IFRS Accounting

Educational Module 13
Inventories

IFRS for SMEs®

Accounting Standard

Third Edition

International Accounting Standards Board

IFRS® Foundation
Supporting Material for the
IFRS for SMEs® Accounting Standard

including the full text of
Section 13 *Inventories* of the
IFRS for SMEs Accounting Standard issued by
the International Accounting Standards Board in February 2025

with extensive explanations, self-assessment questions and case studies

This document is not part of the *IFRS for SMEs* Accounting Standard or IFRS Accounting Standards and does not add to or otherwise change the requirements in the Standards. It was developed to aid stakeholders' understanding of our Standards. Views expressed in the document do not necessarily reflect those of the International Accounting Standards Board or the IFRS Foundation. The document should not be relied upon as professional or investment advice.

Contents

The requirements of Section 13 *Inventories* of the *IFRS for SMEs* Accounting Standard are set out in this module and shown with grey shading. Appendix B of the *IFRS for SMEs* Accounting Standard contains the glossary (Glossary) and is part of the requirements. Terms defined in the Glossary are reproduced in **bold type** the first time they appear in the text of Section 13.

This module has been prepared by International Accounting Standards Board (IASB) technical staff. The educational notes and examples inserted by the staff are not shaded. These educational notes and examples do not form part of the *IFRS for SMEs* Accounting Standard and have not been approved by the IASB.

INTRODUCTION

What is the *IFRS for SMEs*® Accounting Standard?

The *IFRS for SMEs* Accounting Standard (Standard) is intended for use by entities that publish general purpose financial statements and that do not have public accountability (referred to as small and medium-sized entities—see Section 1 *Small and Medium-sized Entities*).

The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

More information about the Standard and its supporting materials is available on the IFRS Foundation website: www.ifrs.org.

What does this module cover?

This educational module supports the requirements for recognising and measuring inventories in accordance with Section 13 *Inventories* of the Standard. The module:

- provides explanations and examples to improve understanding of the requirements in Section 13;
- identifies the significant judgements required in recognising and measuring inventories;
- includes questions designed to test your understanding of the requirements in Section 13; and
- includes case studies that provide a practical opportunity to apply the requirements in Section 13.

After completing the module, you should be able:

- to distinguish items of inventory from other assets of an entity;
- to identify when items of inventory qualify for recognition in financial statements;
- to measure items of inventory on initial recognition and subsequently;
- to identify when an item of inventory is to be recognised as an expense;

- to present and disclose inventories in financial statements; and
- to demonstrate an understanding of the significant judgements that are required in accounting for inventories.

Which version of the Standard does the module refer to?

Any reference in this module to 'the *IFRS for SMEs* Accounting Standard' is to the third edition of the Standard, issued February 2025.

What is in the requirements?

Section 13 sets out the recognition and measurement requirements for inventories, as well as the disclosure requirements. Inventories are initially recognised as assets, and carried forward until they are subsequently recognised as expenses in profit or loss, usually when the related revenues are recognised. Most of the requirements in the section specify how to measure the cost of inventories. The requirements specify which costs to include and exclude from the cost of inventories, as well as techniques for measuring the cost. The section also covers when to assess any item of inventory for impairment, as specified in Section 27 *Impairment of Assets*.

What has changed in the third edition of the Standard?

The IASB has amended the requirements in Section 13 of the Standard as a consequence of the amendments to Section 11 *Financial Instruments* and the revision of Section 23 *Revenue from Contracts with Customers*. It also amended the requirements to improve the clarity and internal consistency of the Standard.

The amendments:

- change the scope of Section 13 (see paragraphs 13.2–13.2A). The section now applies to inventories arising from construction contracts. Previously, the section's scope excluded such inventories because the costs associated with construction contracts were accounted for in accordance with Section 23. The disclosure requirements in Section 13 also now apply to returns assets classified as inventories. Previously, the Standard did not specify requirements for such assets.
- revise the reference to hedge accounting requirements for SMEs that hold commodities (see paragraph 13.12). These requirements are relevant in determining the cost of commodities if an SME hedges commodity price risk. Consequently, the reference to SMEs that hedge interest-rate risk has been removed.
- remove the requirements for measuring the cost of a service provider's inventories (see paragraph 13.14). These costs are now accounted for in accordance with the requirements for the costs of fulfilling a contract in Section 23.

The transition requirements for these amendments are explained on page 38.

REQUIREMENTS AND EXAMPLES

Scope of this section

13.1 This section sets out the principles for recognising and measuring **inventories**. Inventories are **assets**:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Educational notes

Inventories are assets. An asset is a present economic resource controlled by an entity as a result of past events. Inventories are current assets (see paragraph 4.5 of Section 4 *Statement of Financial Position*).

Manufacturing entities

The inventories of a manufacturing entity are generally categorised as:

(a) finished goods—assets held for sale in the ordinary course of business;

(b) work in process—assets in the process of production for such sale;

(c) consumable stores—assets in the form of supplies to be consumed in the production process; and

(d) raw materials—assets in the form of materials to be consumed in the production process.

Consumable stores and raw materials are expected to be consumed in an entity's normal operating cycle.

Finished goods are held primarily for the purpose of selling to customers.

If items such as spare parts, stand-by equipment and servicing equipment do not meet the definition of property, plant and equipment, they are classified as inventory (see paragraph 17.5 of Section 17 *Property, Plant and Equipment*).

Service entities

Although Section 13 is primarily relevant to manufacturing entities, it is also relevant to service entities.

Service entities primarily incur staff costs. However, they might also have materials and supplies that are consumed in the rendering of services. Consumable stores and materials of service entities are covered by Section 13, consistent with the approach applied to manufacturing entities. However, the staff costs of service entities are not covered by Section 13.

Staff costs are employee benefits. Section 28 *Employee Benefits* requires the cost of employee benefits to be recognised as an expense unless another section of this Standard requires the cost to be recognised as part of the cost of an asset (see paragraph 28.3(b)).

In most instances, a customer obtains control of the work in progress created by the SME over time (see paragraph 23.52(a)). In such instances, the work in progress is an asset of the customer, not the SME, and staff costs would be recognised as an expense as they are incurred. However, if the customer obtains control of the work in progress at a point in time (see paragraph 23.52(b)), the staff costs of a service provider could give rise to intangible assets. Therefore, Section 18 *Intangible Assets other than Goodwill* and Section 23 are relevant.

Section 18 excludes from its scope intangible assets held for sale in the ordinary course of business (see paragraph 18.1). Consequently, the staff costs of a service provider are outside the scope of Section 18.

Section 23 includes requirements for recognising the costs of fulfilling a contract that apply if those costs are not within the scope of another section of the Standard (see paragraphs 23.69–23.73). Because the staff costs of a service provider are not covered by Sections 13 or 18, they are accounted for in accordance with these requirements.

Examples—Scope

Ex 1 **An SME trades in commercial properties (that is, it buys commercial property with a view to selling it at a profit in the near term in its ordinary course of business).**

The commercial properties are inventory of the SME. They are assets held for sale in the ordinary course of business.

Note: The assets are neither investment property (see Section 16 *Investment Property*) nor property, plant and equipment (see Section 17) of the SME. In some cases, if properties previously accounted for in accordance with Section 17 qualify as inventory under Section 13, an SME is required to develop an accounting policy in accordance with Section 10 *Accounting Policies, Estimates and Errors*.

Ex 2 **An SME trades in transferable taxi licences.**

The taxi licences are inventory of the SME. They are assets held for sale in the ordinary course of business.

Note: In the financial statements of the SME, the taxi licences are not intangible assets in accordance with Section 18 (see paragraph 18.1).

Ex 3 **An SME processes grapes harvested from its vineyards into wine in a three-year production cycle.**

From the point of harvest until the bottled wine is derecognised by the SME, the grapes are inventory. They are material in the process of production of goods for sale.

Note: Up to the point of harvest, the SME's grapes are not inventory, they are biological assets (see paragraph 13.2(c)) accounted for in accordance with paragraph 34.2 of Section 34 *Specialised Activities*.

Ex 4 **An SME holds lubricants that are consumed by its machinery in producing goods.**

The lubricants are inventory. They are supplies to be consumed in the production process.

Ex 5 **An SME holds a building to earn rentals under operating leases from independent third parties.**

The building is not inventory. It is an investment property (an asset held to earn rentals; see Section 16).

Note: In accordance with paragraph 16.3, property interest held by a lessee under an operating lease may be classified and accounted for as investment property if, and only if, the property meets the definition of an *investment property* (see paragraph 16.2) and the fair value can be measured without undue cost or effort on an ongoing basis.

Ex 6 **An SME that manufactures chemicals maintains its manufacturing plant using a specially designed (bespoke) cleaning machine and a set of low-value common tools acquired from a local hardware store. The bespoke machine is expected to be used by the SME for many years.**

The bespoke equipment is not an item of inventory. It is equipment accounted for in accordance with Section 17.

If the other tools do not meet the definition of property, plant and equipment (for example, if they are not expected to be used in more than one period) they are inventory within the scope of Section 13 (a supply to be consumed in the production process).

