

ASPE

At a Glance

Section 3031 - Inventories

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Effective Date
Fiscal years beginning on or after January 1, 2011¹

Scope

Applies to all inventories except:

- Contracts accounted for using the percentage of completion method (Section 3400, *Revenue*).
- Financial Instruments.
- Agricultural inventories held by agricultural producers (Section 3041, *Agriculture*).
- Major spare parts and standby equipment that may qualify as property, plant and equipment (Section 3061, *Property, Plant and Equipment*).

Does not apply to the measurement of inventories:

- Held by producers forest products, minerals and mineral products measured at net realizable value.
- Held by commodity broker-traders who measure inventory at fair value less costs to sell.

Definition

Inventories are assets:

- Held for sale in the ordinary course of business;
- In the process of production for such sale; or
- In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories Are Measured at the Lower of Cost and Net Realizable Value

- When inventory is written down below cost to net realizable value (NRV), the write-down is recognized as an expense in the period in which it occurs.
- When circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in NRV due to a change in economic circumstances, the amount of the write-down is reversed. but the reversal cannot exceed the amount of the original write-down.

Cost

Includes

- Costs of purchase.
- Costs of conversion.
- Other costs incurred to bring inventory to its present condition and location.

Excludes

- Abnormal waste.
- Storage costs (unless necessary for the production process before a further production stage).
- Administrative overheads not related to production.
- Selling costs.
- Interest costs (where settlement is deferred).

Net Realizable Value

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Cost Formulas

- For non-interchangeable items:
 - Specific identification.
- For interchangeable items:
 - First-in, first-out (FIFO); or
 - Weighted average cost.

Measurement Techniques:

- *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 the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin.

¹ Except as specified in paragraph 3031.39.

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