NZ IAS 2: INVENTORIES

Effective Periods Beginning

1 January 2007

See also: NZ IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine Although every effort is made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular facts and circumstances of the situation. © 2020 BDO New Zealand Limited. All Rights Reserved. For more information visit <u>www.bdo.nz</u>. SCOPE **DEFINITION - INVENTORY** All inventories except: Does not apply to measurement of inventories held by: Inventories are assets: • Financial instruments (NZ IAS 32 - Financial Instruments: · Producers of agricultural and forest products measured at Held for sale in ordinary course of business. Presentation & NZ IAS 39 - Financial Instruments: Recognition NRV. In the process of production for such sale. and Measurement & NZ IFRS 9 Financial Instruments). · Minerals and mineral products measured at NRV. In the form of materials or supplies to be consumed in the production process or • Biological assets (NZ IAS 41 - Agriculture). · Commodity brokers who measure inventory at fair value less in the rendering of services. 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 NZ IAS 36 - Impairment of Assets) COST NRV Includes: Excludes: 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. Costs of purchase, including non-recoverable taxes, transport Abnormal waste. and handling. • Storage costs (unless necessary for the production process). · Costs of conversion. · Admin overheads not related to production. · Other costs to bring inventory into its present condition and · Selling costs. location. · Interest cost (where settlement is deferred). Net of trade volume rebates - NZ IAS 23 - Borrowing Costs identifies rare circumstances where borrowing costs can be included. Cost Formulas: Measurement Techniques: · For non-interchangeable items: Standard Cost Method - Specific identification. • 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. · For interchangeable items: Retail Method - FIFO, or • Often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is - Weighted average cost. impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate · Use of LIFO is prohibited. percentage gross margin.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters must comply fully with the recognition and measurement principles of NZ IAS 2. However, there are certain disclosure exemptions available.

Version 1: 2020