Ex 7 **An SME that repairs computer equipment holds electronic cables that are used in carrying out repairs. The repair work is carried out by staff who are full-time employees of the SME and are paid a fixed annual wage.**

The electronic cables are inventory. They are supplies to be consumed in the rendering of services.

Ex 8 **An SME has purchased land to develop a complex containing 60 residential properties. The properties will be sold to customers once built. The SME has also entered into a contract with a fitness company to build a gym in the complex. The gym will be owned and maintained by the fitness company.**

The complex is partly constructed at the reporting date.

The partly constructed residential properties are inventory. They are assets in the process of production that will then be held for sale.

The partly constructed gym is an asset arising from the costs to fulfil the contract with the fitness company and is accounted for in accordance with Section 23. The materials to be consumed in constructing both the residential properties and the gym are inventory. They are supplies to be consumed in a production process or as part of the construction of assets for customers (a service).

13.2 This section applies to all inventories, except:

(a) [deleted]

(b) **financial instruments** (see Section 11 *Financial Instruments*); and

(c) **biological assets** related to **agricultural activity** and **agricultural produce** at the point of harvest (see Section 34 *Specialised Activities*).

Educational notes

With regard to paragraph 13.2(b) and financial instruments, entities might hold financial instruments for sale in the ordinary course of business if they buy or sell financial instruments for others on their own account. An example of such an entity would be a broker or dealer buying or selling shares or futures. These entities would account for the financial instruments they hold in accordance with Section 11, not Section 13. A broker or dealer buying or selling commodities, not financial instruments, accounts for these assets in accordance with Section 13, subject to paragraph 13.3(b).

With regard to paragraph 13.2(c) and agricultural produce, paragraph 34.5 specifies that an entity is required to measure agricultural produce harvested from biological assets at its fair value less costs to sell at the point of harvest. This measurement constitutes the cost of the inventory (see paragraph 13.15) for the purpose of accounting for the agricultural produce at the point of harvest, in accordance with Section 13 (see paragraph 13.4).

13.2A The disclosure requirements in this section apply to returns assets classified as inventory (see paragraph 23A.24(c)). Returns assets are recognised and measured in accordance with paragraphs 23A.23–23A.29 and not in accordance with this section.

Educational notes

A returns asset is a product sold by an entity that is expected to be returned. These assets arise in contracts in which an entity sells a product and gives the customer the right to return the product.

Returns assets are:

- recognised and measured in accordance with Section 23 (see paragraphs 23A.23–23A.27);
- classified as inventories (see paragraph 23A.24(c)); and
- disclosed as inventories (see paragraph 13.2A).

Example—Scope

Ex 9 **An SME runs a chain of children's footwear shops. Customers can return unworn products within 60 days of purchase and receive a credit that they can use against future purchases from the SME.**

Using the weighted average cost formula, the costs of the physical inventories held by the SME at the end of the period are:

	Inventory cost
	CU[1]
Footwear	90,000
Packaging	1,200

The SME also has a returns asset of CU1,300. The asset relates to products sold by the SME in the final 60 days of the reporting period that it expects to be returned by customers. The asset is recognised and measured in accordance with Section 23 (see Example 143 of *IFRS for SMEs* Accounting Standard—Educational Module 23 *Revenue from Contracts with Customers*).

13.3 This section does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through **profit or loss**; or

(b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through profit or loss.

Educational notes

For some agricultural produce, there is an active market and a minimal risk that a farmer's produce cannot be sold. If a farmer with such produce follows a practice of measuring agricultural produce at fair value less costs to sell, the farmer would account for inventories of agricultural produce at fair value less costs to sell, with changes in fair value included in profit or loss of the period in which the value changes (see paragraph 13.3(a)).

Commodity broker-dealers (sometimes called broker-traders) buy or sell physical goods (for example, coffee, grain, sugar, crude oil and gold) for others on their own account. A commodity broker-dealer has inventories that are acquired principally for the purpose of selling in the near future and generating a profit from fluctuations in the price or broker-dealer's margins. To reflect the economic substance of such transactions, commodity broker-dealers frequently measure their inventories at fair value less costs to sell. In such cases, the inventory is required to be carried at fair value less costs to sell with changes in fair value included in profit or loss of the period in which the value changes (see paragraph 13.3(b)).

1 In this example, and in all other examples in this module, monetary amounts are denominated in 'currency units' (CU).

Examples—Scope

Ex 10 An SME grows nuts. The SME believes that the price of nuts will increase significantly in the months after it harvests its crop. In anticipation of charging higher prices, the SME stores the harvested nuts for three months. The SME measures inventories at fair value less costs to sell.

The SME is required to account for the inventories of harvested nuts at fair value less costs to sell with changes in fair value recognised in profit or loss of the period in which the value changes.

Ex 11 An SME is a commodity broker-dealer. The SME acquires 600 tonnes of wheat in anticipation of selling it in the short term. The SME commonly measures such inventories at fair value less costs to sell.

The SME is required to account for inventories at fair value less costs to sell, with changes in fair value included in profit or loss of the period in which the value changes.

Measurement of inventories

13.4 An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell.

Example—Measurement of inventories

Ex 12 The facts are the same as in Example 11. However, in this example, the SME measures inventories at cost.

The SME is required to account for inventories at the lower of cost and estimated selling price less costs to sell.

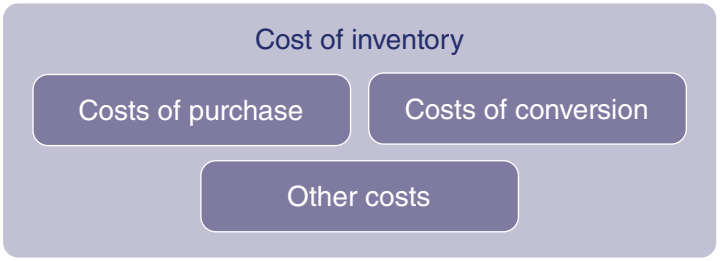
Cost of inventories

13.5 An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Educational notes

The costs included in inventories are summarised in Figure 1:

Figure 1—Cost of inventory



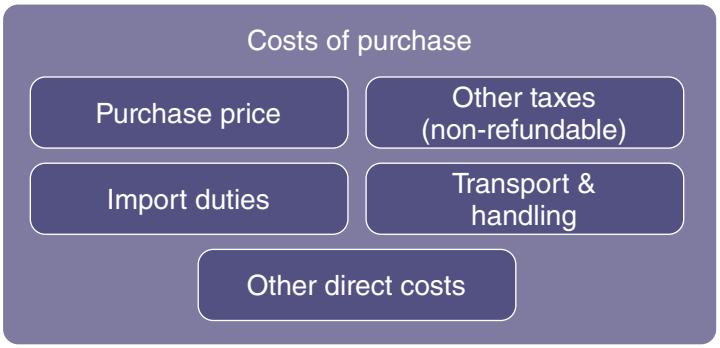
Costs of purchase

13.6 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Educational notes

The cost of purchase of inventories is summarised in Figure 2:

Figure 2—Cost of purchase



Non-refundable taxes arising from the purchase of inventory are considered to be part of the cost of an asset because they are directly attributable to acquiring it. In contrast, taxes that are refundable or transferable are not part of the cost of an asset. An example of such a tax is input value-added tax from purchases, which is offset against output value-added tax from sales in some jurisdictions.

'Other direct costs' include costs directly attributable to the acquisition of finished goods, materials and services. An example of such costs is fees paid to a purchasing agent.

Examples—Costs of purchase

Ex 13 **An SME imported goods at a cost of CU130, including CU20 of non-refundable import duties and CU10 of refundable purchase taxes. The SME obtained control of the goods when it collected them from the harbour warehouse. The SME was required to pay for the goods upon collection. The SME incurred CU5 of costs to transport the goods to its retail outlet and a further CU2 in delivering the goods to its customer. Further costs of CU3 were incurred in selling the goods.**

The purchase price is CU100 (cost (CU130) – import duties (CU20) – purchase taxes (CU10)).

The cost of purchase is CU125 (purchase price (CU100) + non-refundable import duties (CU20) + transport to the retail outlet (CU5)).

Note: The cost of purchase excludes the refundable purchase taxes paid on acquisition of the goods because the CU10 paid will be refunded to the SME. It also excludes the selling expenses incurred (delivery costs (CU2) and other selling costs (CU3)).

Ex 14 **An SME buys goods with a list price of CU500 per unit. The supplier awards the SME a 20% discount on orders of 100 units or more. The SME buys 100 units in a single order.**

The SME measures the cost of the inventory at CU40,000 (100 units × (list price (CU500) – 20% volume discount × CU500)).

Ex 15 **An SME buys goods with a list price of CU500 per unit. The supplier awards the SME a 20% discount on orders of 100 units or more. Furthermore, when the SME has purchased 1,000 or more units in a calendar year, the supplier awards the SME a further volume discount of 10% of the list price. The additional volume discount applies retrospectively to all units acquired by the SME during the calendar year.**

On 1 January 20X1 the SME buys 1,000 units from the supplier in a single order.

