigned to the cost of goods sold. At the same time, the ending inventory reported on the balance sheet reflects values that are closer to current market prices, thereby enhancing the relevance of financial information (White 2021).

■ **Table 1** FIFO Method Practical Example

Date	Transaction	Qty. (Units)	Unit Price (TL)	Total (TL)	Description
01.01.2020	Receipt	1,000	55	55,000	Initial inventory batch
09.01.2020	Receipt	500	80	40,000	Second inventory batch
15.01.2020	Receipt	500	100	50,000	Third inventory batch
20.01.2020	Issue	500	55	27,500	FIFO: First in, first out (Jan. 1 stock)
25.01.2020	Receipt	500	100	50,000	New inventory receipt
30.01.2020	Issue	1,000	55–100	72,500	FIFO: 500×55 , 250×80 , 250×100

Source: Author's original work.

Issue of 01.01.2020: Pursuant to the FIFO method, the inventories first acquired are the first to be issued. Consequently, 500 units are issued from the 1,000 units of stock dated 01.01.2020.

Cost: $500 \times 55 \text{ TL} = 27,500 \text{ TL}$

Issue of 30.01.2020: The issuance is conducted from the remaining inventory. According to FIFO, the oldest stock is prioritized:

Remaining from 01.01.2020: $500 \text{ units} \times 55 \text{ TL} = 27,500 \text{ TL}$

From 09.01.2020: $250 \text{ unit} \times 80 \text{ TL} = 20,000 \text{ TL}$

From 25.01.2020: $250 \text{ units} \times 100 \text{ TL} = 25,000 \text{ TL}$

Total Issue Cost: 72,500 TL

Remaining Inventory (as of 31.01.2020):

Inventory remaining from the final batch: $500 \text{ units from } 25.01.2020 \times 100 \text{ TL} = 50,000 \text{ TL}$

LIFO Method (Last-In, First-Out) and the IAS 2 Prohibition

The LIFO method is based on the assumption that the most recently purchased inventories are the first to be sold.

Under this method, inventories remaining at the end of the accounting period are valued using the oldest historical costs. As a result, the cost of goods sold is reported at higher amounts, which leads to lower reported profit for the period.

It is important to note that the IAS 2 standard does not permit the use of the LIFO method. Due to its failure to adequately reflect the economic reality of an entity's financial position and its potential to facilitate profit manipulation, LIFO has been eliminated from the Turkish Accounting Standards in line with International Financial Reporting Standards (Tan 2020).

Practical Example

At Mavi Tekstil A.Ş., an issue of 500 units was performed on 20.01.2020. Had the LIFO (Last-In, First-Out) method been employed, 500 units would have been issued from the most recent batch of 750 units at 100 TL, resulting in a cost of 50,000 TL.

■ **Table 2** Practical Example Regarding the FIFO Method

Date	Transaction	Qty. (Units)	Unit Price (TL)	Total (TL)	Description
20.01.2020	Issue	500	100	50,000	The most recent batch (100 TL) was utilized
30.01.2020	Issue	250	100	25,000	250 units remaining from the Jan. 25 receipt
30.01.2020	Issue	250	80	20,000	250 units from the Jan. 09 receipt
30.01.2020	Issue	500	55	27,500	500 units from the Jan. 01 receipt
Remaining	–	500	55	27,500	Inventory remaining from the Jan. 01 receipt

Source: Author's original work.

■ **Table 3** Practical Example of the Weighted Average Cost Method

Date	Transaction	Quantity (Units)	Unit Price (TL)	Total (TL)
01.01.2020	Receipt	1,000	55	55,000
09.01.2020	Receipt	500	80	40,000
20.01.2020	Issue	500	?	?
25.01.2020	Receipt	500	100	50,000
30.01.2020	Issue	1,000	?	?

Source: Author's original work.

While issuing 1,000 units on 30.01.2020, 250 units (at 100 TL) from the 25.01 receipt are utilized first, followed by 250 units (at 80 TL) from the 09.01 receipt, and finally, 500 units (at 55 TL) from the 01.01 receipt. The total cost is determined to be 72,500 TL. The remaining inventory is calculated as 500 units from the 01.01 receipt $55 \text{ TL} = 27,500 \text{ TL}$.

