

SCOPE		DEFINITIONS
<p>ASPE 3031 applies to all inventories except:</p> <ul style="list-style-type: none"> • Contracts accounted for using the percentage of completion method, see ASPE 3400 <i>Revenue</i> • Financial instruments • Agricultural inventories held by agricultural producers, see ASPE 3041 <i>Agriculture</i> • Major spare parts and servicing equipment that may qualify as property, plant and equipment <p>ASPE 3031 does not apply to the measurement of inventories held by:</p> <ul style="list-style-type: none"> • Producers of forest products, minerals and mineral products measured at net realizable value • Commodity broker-traders measured at fair value less costs to sell 		<p>Inventories are assets:</p> <ul style="list-style-type: none"> • Held for sale in the ordinary course of business; • In the process of production for such sale; or • In the form of material or supplies to be consumed in the production process or in the rendering of services. <p>Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.</p>
INVENTORIES ARE MEASURED AT THE LOWER OF COST AND NET REALIZABLE VALUE		
Cost		Net Realizable Value
<p>Inclusions</p> <ul style="list-style-type: none"> • Cost of purchase • Cost of conversion • Other costs incurred in bringing the inventories to their present location and condition <p>Costs of purchase includes purchase price, import duties and other non-recoverable taxes, transport, handling and other costs directly attributable to the acquisition of inventories less trade discounts, rebates and other similar items.</p> <p>Costs of conversion includes costs directly related to the units of production, such as direct labour and materials. Also includes a systematic allocation of fixed and variable production overheads.</p>	<p>Exclusions</p> <p>The following costs are excluded from the cost of inventories and recognized as expenses:</p> <ul style="list-style-type: none"> • Abnormal amounts of wasted materials, labour or other production costs • Storage costs, unless necessary in the production process before a further production stage • Administrative overheads not related to production • Selling costs • Interest costs for deferred settlement terms over and above normal credit terms. 	<p>Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Net realizable value is an entity specific value.</p> <p>Inventories are usually written down to net realizable value item by item, however, it may be appropriate to group similar or related items.</p> <p>Estimate of net realizable value</p> <p>The estimates of net realizable value are based on the most reliable evidence available, including events after the end of the reporting period that confirm conditions existing at the end of the reporting period, and take into consideration:</p> <ul style="list-style-type: none"> • Fluctuations or price • Fluctuations in the expected costs to complete the item • The purpose for which the inventory is held (e.g., held to fulfill a specific contract) <p>A new assessment is made for net realizable value in each subsequent period.</p> <p>Indicators that the cost of inventories might not be recoverable:</p> <ul style="list-style-type: none"> • Inventories are damaged • Obsolescence • Declines in selling prices • Increases costs to complete or costs to sell
<p>Allowable measurement techniques if they approximate cost</p> <ul style="list-style-type: none"> • Standard cost method Takes into account normal levels of materials and supplies, labour, efficiency and capacity utilization. These levels are regularly reviewed and, if necessary, revised in the light of current conditions. • Retail method 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 inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. 		
<p>Cost formulas</p> <ul style="list-style-type: none"> • The cost of inventories of items that are not ordinarily interchangeable, and items produced and segregated for specific projects shall be determined by using specific identification of their individual costs. • For interchangeable items there are two acceptable methods of determining cost: <ul style="list-style-type: none"> ◦ First-in First-out (FIFO) ◦ Weighted average cost <p>The same cost formula should be used for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.</p>		

RECOGNITION AS AN EXPENSE

- The carrying amount of inventories is recognized as an expense in the period in which the inventories are sold and related revenue is recognized.
- The amount of any write-down or loss of inventories to net realizable value is recognized as an expense in the period in which the write-down or loss occurs.
 - Any reversal of write-down is recognized as a reduction in the amount of inventories recognized as an expense.
 - The reversal cannot exceed the amount of the original write-down.
- Inventories allocated to other asset accounts (for example, inventory used as component of self-constructed property, plant and equipment) is recognized as an expense during the useful life of the asset.

DISCLOSURE

- The accounting policies adopted in measurement of inventories, including cost formula used
- The total carrying amount of inventories and the information about the carrying amount held in different classifications of inventories
- The amount of inventories recognized as an expense during the period (often referred to as cost of sales)