The SME measures the cost of the inventory at CU350,000 (1,000 units × (list price (CU500) – 30% volume discount × CU500)). 30% volume discount = 20% volume discount + 10% additional volume discount.

Ex 16 **The facts are the same as in Example 15. However, in this example, on 1 January 20X1 the SME purchased 800 units from the supplier. Because management considered it unlikely that the SME would purchase another 200 or more units from the same supplier in 20X1, the SME initially measured the inventories at CU320,000 (800 units × CU500 each × 80%).**

On 24 December 20X1 the SME purchased a further 200 units from the supplier.

On 31 December 20X1 150 units acquired from the supplier were unsold (in inventories) by the SME.

The SME measures the cost of the inventories acquired from the supplier during 20X1 at CU350,000 because all units purchased in the year obtained the full 30% discount (1,000 units × (list price (CU500) – (30% volume discount × CU500))).

The SME recognises an expense (cost of sales) of CU297,500 in profit or loss for the year ended 31 December 20X1 (850 units sold × (list price (CU500) – (30% volume discount × CU500))). It also recognises an asset (inventories) of CU52,500 in its statement of financial position at 31 December 20X1 (150 units unsold × (list price (CU500) – (30% volume discount × CU500))).

Ex 17 **On 1 November 20X1 an SME buys 90 units of goods from a supplier for CU500 per unit on its normal credit terms of 60 days' interest-free credit. To encourage early settlement, the supplier offered the SME a discount of 10% if they paid for the goods within 30 days of buying them.**

On 30 November 20X1 the SME paid CU40,500 to settle the amount owing for the 90 units purchased from the supplier.

The SME measures the cost of the inventory at CU40,500 (90 units × (list price (CU500) – (10% early settlement discount × CU500))).

Ex 18 **An SME paid CU100 for goods, including CU5 for the goods to be delivered to one of its retail outlets (Outlet A).**

The total cost of purchase is CU100, of which CU5 relates to costs incurred in bringing the goods to their sale location (Outlet A).

13.7 An entity may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest **expense** over the period of the financing and is not added to the cost of the inventories.

Educational notes

This paragraph ensures that the inventory is not overstated by the inclusion of the interest cost inherent in the purchase arrangement in the cost of inventories.

Examples—Costs of purchase

Ex 19 **An SME acquired an item of inventory for CU2,000,000 on two-year interest-free credit.**

The identical item is available in the same market for CU1,654,000 if payment is made within 30 days of the date of purchase (that is, under normal credit terms).

The cost of the inventory is CU1,654,000 (the purchase price under normal credit terms).

Ex 20 **An SME acquired an item of inventory for CU2,000,000 on two-year interest-free credit.**

An appropriate discount rate is 10% per year.

The cost of the inventory is CU1,652,893 (the present value of the future payment).

Calculation: CU2,000,000 future payment ÷ $(1.1)^2$.

Note: When the purchase price under normal credit terms is not readily available, an entity may consider applying discounting in determining the present value of inventories purchased on a deferred settlement basis.

Costs of conversion

13.8 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as **depreciation** and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

Educational notes

The costs of conversion and allocated production overheads are summarised in Figures 3 and 4.

Figure 3—Costs of conversion

Figure 4—Allocated production overheads

Unallocated production overheads are not part of the cost of inventory. They are recognised as an expense in the determination of profit or loss of the period in which they were incurred (see paragraph 13.9).

Example—Costs of conversion

Ex 21 **An SME manufactures blocks for use in housebuilding. The manufacturing process involves combining specific proportions of raw materials (sand, ash, cement and water). The mixture is then placed into reusable moulds. After standing for three days, the solidified blocks are removed from the moulds. The blocks then undergo drying in a drying room for two weeks before becoming ready for sale. The dried blocks are then stored in the finished-goods storeroom. For ease of access, dry raw materials are stored in a space adjacent to the production area.**

The mixing process is mechanised. However, a manned truck is used to add the dry materials (sand, ash and cement) to the mixing machine, which is operated by a dedicated truck operator. Casual labourers are employed to remove the blocks from the moulds. They are paid a fixed fee for each block removed from its mould. There are also two managers employed by the SME: the operations manager, who supervises the manufacturing process in the factory, and the administration manager, who is responsible for administration, finance and sales. The truck operator and the two managers are full-time employees of the SME, remunerated on a fixed annual wage.

The SME operates from premises leased in return for a fixed annual rental. The SME financed the acquisition of its equipment with a fixed-period loan that bears interest at 8% per year.

The costs of conversion include the direct costs, the fixed production overheads and the variable production overheads.

The direct costs in the manufacturing process include the costs of raw materials (sand, ash, cement and water) and the costs of the casual labourers who remove the blocks from the moulds.

Fixed production overheads include: the rental expense for the production area (including the area where dry raw materials are stored and the drying room, but excluding the finished-goods storeroom); the salaries and benefits of the truck operator and operations manager; and the depreciation of the manufacturing equipment (the truck, the mixing machine and the moulds). The storage cost incurred in the drying room is necessary in the production process and is included in the costs of conversion (see paragraph 13.13(b)).

The interest on the loan is not a cost of production. It is a finance cost and is recognised as an expense in profit or loss (see paragraph 25.2).

The salary and benefits of the administration manager are not costs of production because the manager is dedicated to activities unrelated to the factory. The manager's remuneration is recognised as an expense in the period in which it is incurred (see paragraph 13.13(c)).

Allocation of production overheads

13.9 An entity shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Educational notes

Paragraph 13.9 applies only to overheads related to production. Overheads not related to production, such as those incurred in administration and sales, are recognised as expenses in the period in which they are incurred (see paragraph 13.13(c)–(d)).

Examples—Allocation of production overheads

Ex 22 An SME incurred fixed production overheads of CU900,000 during a one-month period in which it manufactured 250,000 units of production. When operating at normal capacity the SME manufactures 250,000 units of production per month.

The SME allocates CU3.6 fixed overhead cost to each unit produced during the month. Calculation: fixed production overhead (CU900,000) ÷ normal capacity (250,000 units) = CU3.6 per unit.

Ex 23 The facts are the same as in Example 22. However, in this example, the SME manufactured 200,000 units of production during the month.

The SME allocates CU3.6 fixed overhead cost to each unit produced during the month (see Example 22). Allocated fixed production overheads would be CU720,000 (units produced (200,000 units) × allocation rate based on normal production rate (CU3.6 per unit)).

The unallocated fixed production overheads of CU180,000 must be recognised as an expense in the profit or loss. Calculation: fixed overheads incurred (CU900,000) – fixed overheads allocated to inventory (CU720,000).

Ex 24 **The facts are the same as in Example 22. However, in this example, the SME manufactured 300,000 units during the month. This level of production is abnormally high.**

The SME allocates CU3 fixed overhead cost to each unit produced during the month. Calculation: fixed production overheads (CU900,000) ÷ actual production (300,000 units) = CU3 per unit.

Note: In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost.

Joint products and by-products

13.10 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the **carrying amount** of the main product is not **materially** different from its cost.

Examples—Joint products and by-products

Ex 25 **An SME manufactures Chemical A for use in the agriculture industry. The production process requires a mixture of base chemicals followed by a maturation process, and from which Product A and a by-product, C, are produced.**

The total cost of a production run (including direct costs and the allocation of overheads) is CU100,000.

Each production run produces:

- **5,000 litres of Product A (sales value = CU250,000); and**
- **1,000 litres of By-product C (sales value = CU2,000).**

The by-product is immaterial and the SME accounts for it by deducting its selling price from the cost of the main product. In this example, the costs to complete and sell the by-product are negligible and have been ignored.

The cost per litre produced of Product A is CU19.60. Calculation: (total costs (CU100,000) – selling price of Product C (CU2,000)) ÷ litres of Product A produced (5,000 litres) = CU19.60 per litre.

Ex 26 **The facts are the same as in Example 25. However, in this example, instead of the by-product there is another joint product, B, resulting from the maturation process. Furthermore, the total costs (including direct costs and the allocation of overheads) of a production run are CU300,000.**

Each production run produces:

- **5,000 litres of Product A (sales value = CU250,000); and**
- **4,000 litres of Product B (sales value = CU400,000).**

The SME allocates the joint process costs to the products produced on the basis of their relative sales values.

The cost per litre produced is CU23.08 for Product A and CU46.15 for Product B.

Calculation (Product A):

Selling price of Product A (CU250,000) ÷ selling price of the output of the production run (CU650,000) × total joint production costs (CU300,000) = CU115,385 cost of 5,000 litres of Product A.

Cost of 5,000 litres of Product A (CU115,385) ÷ 5,000 litres = CU23.08 cost per litre.

Calculation (Product B):

Selling price of Product B (CU400,000) ÷ selling price of the output of the production run (CU650,000) × total joint production costs (CU300,000) = CU184,615 cost of 4,000 litres of Product B.

Cost of 4,000 litres of Product B (CU184,615) ÷ 4,000 litres = CU46.15 cost per litre.