Weighted Average Cost Method

Under this method, a single unit cost is determined by calculating the weighted average of the cost of inventories at the beginning of the period and the costs of all inventories purchased during the same period. The weighted average cost method is considered one of the most appropriate and balanced approaches, particularly in situations where prices fluctuate frequently or where inventories consist of homogeneous and intermingled items. By smoothing cost variations over the period, this method helps reduce sharp fluctuations in reported profit or loss and provides a more stable cost structure.

The selection of an inventory cost calculation method is not merely an accounting procedure but also a strategic management decision. Inventory costs directly affect the cost of goods sold (COGS) and, consequently, influence net profit and the equity structure of the enterprise. While reporting higher profits may enhance an enterprise's credibility and investor confidence, it simultaneously results in higher corporate tax obligations. Therefore, enterprises are required to apply their chosen cost method consistently in accordance with IAS 2 and to disclose the selected method in the notes to the financial statements (Şahin and Koç 2020).

1. Calculation of Weighted Average Cost (Prior to the Issue on 20.01.2020)

- Total Cost: $55,000 + 40,000 = 95,000 \text{ TL}$
- Total Inventory: $1,000 + 500 = 1,500 \text{ units}$

- Weighted Average Cost: $\frac{95000}{1500} = 63.33\text{TL/unit}$

Issue on 20.01.2020 (500 units):

- $500 \times 63.33 = 31,665\text{ TL}$

Remaining Inventory (Post-20.01):

- $1,500 - 500 = 1,000\text{ units}$
- Remaining Cost: $1,000 \times 63.33 = 63,330\text{ TL}$

2. Weighted Average Cost Following New Receipt (25.01.2020)

- Remaining Inventory Cost + New Receipt: $63,330 + 50,000 = 113,330\text{ TL}$
- Total Inventory: $1,000 + 500 = 1,500\text{ units}$
- New Weighted Average Cost: $\frac{113330}{1500} = 75.55\text{ TL/unit}$

Issue on 30.01.2020 (1,000 units):

- $1,000 \times 75.55 = 75,550\text{ TL}$

Remaining Inventory (Post-30.01):

- $1,500 - 1,000 = 500\text{ units}$
- Remaining Cost: $500 \times 75.55 = 37,775\text{ TL}$

■ **Table 4** Practical Example Regarding the Weighted Average Cost Method

Date	Transaction	Quantity (Units)	Unit Price (TL)	Total (TL)
20.01.2020	Issue	500	63.33	31,665
25.01.2020	Receipt	500	100	50,000
30.01.2020	Issue	1,000	75.55	75,550
Remaining Inventory	–	500	75.55	37,775

Source: Author's original work.

IMPAIRMENT OF INVENTORIES AND ACCOUNTING PRINCIPLES

Following initial recognition, inventories may experience a decline in value due to various internal and external factors. Under IAS 2, presenting inventories in the financial statements at amounts exceeding their net realizable value is inconsistent with the principles of prudence and fair presentation. Therefore, inventories must be reviewed at the end of each reporting period to assess whether any impairment has occurred. The primary factors that may cause the net realizable value of inventories to fall below their cost are as follows (Santos *et al.* 2021).

- **Physical Damage and Deterioration:** Losses arising from breakage, spoilage, or expiration during the storage or transportation of inventories.
- **Technological or Commercial Obsolescence:** Situations in which products become outdated, unfashionable, or technologically obsolete, leading to a loss of market relevance.
- **Decline in Selling Prices:** Reductions in market selling prices below cost due to increased competition or a contraction in demand.
- **Increase in Completion and Selling Costs:** Unexpected increases in labor, material, or marketing expenses required to complete or sell the inventories.

Enterprises are required to assess their inventories at the end of each accounting period. If the net realizable value of an inventory item is lower than its cost, the difference must be recognized as an allowance for inventory impairment and recorded as an expense in the period's statement of profit or loss. Failing to recognize inventory impairment and reporting inventories at amounts higher than their recoverable value constitutes a misrepresentation of financial statements. Within the framework of financial reporting standards, such practices are regarded as irregularities whether arising from error or intentional manipulation. The misstatement of asset values misleads investors and creditors and ultimately undermines the credibility of the enterprise (Badem and Özbek 2013). If the conditions that gave rise to the impairment no longer exist for example, due to a subsequent recovery in selling prices the previously recognized impairment loss may be reversed, provided that the reversal does not exceed the amount of the original impairment loss. Such reversals are recognized as income in the relevant reporting period.

