

SCOPE OF PBE IPSAS 12

All inventories except:

- Construction contracts - PBE IPSAS 11.
- Financial instruments - PBE IPSAS 28 & 29.
- Biological assets at point of harvest - PBE IPSAS 27; and
- Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients (e.g. work-in-progress relating to the provision of pro-bono legal services).

Does not apply to **measurement** of inventories held by:

- Producers of agricultural and forest products after harvest measured at Net Realisable Value (NRV).
- Minerals and mineral products measured at NRV.
- Commodity brokers who measure inventory at fair value less costs to sell.

DEFINITION - INVENTORY

Inventories are assets:

- In the form of materials or supplies to be consumed in the production process.
- Held for sale in ordinary course of operations.
- In the process of production for sale or distribution.
- In the form of materials or supplies to be consumed or distributed in the rendering of services.

COST

Inventories are measured at the lower of cost and net realisable value except:

- When inventories are acquired through a non-exchange transaction, cost is measured at fair value as at the date of acquisition.
- Inventories are measured at cost, adjusted when applicable for any loss of service potential where they are held for:
 - Distribution at no charge or for a nominal charge
 - Consumption in the production process of goods or the rendering of services to be distributed at no charge or for a nominal charge.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

NRV

NRV is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs to make the sale, exchange or distribution.

COST FORMULAS

- Cost of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects, must be assigned by using specific identification of their individual costs.
- Cost of other items are assigned by using the first-in-first-out (FIFO) or weighted average cost formulas.
- For inventories with different nature or use, different cost formulas may be justified.

RECOGNITION OF EXPENSES

- Carrying amount of inventories sold, exchanged or distributed during the period, in which revenue is recognised.
- If there is no related revenue, expense is recognised when the goods are distributed or related services rendered.
- Write down to NRV or Obsolescence as expense in the period.
- Write down reversal set-off against this expense.

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