Ex 27 **The facts are the same as in Example 25. However, in this example, the maturation process produces Products A and B and By-product C.**

The total cost (including direct costs and the allocation of overheads) of a production run is CU300,000.

The by-product is immaterial and the SME accounts for it by deducting its selling price from the cost of the main products. In this example, the costs to complete and sell the by-product are negligible and have been ignored.

Each production run produces:

- **5,000 litres of Product A (sales value = CU250,000);**
- **4,000 litres of Product B (sales value = CU400,000); and**
- **1,000 litres of By-product C (sales value = CU2,000).**

The cost per litre produced is CU22.92 for Product A and CU45.85 for Product B.

Calculation (Product A):

Selling price of Product A (CU250,000) ÷ selling price of the output of the production run, excluding the sales value of the by-product (CU650,000) = relative sales percentage (38.462%).

Relative sales percentage (38.462%) × total costs (CU298,000) = CU114,615.

Total costs (CU298,000) = cost of joint process (CU300,000) – sales value of By-product C (CU2,000).

Cost of 5,000 litres of Product A (CU114,615) ÷ 5,000 litres = CU22.92 cost per litre.

Calculation (Product B):

Selling price of Product B (CU400,000) ÷ selling price of the output of the production run excluding the sales value of the by-product (CU650,000) = relative sales percentage (61.538%).

Relative sales percentage (61.538%) × total costs (CU298,000) = CU183,385.

Total costs (CU298,000) = cost of joint process (CU300,000) – sales value of By-product C (CU2,000).

Cost of 4,000 litres of Product B (CU183,385) ÷ 4,000 litres = CU45.85 cost per litre.

Other costs included in inventories

13.11 An entity shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Examples—Other costs

Ex 28 An SME manufactures individually packaged pens.

The cost of the inventory includes the cost of manufacturing the pens and the individual packaging in which they are presented for sale.

Ex 29 On 1 January 20X1 an SME accepted an order for 7,000 custom-made corporate gifts.

On 3 January 20X1 the SME purchased raw materials to be consumed in the production process for CU550,000, including CU50,000 of refundable purchase taxes. The purchase price was funded by raising a loan of CU555,000 (including CU5,000 of loan-raising fees). The loan is secured by the inventories.

During January 20X1 the SME designed the corporate gifts for the customer. Design costs included:

- **cost of external designer = CU7,000; and**
- **labour = CU3,000.**

During February 20X1 the SME's production team developed the manufacturing technique and made further modifications necessary to bring the inventories to the conditions specified in the agreement. The following costs were incurred in the testing phase:

- **materials, net of CU3,000 recovered from the sale of the scrapped output = CU21,000;**
- **labour = CU11,000; and**
- **depreciation of plant used to perform the modifications = CU5,000.**

During February 20X1 the SME incurred the following additional costs in manufacturing the customised corporate gifts:

- **consumable stores = CU55,000;**
- **labour = CU65,000; and**
- **depreciation of plant used in manufacturing the customised corporate gifts = CU15,000.**

The customised corporate gifts were ready for sale on 1 March 20X1. No abnormal wastage occurred in the development and manufacture of the corporate gifts.

The cost of the inventories is calculated as:

Description	*Calculation or reason*	*CU*	*Reference to the* IFRS for SMEs *Accounting Standard*
Costs of purchase	Purchase price of raw material = purchase price (CU550,000) – refundable purchase taxes (CU50,000)	500,000	13.6
Loan-raising fee	Included in the measurement of the liability	–	11.18
Costs of purchase	Purchase price of consumable stores	55,000	13.6
Costs of conversion	Direct costs—labour	65,000	13.8
Production overheads	Fixed costs—depreciation	15,000	13.9
Production overheads	Product design costs for specific customer	10,000	13.9
Other costs	(a)	37,000	13.11
Borrowing costs	Recognised as an expense in profit or loss	–	25.2
Total cost of inventories		**682,000**	

(a) Costs of testing product designed for specific customer = materials, net of the CU3,000 recovered from the sale of the scrapped output (CU21,000) + labour (CU11,000) + depreciation (CU5,000) = CU37,000.

13.12 An entity applying paragraph 11.65(b) adjusts the carrying amount of a commodity (**hedged item**) held for the change in the **fair value** of the hedged item related to the hedged risk.

Educational notes

If specified criteria are met (see paragraph 11.62), an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time. If the specified criteria in paragraph 11.62 are met, an entity qualifies for hedge accounting and may apply paragraph 11.65. Paragraph 11.65 specifies that the entity is required to:

(a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss (paragraph 11.65(a)); and

(b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item (paragraph 11.65(b)).

Hedge accounting is described in detail in Part II of Section 11.

For an entity hedging against the risk of changes in the price of a commodity:

- the hedged risk is the commodity price risk;
- the hedged item is the commodity; and
- the hedging instrument is the derivative used to offset the hedged risk.

Therefore, the change in the fair value of the derivative and commodity would be recognised in profit or loss at the same time.

Examples—Other costs

Ex 30 An SME is a jeweller and holds an inventory of miniature gold ingots for use in a range of jewellery that will be ready for sale in approximately three months. The SME is worried that the price of gold might decline in the next three months and, to hedge this risk, the SME enters into a commodity forward contract that can be net settled to hedge the commodity price risk of the commodity it holds. This relationship meets the conditions for hedge accounting in paragraph 11.62; the SME documents the hedge and chooses to apply hedge accounting in accordance with paragraph 11.65.

The SME recognises the commodity forward contract as an asset or liability at fair value and the change in the fair value of the forward contract in profit or loss.

The SME recognises the change in the fair value of the gold inventory related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the gold inventory.

Costs excluded from inventories

13.13 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary during the production process before a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

13.14 [Deleted]

Examples—Costs excluded from inventories

Ex 31 An SME manufactures cotton sheeting. Total costs in each production run are CU100,000, including a cost of normal wastage of CU2,000. The weakening of operating controls while the owner-manager was away from the plant caused the wastage of raw materials to increase to CU7,000 per production run.

The abnormal wastage cost of CU5,000 (CU7,000 – CU2,000) is not included in the cost of inventory but is recognised as an expense.

Ex 32 An SME stores its finished goods in a rented warehouse.

The rental expense is not included in the cost of inventory because such storage costs do not relate to bringing the inventory to the location and condition of sale.

Ex 33 An SME rented two floors in a building. The first floor is occupied only by the production staff. Half of the second floor is occupied by the SME's administrative staff and the other half is occupied by its sales team.

The rental expense for the first floor is included in the cost of inventory.

The rental expense for the second floor is not included in the cost of inventory. Administrative overheads and selling costs that do not contribute to bringing inventories to their present location and condition are excluded from the cost of inventories (see paragraph 13.13(c)–(d)).

Ex 34 **An SME incurred staff costs of CU10,000 for its sales personnel and CU5,000 in advertising costs.**

The salaries of the sales staff and advertising costs are selling costs. Selling costs are not included in the cost of inventory.

Ex 35 **An SME has four motor vehicles. Vehicle 1 is used to bring goods from the SME's suppliers to its retail outlets. Vehicle 2 is a roadside retail outlet. Vehicle 3 delivers goods to the SME's customers. Vehicle 4 is used by the SME's travelling salesman to visit potential customers.**

Depreciation and maintenance of Vehicle 1 are included in the cost of the inventory that it transports from the SME's suppliers to its retail outlets.

Depreciation and maintenance of the other vehicles do not form part of the cost of inventory. These are selling expenses.

Cost of agricultural produce harvested from biological assets

13.15 Section 34 requires that inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial **recognition** at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Educational notes

Applying paragraph 34.5, an entity is required, at the point of harvest, to measure agricultural produce harvested from its biological assets at fair value less estimated costs to sell. This measurement constitutes the cost of the inventory for the purpose of accounting for the agricultural produce in accordance with Section 13 (see paragraph 13.4).

A farmer who measures agricultural produce at fair value less costs to sell, with changes in fair value included in profit or loss of the period in which the value changes, is applying paragraph 13.3(a) and is required to account for such inventory in that manner.

Section 12 *Fair Value Measurement* provides guidance on fair value measurement.

Examples—Agricultural produce and biological assets

Ex 36 An SME processes grapes harvested from its vineyards into wine in a three-year maturation cycle. Each year the SME sells approximately 20% of the grapes harvested to local retailers in the market for table grapes. The SME grows only one grape variety.

The vines meet the definition of a bearer plant. Depending on whether the vines can be measured separately from the grapes growing on them without undue cost or effort, the vines will fall within the scope of either Section 17 or Section 34 (see paragraphs 34.2–34.2B).

Up to the point of harvest, the SME's grapes are not inventory. They are part of a biological asset and are accounted for by applying the fair value or cost model in Section 34.

Irrespective of their intended use (for wine or for sale as table grapes), at the point of harvest the grapes are inventory accounted for by applying Section 13. On initial recognition as inventory at the point of harvest, the grapes are recorded at their fair value less estimated costs to sell in accordance with paragraph 34.5.

Ex 37 An SME produces cheese using milk from its dairy-farming operation.