Practical Example

Aytek Ticaret A.Ş. is a commercial enterprise operating in Istanbul that procures goods from suppliers located in Bursa. During June, the company increased its capital, purchased commercial goods from Bursa, incurred transportation costs, and returned a portion of the goods that did not meet quality standards. In addition, a trade discount was obtained from the supplier. Subsequently, Aytek Ticaret A.Ş. sold part of its inventory to customers in Istanbul on credit. During this process, the company incurred transportation expenses related to sales, accepted customer returns, and granted additional sales discounts. At the end of the accounting period, calculations revealed that the company's ending inventory amounted to 85,000 TL, the cost of goods sold totaled 34,000 TL, net sales were 48,000 TL, and gross profit amounted to 14,000 TL.

List of All Transactions

Transaction 1 Capital Injection: Aytek enterprise has secured 550,000 TL in cash through the issuance of capital stock. **Transaction 2 Purchase of Commercial Goods:** Commercial goods amounting to 140,000 TL were purchased, with VAT (10%) totaling 14,000 TL. Half of the consideration was paid in cash, while the remaining half was purchased on credit. **Transaction 2 Supplementary Transportation Expense:** An obligation of 3,000 TL + 300 TL VAT was incurred for the transportation of the purchased goods. This expenditure is capitalized into the cost of the inventory.

Transaction 3 Returns to Supplier: Goods valued at 20,000 TL + 2,000 TL VAT were returned to the supplier due to quality discrepancies. **Transaction 4 Return Shipping:** 1,000 TL + 100 TL VAT was paid in cash for the transportation of the returned goods. **Transaction 5 Supplier Discount Notification:** The supplier provided a price reduction (discount) amounting to 5,000 TL + 500 TL VAT.

Transaction 6 Credit Sale: Goods with a cost of 40,000 TL were sold on credit for 60,000 TL + 6,000 TL VAT. **Transaction 7 Transportation Expense Related to Sale:** 2,000 TL + 200 TL VAT was paid in cash for the transportation costs of the sold goods. **Transaction 8 Sales Returns:** A customer returned goods valued at 9,000 TL + 900 TL VAT. The cost of these goods is 6,000 TL.

Transaction 9 Return Shipping: 1,000 TL + 100 TL VAT was paid in cash for the transportation of the returned goods back to the warehouse. **Transaction 10 Sales Discount:** A discount amounting to 3,000 TL + 300 TL VAT was granted to the customer.

Journal Entries (BCC Records) Aytek Enterprise

01.04.2024

100 CASH ACCOUNT DEBIT: 550,000.00
500 CAPITAL ACCOUNT CREDIT: 550,000.00

Description: Recording of cash capital injection through share issuance.

03.04.2024

153 COMMERCIAL GOODS ACCOUNT DEBIT: 140,000.00
191 DEDUCTIBLE VAT ACCOUNT DEBIT: 14,000.00
100 CASH ACCOUNT CREDIT: 77,000.00
320 SUPPLIERS ACCOUNT CREDIT: 77,000.00

Description: Purchase of commercial goods; 50% paid in cash and 50% on credit.

03.04.2024

153 COMMERCIAL GOODS ACCOUNT DEBIT: 3,000.00
191 DEDUCTIBLE VAT ACCOUNT DEBIT: 300.00
320 SUPPLIERS ACC CREDIT: 3,300.00

Description: Capitalization of inward transportation costs into the inventory cost.

05.04.2024

320 SUPPLIERS ACCOUNT DEBIT: 22,000.00
153 COMMERCIAL GOODS ACCOUNT CREDIT: 20,000.00
391 CALCULATED VAT ACCOUNT CREDIT: 2,000.00

Description: Return of defective goods to the supplier.

06.04.2024

760 MARKETING, SALES, AND DISTRIBUTION EXPENSES DEBIT: 1,000.00

191 DEDUCTIBLE VAT ACCOUNT | DEBIT: 100.00
100 CASH ACCOUNT CREDIT: 1,100.00

Description: Cash payment for outward transportation of returned goods (recognized as period expense).

08.04.2024

320 SUPPLIERS ACCOUNT DEBIT: 5,500.00
153 COMMERCIAL GOODS ACCOUNT CREDIT: 5,000.00
391 CALCULATED VAT ACCOUNT CREDIT: 500.00

Description: Recognition of trade discount granted by the supplier.

