



IFRS AT A GLANCE
IAS 2 *Inventories*



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DEFINITION

Inventories are assets:

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

SCOPE

All inventories except:

- ▶ Financial instruments (IAS 32 *Financial Instruments: Presentation & 39 Financial Instruments: Recognition and measurement & IFRS 9 Financial Instruments*)
- ▶ Biological assets (IAS 41 *Agriculture*).

Does not apply to measurement of inventories held by:

- ▶ Producers of agricultural and forest products measured at NRV
- ▶ Minerals and mineral products measured at NRV
- ▶ Commodity brokers who measure inventory at fair value less costs to sell.

INVENTORIES ARE MEASURED AT THE LOWER OF COST AND NET REALISABLE VALUE (NRV)
(This is an implicit impairment test, thus inventories are excluded from the scope of IAS 36 *Impairment of Assets*)

COST

Includes:

- ▶ Costs of purchase, including non-recoverable taxes, transport and handling
- ▶ Net of trade volume rebates
- ▶ Costs of conversion
- ▶ Other costs to bring inventory into its present condition and location.

Excludes:

- ▶ Abnormal waste
- ▶ Storage costs (unless necessary for the production process)
- ▶ Admin overheads not related to production
- ▶ Selling costs
- ▶ Interest cost (where settlement is deferred)
 - IAS 23 *Borrowing Costs* identifies limited circumstances where borrowing costs can be included.

Cost Formulas:

- ▶ For non-interchangeable items:
 - Specific identification.
- ▶ For interchangeable items, either:
 - FIFO
 - Weighted average cost.
- ▶ Use of LIFO is prohibited.

Measurement Techniques:

Standard cost method

- ▶ Takes 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.

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.

NET REALISABLE VALUE












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

Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

Alternatively, please visit www.bdo.global where you can find full lists of regional and country contacts.



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