The dairy cows are biological assets accounted for by applying paragraph 34.2. Up to the point of harvest (milking), the milk is not inventory. It is part of the biological assets (cows) accounted for by applying paragraph 34.2.

At the point of harvest (milking), the milk is inventory accounted for by applying Section 13. On initial recognition as inventory at the point of harvest, the milk would be recorded at its fair value less estimated costs to sell in accordance with paragraph 34.5.

Ex 38 An SME grows nuts. The SME believes that the price of nuts will increase significantly in the months following the crop's harvest. In anticipation of the price increases, the SME stores the harvested nuts for three months.

In accordance with paragraph 34.5, the nuts (agricultural produce) harvested from the SME's biological assets are measured at fair value less costs to sell at the point of harvest. After initial recognition, the SME measures the inventories in one of two ways.

Scenario 1—The SME measures inventories at fair value less costs to sell.

In this scenario, after initial recognition, the SME's inventories of harvested nuts are measured at fair value less costs to sell, with changes in fair value included in profit or loss of the period in which the value changes (see paragraph 13.3(a)). This treatment is more likely if there is an active market for the produce and minimal risk that it will not be sold.

Scenario 2—The SME does not measure inventories at fair value.

In this scenario, after initial recognition, the SME's inventories of harvested nuts are measured at the lower of cost (that is, fair value less costs to sell at the point of harvest) and selling price less costs to sell at the reporting date (see paragraph 13.4).

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

13.16 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take 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. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Educational notes

An entity is allowed to measure the cost of inventories by applying the standard cost method, the retail method or most recent purchase price, provided that the technique approximates the cost of inventories measured in accordance with paragraphs 13.5–13.15, 13.17 and 13.18.

Examples—Cost measurement techniques

Ex 39 An SME manufactures medicines. The SME uses a standard cost model for management accounting purposes.

The standard cost computed for management accounting purposes can be used in the SME's financial statements if the standard cost approximates the cost of inventories measured in accordance with paragraphs 13.5–13.15, 13.17 and 13.18.

Ex 40 An SME sells soft drinks at a 150% mark-up on cost, realising a 60% gross margin.

The SME can compute the cost of its inventory for reporting in its financial statements by using the retail method (that is, by deducting the gross margin (60%) from the value of the inventory at retail). In this example, the cost of soft drinks determined using the retail method approximates the cost determined using the weighted average cost formulas.

Ex 41 The facts are the same as in Example 40. However, in this example, because of industrial action at its regular soft-drinks supplier, in the week before the end of the reporting period the SME acquired soft drinks from various alternative suppliers at higher prices. The SME decided not to pass the higher costs on to its customers. Therefore, on selling those inventories, the entity's mark-up on cost was significantly less than 150%.

The SME can compute the cost of its inventory for reporting in its financial statements by deducting the gross margin (60%) from the selling price (that is, by applying the retail method of measuring cost). However, if material, it would adjust the cost for the units of inventory acquired from irregular suppliers to the most recent purchase prices.

Cost formulas

13.17 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

Educational notes

Specific identification of cost means that specific costs are attributed to identified items of inventory. This treatment is appropriate for items that are segregated for a specific project, regardless of whether they have been bought or produced.

However, specific identification of costs is inappropriate if items of inventory are present in large numbers and are ordinarily interchangeable.

Determining whether items are interchangeable requires judgement. Generally, an assessment is made to determine whether the items of inventory could be exchanged with each other without making a difference (for example, homogeneous items or items that are indistinguishable from one another).

Example—Cost formulas

Ex 42 An SME builds bespoke yachts according to its customers' specifications. The SME has the capacity to manufacture three yachts simultaneously in its dockyard. Basic raw materials that can be used interchangeably between all yachts undergoing manufacture are stored in the general storeroom. Materials specific to the manufacture of a particular yacht are stored in a separate storeroom dedicated to the storage of materials specific to that yacht.

The cost of the interchangeable materials stored in the general storeroom is determined by using one of the cost formulas described in paragraph 13.18.

The cost of the materials specific to a particular yacht and stored separately in that yacht's storeroom is determined by using the specific identification method. The cost of the finished goods inventory (the completed yachts), if any, is also determined by using the specific identification method.

13.18 An entity shall measure the cost of inventories, other than those dealt with in paragraph 13.17, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by this Standard.

Educational notes

An entity measures the cost of inventories using the FIFO formula or the weighted average cost formula, using its judgement to decide which method would lead to a fair presentation of its financial statements.

The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first and, consequently, the items remaining in inventory at the end of the period are those most recently purchased or produced.

Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. Depending on the circumstances of the entity, the average cost might be calculated:

- periodically (known as the periodic average cost method); or
- after an item is purchased or produced (known as the perpetual or moving average cost method).

The cost of inventories cannot be measured using the LIFO method. The LIFO method treats the newest items of inventory as being sold first and, consequently, the items remaining in inventory are recognised as if they were the oldest. This treatment would not generally provide a reliable representation of actual inventory flows.

Example—FIFO cost formula

Ex 43 An SME sells fibre cables. It measures the cost of inventories using the FIFO method. The following movements in inventory occurred in 20X5.

Date	*Description*	*Units*	*Total cost CU*	*Cost per unit CU*
1 January	Opening balance	1,000	10,000	10
2 February	Sold	(200)	?	?
25 February	Purchased	400	6,000	15
2 March	Purchased	200	4,000	20
25 March	Sold	(900)	?	?
Closing inventories		500		

Using the FIFO cost formula, the cost of the inventories sold in the period of CU11,500 (CU2,000[(a)] + CU9,500[(b)]) and the cost of inventory held at the end of the period of CU8,500 are determined by assuming that units that were purchased first are sold first.

Date	*Description*	*Units*	*Cost per unit CU*	*Inventory cost CU*	*Cost of inventories sold CU*
1 January	Opening balance	1,000	10	10,000	
2 February	Sale	(200)		(2,000)	2,000[(a)]
	Balance	**800**	**10**	**8,000**	
25 February	Purchase	400	15	6,000	
2 March	Purchase	200	20	4,000	
25 March	Sale	(900)		(9,500)	9,500[(b)]
	Balance	**500**		**8,500**	
	Analysed as follows:				
		300	15	4,500	
		200	20	4,000	

(a) 200 units × CU10 per unit = CU2,000.

(b) (800 units × CU10 per unit) + (100 units × CU15 per unit) = CU9,500.

Examples—Weighted average cost formula

Ex 44 The facts are the same as in Example 43. However, in this example, the SME allocates the cost of inventories by using the weighted average cost formula calculated as each additional shipment is received (that is, the perpetual or moving average cost method).

Using the weighted average cost formula (calculated using the perpetual average cost method), the cost of the inventories sold in the period is determined as CU13,574 (CU2,000[(a)] + CU11,574[(c)]) and the cost of inventory held at the end of the period is determined as CU6,430, as each additional shipment is received.

Date	*Description*	*Units*	*Cost per unit CU*	*Inventory cost CU*	*Cost of inventories sold CU*
1 January	Opening balance	1,000	10	10,000	
2 February	Sale	(200)		(2,000)	2,000[(a)]
	Balance	**800**	**10**	**8,000**	
25 February	Purchase	400	15	6,000	
2 March	Purchase	200	20	4,000	
	Average cost	**1,400**	12.86[(b)]	18,000	
25 March	Sale	(900)			11,574[(c)]
Ending inventory/Cost of goods sold		**500**	**12.86**	**6,430**	13,574

(a) 200 units × CU10 per unit = CU2,000.
(b) CU18,000 ÷ 1,400 units = CU12.86 per unit.
(c) 900 units × CU12.86 = CU11,574.

Ex 45 **The facts are the same as in Example 43. However, in this example, the SME allocates the cost of inventories by using the weighted average cost formula calculated at the end of the period (the periodic average cost method).**

Using the weighted average cost formula (calculated using the periodic average cost method) the cost of the inventories sold in the period is CU13,750[(b)] and the cost of inventory held at the end of the period is CU6,250[(c)].

Date	*Description*	*Units*	*Cost per unit CU*	*Inventory cost CU*
1 January	Opening balance	1,000	10	10,000
25 February	Purchase	400	15	6,000
2 March	Purchase	200	20	4,000
Total goods available for sale in the period		**1,600**	**12.50**	**20,000**[(a)]
Total goods sold in the period		(1,100)	12.50	(13.570)[(b)]
Closing inventory		**500**	**12.50**	**6,250**[(c)]

(a) CU20,000 ÷ 1,600 units = CU12.50 cost per unit.

(b) 1,100 units × CU12.50 = CU13,750 cost of goods sold in the period.

(c) 500 units × CU12.50 = CU6,250 cost of inventory held at the end of the period.

Impairment of inventories

13.19 Paragraphs 27.2–27.4 require an entity to assess at the end of each **reporting period** whether any inventories are impaired, ie the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell and to recognise an **impairment loss**. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Educational notes

Paragraph 13.19 summarises the requirements for assessing, recognising and measuring the impairment of inventories in paragraphs 27.2–27.4 of Section 27.