10.04.2024

120 BUYERS (ACCOUNTS RECEIVAB DEBIT: 66,000.00
600 DOMESTIC SALES ACCOUNT CREDIT: 60,000.00
391 CALCULATED VAT ACCOUNT CREDIT: 6,000.00
621 COST OF COMMERCIAL GOODS S DEBIT: 40,000.00
153 COMMERCIAL GOODS ACCOUNT CREDIT: 40,000.00

Description: Credit sale of goods and simultaneous recognition of cost of sales.

11.04.2024

760 MARKETING, SALES, AND DISTRIBUTION EXPENSES DEBIT: 2,000.00

191 DEDUCTIBLE VAT ACCOUNT DEBIT: 200.00
100 CASH ACCOUNT CREDIT: 2,200.00

Description: Cash payment for transportation costs related to sales.

15.04.2024

610 SALES RETURNS ACCOUNT DEBIT: 9,000.00
191 DEDUCTIBLE VAT ACCOUNT DEBIT: 900.00
120 BUYERS (ACCOUNTS RECEIVABLE) CREDIT: 9,900.00
153 COMMERCIAL GOODS ACCOUNT DEBIT: 6,000.00
621 COST OF COMMERCIAL GOODS SOLD CREDIT: 6,000.00

Description: Re-entry of returned goods into inventory and adjustment of cost of sales.

Table 5 Summary Table of Ledger Balances

Account Name	Total Debits	Total Credits	Balance (Ending)
153 Commercial Goods	150,000 TL	65,000 TL	85,000 TL (Debit Balance)
621 Cost of Goods Sold	40,000 TL	6,000 TL	34,000 TL (Net COGS)

Source: Author's original work.

Net Ending Inventory Value: 85,000 TL

Net Cost of Goods Sold (COGS): 34,000 TL

16.04.2024

760 MARKETING, SALES, AND DISTRIBUTION EXPENSES DEBIT: 1,000.00

191 DEDUCTIBLE VAT ACCOUNT DEBIT: 100.00
100 CASH ACCOUNT CREDIT: 1,100.00

Description: Payment for inward transportation of goods returned by customers.

20.04.2024

611 SALES DISCOUNTS ACCOUNT | DEBIT: 3,000.00
191 DEDUCTIBLE VAT ACCOUNT | DEBIT: 300.00
120 BUYERS (ACCOUNTS RECEIVABLE) | CREDIT: 3,300.00
Description: Post-sale discount granted to the customer.

Year-End Summary and Analysis (31.12.2024)

Inventory Account Summary (Account 153):

- Total Debits: 150,000.00 TL (*Purchases + Inward Freight + Returns In*)
- Total Credits: 65,000.00 TL (*Returns Out + Discounts + Cost of Sales*)
- Ending Inventory Balance: 85,000.00 TL

Net Cost of Goods Sold (Account 621):

Initial Cost Recognition: 40,000.00 TL (Debit)

Adjustment for Sales Returns: 6,000.00 TL (Credit)

Net Cost of Commercial Goods Sold: 34,000.00 TL

CONCLUSION

This study demonstrates that IAS 2 (Inventories) is not merely a collection of accounting rules but rather a strategic management framework that plays a vital role in safeguarding an enterprise's financial health and long-term sustainability. The findings indicate that effective inventory management, when conducted in accordance with IAS 2, contributes significantly to reducing financial risk and strengthening the overall financial structure of the entity. The results reveal that an enterprise's liquidity position is closely linked to the quality of its current assets, particularly inventories. The quality of these assets depends largely on whether inventories are managed, measured, and reported in compliance with IAS 2 criteria. The more consistently enterprises apply these standards, the more accurately they can anticipate future cash flows and manage liquidity risks. Such disciplined application enhances the firm's financial flexibility and its ability to respond to changing economic conditions.

The analysis further shows that IAS 2 functions as an effective decision-support tool for management by providing reliable and relevant information regarding production planning, sales strategies, and optimal inventory levels. Poorly managed inventories may result in resource shortages during operational disruptions, potentially bringing business activities to a standstill. In contrast, an inventory system aligned with IAS 2 helps prevent such bottlenecks and supports the continuity of operations. In conclusion, IAS 2 serves as a protective mechanism that shields enterprises not only from immediate financial losses but also from the risk of future insolvency and financial distress. To preserve financial integrity and ensure sustainable performance, enterprises must go beyond simple record-keeping and regularly conduct financial analyses based on accurate and IAS 2-compliant inventory information.

