



IFRS IN BRIEF

IAS 2 *Inventories*

SCOPE

This standard applies to all inventories except:

- financial instruments (IAS 32 and IFRS 9)
- biological assets arising from agricultural activity and agricultural produce at the point of harvest (IAS 41)

The measurement requirements of IAS 2 do not apply to inventories held by:

- agricultural, mineral or forestry product producers to the extent they are measured at net realisable value, and it is common practice to do so in those industries
- commodity brokers who measure their inventory at fair value less cost to sell

DEFINITIONS

Inventories are assets that are:

- 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.

MEASUREMENT

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

Costs

Cost includes the purchase costs, the costs of the production and the cost for bringing the inventories to their present location and condition.

Purchase costs

Costs of purchase of inventories comprise the purchase price (less trade discounts, rebates and similar items), import duties and other irrecoverable taxes, and other costs directly attributable to the acquisition.

Cost of Conversion

Costs of conversion include costs directly related to the units of production, such as:

- direct labour
- allocation of fixed production overheads, such as depreciation and maintenance of factory buildings and
- allocation of variable production overheads, such as indirect materials, production staff costs.

Other costs

Other costs for bringing the inventories to their present location and condition may include non-production overhead and cost of designing products.

Excluded Costs

Cost excludes the following:

- abnormal waste
- storage costs (unless necessary for the production process)
- admin overheads not related to production
- selling costs
- interest cost (Except as permitted by IAS 23 *Borrowing costs*).

Net realisable value

Net Realizable Value (NRV) is the expected selling price in the ordinary course of business less the total estimated total costs needed to be



incurred to make that sale, including outstanding production costs and costs to make the sale. NRV is entity specific and is different from fair value.

When inventories are damaged or have become (partially) obsolete the cost price may no longer be recoverable and the inventories are measured at NRV.

Inventories are usually written down to NRV on an item-by-item basis unless it is more appropriate to group similar or related items.

NRV is based on the conditions at the end of the period.

RECOGNITION AS AN EXPENSE

When inventories are sold, the carrying amount should be recognised as an expense in the period in which the related revenue is recognised.

Any losses of inventories and the amount of any write-down to NRV shall be recognised as an expense in the period in which the loss or write-down occurs.

Any reversal of any write-down of inventories that resulted from an increase in the NRV shall be recognised as a reduction in the inventory expense in the period in which the reversal occurs.

Cost formulas

To determine the amount to be recognised as an expense, the cost of items that are ordinarily interchangeable and have not been produced and segregated for specific projects is determined by using the first-in, first-out (FIFO) or weighted average cost formula. The use of last-in first-out (LIFO) is not permitted.

For non-interchangeable items, the specific identification of their costs is used.

The same cost formula shall be adopted for all inventories having a similar nature and use to the entity.

DISCLOSURES

There are limited disclosure requirements in relation to inventory. Disclosures include disaggregation of inventory into relevant sub-categories, and information around write-downs and reversal write-downs.

CONTACTS

BOAZ DAHARI

Moore Israel
boazd@lionorl.co.il

CHRISOF STEUBE

Moore Singapore
christofsteube@moorestephens.com.sg

EMILY KY CHAN

Moore CPA Limited
emilykychan@moore.hk

IRINA HUGHES

Johnston Carmichael
Irina.Hughes@icca.co.uk

KRISTEN HAINES

Moore Australia
kristen.haines@moore-australia.com.au

NEES DE VOS

Moore DRV
N.de.Vos@drv.nl

PAUL CALLAGHAN

Moore Oman
paul.callaghan@moore-oman.com

SAHEEL ABDULHAMID

Moore JVB LLP
saheel@moore-jvb.com

TAN KEI HUI

Moore Malaysia
keihui@moore.com.my

TESSA PARK

Moore Kingston Smith
TPark@mks.co.uk

THEODOSIOS DELYANNIS

Moore Greece
theodosios.Delyannis@moore.gr

MOORE IFRS in Brief is prepared by Moore Global Network Limited ("Moore Global") and is intended for general guidance only. The use of this document is no substitute for reading the requirements in the IFRS® Accounting Standards issued by the International Accounting Standards Board (IASB). This document reflects requirements applicable as at the date of publication, any amendments applicable after the date of issuance, to the IFRS® Accounting Standards have not been reflected. Professional advice should be taken before applying the content of this publication to your particular circumstances. While Moore Global endeavors to ensure that the information in this publication is correct, no responsibility for loss to any person acting or refraining from action as a result of using any such information can be accepted Moore Global.