Recognition as an expense

13.20 When inventories are sold, the entity shall recognise the carrying amount of those inventories as an expense in the period in which the related **revenue** is recognised.

Educational notes

Section 23 specifies when an entity is required to recognise revenue from selling goods and services.

Examples—Expense recognition

Ex 46 On 14 December 20X5 an SME sold an item of machinery it manufactured in 20X5 to a customer for CU8,000 in cash. The cost of the machine was CU5,500 (assume the cost of the machine is incurred in cash). The customer took immediate delivery of the machine.

On 14 December 20X5, when control of the machine is transferred to the customer, the SME recognises the carrying amount of the inventory as an expense.

The following entries are made:

Date of manufacturing the machine (inventory)

Dr	Inventories (asset)		CU5,500	
	Cr	Cash (asset)		CU5,500

To recognise the manufacture of the machine.

14 December 20X5

Dr	Cash (asset)		CU8,000	
	Cr	Revenue (profit or loss)		CU8,000

To recognise the sale of the machine.

Dr	Cost of goods sold (profit or loss)		CU5,500	
	Cr	Inventories (asset)		CU5,500

To derecognise the machine sold.

13.21 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this Standard relevant to that type of asset.

Example—Allocation of inventories to other asset accounts

Ex 47 An SME manufactures hammers for sale to its customers. However, it uses some of the hammers that it produces as equipment in its production process.

On initial recognition, the hammers manufactured for use in the manufacturing process are recognised as equipment (not inventories). After initial recognition, the carrying amount of those hammers that are equipment forms part of the cost of the inventories of hammers when they are consumed in the production process (that is, the depreciation of the equipment hammers forms part of the cost of the hammer inventory). Thus, the equipment hammers are recognised as an expense when the revenue from the sale of the inventory hammers is recognised.

Disclosures

13.22 An entity shall disclose the following:

(a) the **accounting policies** adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in **classifications** appropriate to the entity;

(c) the amount of inventories recognised as an expense during the period;

(d) impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment of Assets*; and

(e) the total carrying amount of inventories pledged as security for **liabilities**.

Example—Disclosures

Ex 48 An SME manufactures frozen desserts.

The following disclosure illustrates one way of satisfying the requirements in paragraph 13.22.

Notes to the SME's financial statements for the year ended 31 December 20X2 (extract):

Note 1 Accounting policies

Inventories

Inventories are measured at the lower of cost and estimated selling price less costs to complete and sell. The cost of perishable produce is calculated using the first-in, first-out (FIFO) method. The weighted average cost formula is used for all other inventories.

Note 10 Inventories

	20X2	*20X1*
	CU	*CU*
Finished goods	10,000	15,000
Work in process	1,000	500
Consumable stores	20,000	18,000
Raw materials	60,000	60,000
Total carrying amount	**91,000**	**93,500**

The cost of goods sold during 20X2 is CU845,000 (20X1: CU800,000). Impairment loss in 20X2 amounted to CU45,000 caused by flood-damaged raw materials (20X1: nil).

At 31 December 20X2 CU30,000 (20X1: CU30,000) of the entity's raw materials was pledged as security for a CU20,000 loan from Bank A.

SIGNIFICANT ESTIMATES AND OTHER JUDGEMENTS

Applying the requirements of the *IFRS for SMEs* Accounting Standard to transactions or other events often requires an entity to use its judgement. Information about significant judgements made by an entity's management and key sources of estimation uncertainty is useful when assessing an entity's financial position, performance and cash flows. Consequently, in accordance with paragraph 8.6 of Section 8 *Notes to the Financial Statements*, an entity discloses the judgements management has made when applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Furthermore, in accordance with paragraph 8.7, an entity discloses information that explains key assumptions about the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Other sections of the Standard require disclosure of information about specific judgements and estimation uncertainties.

Classification

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. In most cases, little difficulty is encountered in determining whether an asset is an item of inventory. However, significant judgement is required to classify some items of inventory. For example:

- spare parts are usually classified as inventory. However, major spare parts are property, plant and equipment if an entity expects to use them during more than one period. Similarly, if the spare parts can be used only in connection with an item of property, plant and equipment, they are property, plant and equipment (see Section 17).
- land or buildings (or both) acquired with mixed intentions may be classified as either inventory, investment property or property, plant and equipment. Reclassification is required if the purpose for which the fixed property is held changes.

Measurement

An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell. In most cases, little difficulty is encountered in measuring the cost of inventory. However, significant judgement is required to measure some items of inventory.

For example, judgement might be required when:

- determining the extent to which overheads and other costs are included in inventory (see paragraph 13.9);
- determining normal capacity for the allocation of fixed production overheads (see paragraph 13.9);
- determining the amounts of some items of fixed production overheads (for example, depreciation of property, plant and equipment (see Section 17)).

- differentiating between normal and abnormal amounts of wastage (see paragraph 13.13(a));
- determining the most appropriate basis for allocating the cost of joint products, particularly if there is no market for joint products at the stage in the production process when the products become separately identifiable, and if, in the case of multiple joint products, some products exit the joint production process at varying stages (see paragraph 13.10).

As discussed in Section 27, significant judgements in accounting for the impairment of inventory might include assessing whether there is any indication that an item of inventory might be impaired and, if so, determining the selling price less cost to complete and sell the inventory.

TRANSITION REQUIREMENTS

The third edition of the *IFRS for SMEs* Accounting Standard is effective for annual periods beginning on or after 1 January 2027. Early application is permitted.

Changes made to Section 13 from the second edition of the Standard are summarised on page 6. Of the amendments, those that could change an entity's accounting policies are:

- the changes to the scope of Section 13 (see paragraphs 13.2–13.2A); and
- the removal of the requirements for measuring the cost of the inventories of a service provider (see paragraph 13.12).

Both amendments are consequential amendments arising from the revised Section 23 *Revenue from Contracts with Customers*. The transition requirements for such consequential amendments are set out in paragraph A33 of Appendix A to the Standard.

> A33 The revised Section 23 amended paragraphs 4.11(b), 11.13, 11.14(a), 17.29, 18.1, 21.1(b), 27.1(f) and 34.16; deleted paragraphs 13.2(a), 13.14 and 21A.5; and added paragraphs 11.7(g), 11.7A, 11.13A–11.13B, 11.14A, 11.49(j), 11.55 and 13.2A. If an entity prospectively applies the revised Section 23, the entity shall apply those amendments in accordance with paragraph A32.

Educational notes

Section 23 Revenue from Contracts with Customers

Appendix A gives an entity a choice between applying the revised Section 23 retrospectively or prospectively in accordance with paragraph A32.

Retrospective application means applying an accounting policy based on the revised Section 23 to contracts as if that policy had always been applied.

Prospective application in accordance with paragraph A32 means applying an accounting policy based on the revised Section 23 to contracts that begin after the date of initial application. The entity is not permitted to change its accounting policy for any contracts in progress at that date.

Consequential amendments arising from the revised Section 23

An entity applies the consequential amendments at the same time as it applies the revised Section 23. Consequently:

- if an entity accounts for a contract in accordance with the revised Section 23, the entity also applies the consequential amendments when accounting for that contract; and
- if an entity accounts for a contract in accordance with the previous Section 23, the entity does not apply the consequential amendments when accounting for that contract.

This approach ensures a contract is either wholly accounted for in accordance with the second edition or the third edition of the Standard, but not a mixture of both.

Example—Transition requirements

Ex 49 **An SME initially applies the third edition of the *IFRS for SMEs* Accounting Standard for the year ended 31 December 2027. The SME chooses to apply the revised Section 23 prospectively.**

The SME enters into a contract on 1 October 2026 to provide a professional opinion to Customer A.

The SME enters into a contract on 19 January 2027 to provide a professional opinion to Customer B.

The date of initial application is 1 January 2027.

Contract with Customer A

The contract begins before the date of initial application. Therefore, the SME accounts for the contract by applying the previous Section 23.

The SME recognises the work in progress arising from the contract as inventory in accordance with paragraph 13.14 of Section 13 of the second edition of the Standard ('Cost of inventories of a service provider').

Contract with Customer B

The contract begins after the date of initial application. Therefore, the SME accounts for the contract by applying the revised Section 23.

The SME recognises the costs to fulfil a contract as an asset in accordance with paragraphs 23.69–23.73 of Section 23 ('Costs to fulfil a contract').

COMPARISON WITH FULL IFRS ACCOUNTING STANDARDS

Some requirements in full IFRS Accounting Standards (see IAS 2 *Inventories*) and in Section 13 *Inventories* of the *IFRS for SMEs* Accounting Standard differ as at February 2025.

The main differences are that:

- The *IFRS for SMEs* Accounting Standard is drafted in simpler language than that used in full IFRS Accounting Standards. For example, Section 13 describes inventory as being measured at the lower of cost and 'estimated selling price less costs to complete and sell', instead of using the term 'net realisable value' as in IAS 2.
- The requirements for impairing inventories are included in IAS 2. In the *IFRS for SMEs* Accounting Standard, the requirements for impairing inventories are included in Section 27 *Impairment of Assets*, not Section 13.
- IAS 23 *Borrowing Costs* requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (including some inventories) to be capitalised as part of the cost of the asset. For cost–benefit reasons, Section 25 *Borrowing Costs* of the *IFRS for SMEs* Accounting Standard requires such costs to be charged to expense.