Availability of data and material

The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflicts of interest

The authors declare that there is no conflict of interest regarding the publication of this paper.

Ethical standard

The authors have no relevant financial or non-financial interests to disclose.

LITERATURE CITED

- Akgün, A. İ., 2012 Tms-2 stoklar standardı kapsamında tam maliyet ve normal maliyete göre düzenlenen gelir tabloları karşılaştırması. Süleyman Demirel Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi 17: 229–246.
- Aygün, D., 2014 Tms 18 hasılat ve ias 2 stoklar standartlarına göre forfaiting işlemleri ve muhasebeleştirilmesi. Yönetim ve Ekonomi Araştırmaları Dergisi pp. 207–227.
- Badem, A. C. and C. Y. Özbek, 2013 Tam maliyet ile normal maliyet yöntemlerinin tms 2 stoklar standardı ile vuk açısından karşılaştırması ve muhtemel ertelenmiş vergi etkisi. Muhasebe ve Vergi Uygulamaları Dergisi pp. 65–92.
- Berli, S., 2014 Tms 2 stoklar standardı kapsamında stokların dönem sonu değerlemesi. Vergi Dünyası Dergisi pp. 110–120.
- Boydaz Hazar, H., 2020 The application of ias 2 inventories standard in accounting practices. BMIJ 8: 2414–2430.
- Ferreira, L. and L. Viana, 2010 O impacto da adopção das ias/ifrs nas demonstrações financeiras das empresas cotadas na euronext lisboa. Contabilidade & Gestão: Portuguese Journal of Accounting and Management pp. 49–86.
- Kaya, H. P., 2018 Stoklara ilişkin tms 2 ve bobi frs karşılaştırması. Muhasebe Bilim Dünyası Dergisi 20: 262–285.
- Korga, S. and S. Aslanoğlu, 2024 Sürdürülebilirlik raporlamasında sürdürülebilirlik göstergelerinin önem düzeylerinin belirlenmesi. Muhasebe ve Finansman Dergisi pp. 1–18.
- Morshed, A. and A. Ramadan, 2023 Qualitative analysis of ias 2 capability for handling the financial information generated by cost techniques. International Journal of Financial Studies 11: 67.
- Öztürk, E., 2017 Stok maliyetlerinin ölçüm ve muhasebeleştirme esaslarının vuk, tms/tfrs ve yfrç taslağı açısından karşılaştırılması. Pamukkale Üniversitesi Sosyal Bilimler Enstitüsü Dergisi pp. 141–157.
- Özyapıcı, H., 2019 Tms 2 stoklar standardı'nın atıl kapasite analizine etkisi. Muhasebe ve Vergi Uygulamaları Dergisi 12: 651–666.
- Polachová, K., 2019 Compliance with ias 2 in consolidated financial statements of pse listed companies. European Financial and Accounting Journal 14: 61–78.
- Şahin, N. and V. Koç, 2020 İthal stoklarda kur farklarının tms 2 ve vuk açısından değerlendirilmesi. Vergi Dünyası pp. 12–25.
- Santos, P. et al., 2021 Implementation of ias 2 in manufacturing firms: A transparency analysis. Journal of Applied Finance 27: 66–82.
- Sellhorn, T. and S. Gornik-Tomaszewski, 2006 Implications of the 'ias regulation' for research into the international differences in accounting systems. Accounting in Europe 3: 187–217.
- Tan, Ö., 2020 Maliyet muhasebesi sistemlerinin tms 2 ile entegrasyonu. Maliyet Analizi Dergisi 8: 105–122.
- White, D., 2021 Physical inventory verification and audit compliance under ias 2. Journal of Auditing 19: 85–99.
- Yılmaz, A., 2020 Tms 2 ve vergi usul kanunu çerçevesinde stok değerlendirme farklılıkları. Muhasebe Bilim Dünyası Dergisi 22: 1–24.

How to cite this article: Aminy, S. Z., Kisacik, H., Çakar, R., and Samim, S. A. Analysis of the Application of IAS 2 Inventories in Financial Reporting. *Information Technology in Economics and Business*, 3(2), 71-77, 2026.

Licensing Policy: The published articles in ITEB are licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License](#).