The table lists the disclosure requirements in IAS 2 and maps them to the equivalent requirement in Section 13. X denotes there is no equivalent requirement.

IAS 2 paragraph	Section 13 paragraph
36(a)–(b), (d)–(f), (h)	13.22
36(c) and (g)	X

TEST YOUR KNOWLEDGE

Test your knowledge of the requirements in Section 13 *Inventories* of the *IFRS for SMEs* Accounting Standard by answering the questions provided.

Assume all amounts mentioned are material.

Once you have completed the test, check your answers against those supplied on page 44.

Mark the box next to the most correct statement.

Question 1

Inventories are defined as:

- ☐ (a) 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.
- ☐ (b) assets held for sale, in the process of production, or in the form of materials or supplies to be consumed in the production process.
- ☐ (c) tangible assets held for sale in the ordinary course of business, in the process of production, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Question 2

Inventories must be measured at:

- ☐ (a) cost.
- ☐ (b) the lower of cost and estimated selling price less costs to complete and sell.
- ☐ (c) the lower of cost and fair value less costs to complete and sell.

Question 3

The cost of inventories is the sum of:

- ☐ (a) costs of purchase and costs of conversion.
- ☐ (b) direct costs, indirect costs and other costs (allocated production overheads).
- ☐ (c) costs of purchase, costs of conversion (for example, allocated production overheads) and other costs incurred in bringing the inventories to their present location and condition.

Question 4

The cost of inventories does not include:

- ☐ (a) salaries of factory staff.
- ☐ (b) storage costs necessary during the production process before a further production stage and selling costs.
- ☐ (c) abnormal amounts of wasted materials and selling costs.

Question 5

An SME is required to assign the cost of inventories by:

- ☐ (a) using the last-in, first-out (LIFO) cost formula.
- ☐ (b) using specific identification of individual costs for inventories that are not ordinarily interchangeable and, for inventories that are ordinarily interchangeable, using the first-in, first-out (FIFO) method or the weighted average cost formula.
- ☐ (c) using specific identification of individual costs for inventories that are ordinarily interchangeable, and, for inventories that are not ordinarily interchangeable, using the first-in, first-out (FIFO) method or the weighted average cost formula.

Question 6

Supplies to be consumed in the production process are:

- ☐ (a) inventories.
- ☐ (b) property, plant and equipment (see Section 17 *Property, Plant and Equipment*).
- ☐ (c) investment property (see Section 16 *Investment Property*).
- ☐ (d) intangible assets (see Section 18 *Intangible Assets other than Goodwill*).

Question 7

On 1 January 20X1 an SME acquired goods for sale in the ordinary course of business from Company A, a new entrant in the market, for CU100,000, including CU5,000 of refundable purchase taxes. To attract a larger customer base, Company A sells goods on terms including interest-free credit for one year. In acquiring the goods, transport charges of CU2,000 were incurred: these were due on 1 January 20X1. Other suppliers within the market offer the same goods at the same price but on a cash-on-delivery basis.

An appropriate discount rate is 10% per year.

The SME is required to measure the cost of inventories at:

- ☐ (a) CU102,000.
- ☐ (b) CU97,000.
- ☐ (c) CU88,364.
- ☐ (d) CU107,000.

Question 8

On 1 January 20X1 an SME acquired 100 units of goods for sale in the ordinary course of business for CU100,000. On 1 March 20X1 20 further units were acquired for CU20,400. On 1 August 20X1 30 units were sold for CU33,000. The SME assigns the cost of inventories by using the first-in, first-out (FIFO) formula.

On 31 December 20X1 the SME must measure the carrying amount of the 90 units of goods at:

- ☐ (a) CU100,000.
- ☐ (b) CU90,000.
- ☐ (c) CU90,400.
- ☐ (d) CU91,800.

Question 9

An SME that sells perishable produce seeks to avoid obsolescence by arranging its produce in such a way that customers are most likely to purchase the oldest inventory first. The cost formula that is most appropriate for the SME is:

- ☐ (a) FIFO.
- ☐ (b) LIFO.
- ☐ (c) weighted average cost.
- ☐ (d) specific identification.

Question 10

An SME is a property developer. The SME classifies properties it holds for sale in the ordinary course of business as:

- ☐ (a) inventory.
- ☐ (b) property, plant and equipment.
- ☐ (c) financial assets.
- ☐ (d) investment property.

Answers

Q1 (a)—see paragraph 13.1.

Q2 (b)—see paragraph 13.4.

Q3 (c)—see paragraph 13.5.

Q4 (c)—see paragraph 13.13.

Q5 (b)—see paragraphs 13.17 and 13.18.

Q6 (a)—see paragraph 13.1(c).

Q7 (c)—see paragraphs 13.6 and 13.7

Calculation: (CU100,000 – CU5,000) ÷ 1.1 = CU86,364.

CU86,364 + CU2,000 = CU88,364.

Q8 (c)—see paragraph 13.18

Calculation: 70 units × CU1,000 each = CU70,000 (cost of the remaining units purchased on 1 January).

Cost of the remaining units purchased on 1 January (CU70,000) + cost of the units purchased on 1 March (CU20,400) = CU90,400.

Q9 (a)—see paragraph 13.18.

Q10 (a)—see paragraph 13.1(a).

APPLY YOUR KNOWLEDGE

Apply your knowledge of the requirements in Section 13 *Inventories* of the *IFRS for SMEs* Accounting Standard by completing the case studies provided.

Once you have completed the case studies, check your answers against those on pages 47–48 for Case study 1, page 50 for Case study 2 and pages 52–54 for Case study 3.

Case study 1

SME A began operations in 20X1. In 20X1 it incurred the following expenditures when purchasing the raw materials for its products:

- purchase price of the raw materials = CU30,000;
- import duty and other non-refundable purchase taxes = CU8,000;
- refundable purchase taxes = CU1,000;
- freight costs for bringing the raw materials to the factory storeroom = CU3,000;
- costs of unloading the raw materials into the storeroom = CU20; and
- packaging = CU2,000.

On 31 December 20X1 SME A received a CU530 volume rebate from a supplier for purchasing more than CU15,000 from the supplier during the year.

SME A incurred the following costs producing the products:

- salary of the machine workers in the factory = CU5,000;
- salary of factory supervisor = CU3,000;
- depreciation of the factory building and equipment used in the production process = CU600;
- consumables used in the production process = CU200;
- depreciation of the vehicle used to transport the raw materials to the factory = CU400;
- factory electricity usage = CU300;
- factory rental = CU1,000; and
- depreciation of SME A's vehicle used by the factory supervisor (50% for official use and 50% for personal use) = CU200 (private use of the vehicle is an employee benefit).

During 20X1 SME A incurred the following administrative costs:

- depreciation of the administration building = CU500;
- depreciation of vehicles used by the administrative staff = CU150; and
- salaries of the administrative staff = CU3,050.

Of the administrative costs, 20% are attributable to administering the factory. The rest are attributable, in equal proportion, to the sales and other non-production operations (for example, finance and corporate secretarial functions).

In 20X1 SME A incurred the following selling costs:

- advertising costs = CU300;
- depreciation and maintenance of vehicles used by the sales staff = CU100; and
- salaries of the sales staff = CU6,000.

Prepare the accounting entries to record the inventory cost in the accounting records of SME A in 20X1.

Answer to Case study 1

During 20X1

Dr	Inventory		CU42,490[a]	
	Cr	Cash		CU42,490

To recognise the cost of raw materials purchased.

Dr	Inventory		CU11,240[b]	
	Cr	Cash (cost of direct labour)		CU5,000
	Cr	Property, plant and equipment (accumulated depreciation—factory building and equipment)		CU600
	Cr	Property, plant and equipment (accumulated depreciation—raw-materials transportation vehicle)		CU400
	Cr	Cash (cost of electricity used)		CU300
	Cr	Property, plant and equipment (accumulated depreciation—factory supervisor's vehicle)		CU200
	Cr	Cash (factory supervisor's salaries)		CU3,000
	Cr	Cash (factory rental)		CU1,000
	Cr	Cash (attributable portion of administrative staff salaries)		CU610
	Cr	Property, plant and equipment (attributable portion of accumulated depreciation—administration building)		CU100
	Cr	Property, plant and equipment (attributable portion of accumulated depreciation—administration vehicles)		CU30

To recognise the costs of conversion.

Dr	Inventory		CU200[b]	
	Cr	Inventory (consumable stores)		CU200

To recognise the costs of consumable stores used in the production process.

The calculations and explanatory notes below do not form part of the answer to this case study:

The total cost of inventories (CU53,930) = costs of purchase (CU42,490[(a)]) + costs of conversion (CU11,440[(b)])

[(a)] Breakdown of costs of purchase—Raw materials to be used in production

Description	*CU*
Purchase price	30,000
Import duty and other non-refundable purchase taxes	8,000
Freight costs for bringing the raw materials into the factory storeroom	3,000
Cost of unloading the raw materials into the storeroom	20
Packaging	2,000
Less: Volume rebate	(530)
Cost of purchase	**42,490**

(Refundable purchase taxes are not part of the cost of inventories.)

[(b)] Breakdown of costs of conversion—Production process

Description	*CU*	*Calculation*
Direct labour	5,000	
Fixed production overheads		
Depreciation of factory building and equipment	600	
Depreciation of vehicle used for transporting the raw materials	400	
Depreciation of vehicle used by factory supervisor	200[(c)]	
Factory electricity usage	300	
Factory management	3,000	
Factory rental	1,000	
Other costs of administering the factory		
20% of depreciation of administration building	100	(20% × CU500)
20% of depreciation of administration vehicles	30	(20% × CU150)
20% of administrative staff costs	610	(20% × CU3,050)
Subtotal	11,420	
Variable production overheads		
Indirect material—consumables	200	
Cost of conversion	**11,440**	

(Selling costs are excluded from the cost of inventories.)

[(c)] The total cost of the factory supervisor's car is included because use of the car is part of total remuneration, regardless of use.

Case study 2

SME B manufactures three products: A, B and C. The three products are produced simultaneously in a single production process. However, Products A and B require further processing before they are ready for sale:

	CU
Costs incurred during the joint production process:	
Raw materials	120,000
Consumable stores	10,000
Direct labour costs	50,000
Variable production overheads	45,000
Fixed production overheads allocated based on service usage	55,000
Costs incurred after the joint production process:	
Product A	10,000
Product B	12,000
Units produced:	
Product A	400 units
Product B	400 units
Product C	350 units
Total sales value of units produced:	
Product A	120,000
Product B	140,000
Product C	70,000

SME B allocates the joint costs to each product based on their relative sales values less the costs of further processing after the joint production process.

Determine the cost per unit of Products A, B and C.

Answer to Case study 2

	CU
Raw materials	120,000
Consumable stores	10,000
Direct labour costs	50,000
Variable production overheads	45,000
Fixed production overheads allocated based on service usage	55,000
Total joint costs	**280,000**

	Total	*Product A*	*Product B*	*Product C*
Number of units produced		400	400	350
	CU	*CU*	*CU*	*CU*
Sale value of units produced	330,000	120,000	140,000	70,000
Less: Costs incurred after the joint production process	(22,000)	(10,000)	(12,000)	–
Sales value less costs incurred after the joint production process	**308,000**	**110,000**	**128,000**	**70,000**
Apportionment of joint costs on relative sales values less costs incurred after the joint production process	280,000	100,000[(a)]	116,364[(b)]	63,636[(c)]
Cost incurred after the joint production process	22,000	10,000	12,000	–
Cost of units produced	302,000	110,000	128,364	63,636
Number of units produced		400	400	350
Cost per unit produced		**275.00**	**320.91**	**181.82**

The following calculations do not form part of the answer to this case study:

(a) CU280,000 × (CU110,000 ÷ CU308,000) = CU100,000.

(b) CU280,000 × (CU128,000 ÷ CU308,000) = CU116,364.

(c) CU280,000 × (CU70,000 ÷ CU308,000) = CU63,636.

Case study 3

In January 20X7 SME C began selling Product X.

SME C's purchases and sales of Product X during 20X7 are:

	Purchases			***Sales***	
	Units bought	*Cost per unit CU*	*Cost CU*	*Units sold*	*Revenue CU*
1 January	5,000	10	50,000		
1 February	2,000	11	22,000		
28 February				2,000	24,000
1 March	3,000	11	33,000		
1 April	2,500	12	30,000		
30 April				5,000	70,000
30 June				4,000	52,000
1 July	6,000	12.5	75,000		
1 August	2,500	13.5	33,750		
31 August				3,000	39,000
31 October				1,000	16,000
1 November	3,000	14	42,000		
31 December				5,000	100,000

Determine the cost of inventory for each of the sales made during 20X7 and the cost of the inventories asset at 31 December 20X7 under each of the following cost formulas:

Part A: first-in, first-out (FIFO); and

Part B: weighted average (using the moving average cost method).

Answer to Case study 3—Part A

First-in, first-out (FIFO)

Date	*Purchased/ (Sold)*	*Cost*	*Cost per unit*		*Cost of inventory sold*	*Cost of units in closing inventories*	
	Units	*CU*	*CU*		*CU*	*CU*	*CU*
1 January	5,000	50,000	10			10 × 5,000 units	50,000
1 February	2,000	22,000	11			10 × 5,000 units 11 × 2,000 units	72,000
28 February	(2,000)		10	(a)	20,000	10 × 3,000 units 11 × 2,000 units	52,000
1 March	3,000	33,000	11			10 × 3,000 units 11 × 5,000 units	85,000
1 April	2,500	30,000	12			10 × 3,000 units 11 × 5,000 units 12 × 2,500 units	115,000
30 April	(5,000)		10 for 3,000 units 11 for 2,000 units	(b)	52,000	11 × 3,000 units 12 × 2,500 units	63,000
30 June	(4,000)		11 for 3,000 units 12 for 1,000 units	(c)	45,000	12 × 1,500 units	18,000
1 July	6,000	75,000	12.50			12 × 1,500 units 12.5 × 6,000 units	93,000
1 August	2,500	33,750	13.50			12 × 1,500 units 12.5 × 6,000 units 13.5 × 2,500 units	126,750
31 August	(3,000)		12 for 1,500 units 12.5 for 1,500 units	(d)	36,750	12.5 × 4,500 units 13.5 × 2,500 units	90,000
31 October	(1,000)		12.50	(e)	12,500	12.5 × 3,500 units 13.5 × 2,500 units	77,500
1 November	3,000	42,000	14			12.5 × 3,500 units 13.5 × 2,500 units 14 × 3,000 units	119,500
31 December	(5,000)		12.5 for 3,500 units 13.5 for 1,500 units	(f)	64,000	13.5 × 1,000 units 14 × 3,000 units	55,500

Cost of inventories asset at 31 December 20X7 is CU55,500 (1,000 units × CU13.5 per unit + 3,000 units × CU14 per unit) on a FIFO basis.

The following explanatory notes do not form part of the answer to this case study:

(a) The 2,000 units sold were acquired on 1 January at a cost of CU10 per unit.

(b) 3,000 of the units sold were acquired on 1 January at a cost of CU10 per unit and the further 2,000 units sold were acquired on 1 February at a cost of CU11 per unit.

(c) 3,000 of the units sold were acquired on 1 March at a cost of CU11 per unit and the further 1,000 units sold were acquired on 1 April at a cost of CU12 per unit.

(d) 1,500 of the units sold were acquired on 1 April at a cost of CU12 per unit and the further 1,500 units sold were acquired on 1 July at a cost of CU12.5 per unit.

(e) The 1,000 units sold were acquired on 1 July at a cost of CU12.5 per unit.

(f) 3,500 of the units sold were acquired on 1 July at a cost of CU12.5 per unit and the further 1,500 units sold were acquired on 1 August at a cost of CU13.5 per unit.

Answer to Case study 3—Part B

Weighted average (moving average cost method)

Date	*Purchased/ (Sold)*	*Cost*		*Cumulative cost of units in closing inventories*	*Closing units*	*Average cost of units in closing inventories*
	Units	*CU*		*CU*	*Units*	*CU*
1 January	5,000	50,000		50,000	5,000	10.0000
1 February	2,000	22,000		72,000	7,000	10.2857
28 February	(2,000)	(20,571)	(a)	51,429	5,000	10.2857
1 March	3,000	33,000		84,429	8,000	10.5536
1 April	2,500	30,000		114,429	10,500	10.8980
30 April	(5,000)	(54,490)	(b)	59,939	5,500	10.8980
30 June	(4,000)	(43,592)	(c)	16,347	1,500	10.8980
1 July	6,000	75,000		91,347	7,500	12.1796
1 August	2,500	33,750		125,097	10,000	12.5097
31 August	(3,000)	(37,529)	(d)	87,568	7,000	12.5097
31 October	(1,000)	(12,510)	(e)	75,058	6,000	12.5097
1 November	3,000	42,000		117,058	9,000	13.0064
31 December	(5,000)	(65,032)	(f)	52,026	4,000	13.0064

Cost of inventories asset at 31 December 20X7 is CU52,026 on a moving average basis.

The following calculations do not form part of the answer to this case study:

(a) (CU20,571) = 2,000 units × CU10.2857 per unit.

(b) (CU54,490) = 5,000 units × CU10.8980 per unit.

(c) (CU43,592) = 4,000 units × CU10.8980 per unit.

(d) (CU37,529) = 3,000 units × CU12.5097 per unit.

(e) (CU12,510) = 1,000 units × CU12.5097 per unit.

(f) (CU65,032) = 5,000 units × CU13.0064 per unit.

NOTES

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