7 Inventories

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| --- | --- |
| **OVERVIEW** | * Costs of all raw materials and consumables are recognized at their costs of purchase. * Work in progress and finished goods include the cost of purchasing the raw materials used in the production of the modular units as well as the cost of production. * The Group recognizes expense for reporting purposes using the weighted average (purchased goods) and First In, First out (FIFO) (manufactured goods) methods. * Inventories are measured at the lower of cost and net realizable value. * Inventory must be written down to net realizable value when net realizable value is less than cost. * The amount of any loss related to the write‑down of inventories should be recognized as an expense in the period the write‑down occurs. * The reversal of a write down for inventory is limited to the amount of the original write‑down. The new carrying amount is the lower of the cost and the revised net realizable value. |

7.1 Purpose and scope

This policy provides guidance and rules on accounting for **Inventory** for the purpose of preparing the financial statements of the Group according to International Financial Reporting Standards.

7.2 Definition

Inventories are assets:

* held for sale in the ordinary course of business,
* in the process of production for such sale,

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

The Group has the following categories of inventories:

* Raw materials
* Work in progress
* Finished goods

7.3 Recognition and measurement of inventories

Inventories are recognized at cost including all costs of purchase, costs of production and other costs incurred in bringing the inventories to their present location and condition, depending on the type of inventories.

Costs by category of inventory:

* Raw materials = cost of purchase
* Work in progress = cost of purchase + cost of production

Finished goods = cost of purchase + cost of production

Costs of purchase

Costs of all raw materials are recognized at their costs of purchase. The cost of purchase comprises of the purchase price, import duties and other taxes (other than those subsequently recoverable by the Group from the taxing authorities), transport, handling, and other costs directly attributable to the acquisition of goods and materials.

Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of production

Work in progress and finished goods include the cost of purchasing the raw materials used in the production. Costs of production are the costs incurred to convert materials and supplies to finished units.

The costs of production include costs directly related to the units of production. They also include an appropriate share of production overheads (fixed and variable) incurred in converting the materials into finished goods.

The following costs are excluded from the costs of inventories and are recognized as an expense in the period in which they are incurred:

‑ abnormal amounts of wasted materials, labor or other production costs,

‑ administrative overheads that do not contribute to bringing inventories to their present location and condition,

‑ selling costs (such as commissions and advertising costs).

**Other Costs**

Distribution costs and costs of transporting inventory to customers generally are recognized as an expense as incurred. However, if such costs relate to goods in transit, then they would be deferred and recognized. In addition, transport and/or distribution costs which are necessary to get inventory in a present location or condition for sale form part of the costs of inventory. Examples of this include freight costs incurred to bring inventory from the warehouse to retail locations, between warehouses and from warehouse to a consignment location. Similarly, packing costs incurred to prepare inventory for sale are part of the cost of inventory. Examples of this include nesting and de-nesting inventory prior to sale.

*Cost formulas*

The cost formula used for purchased goods is weighted average costs and FIFO is used for manufactured goods. The same cost formula is applied to all inventories with a similar nature and use even if they are held by different members of the group. Due to system constraints if a location is required to utilize FIFO for purchased goods, this is allowed assuming the cost closely approximates the cost if weighted average was applied.

7.4 Inventories measurement and recognition

The end product of the manufacturing process for the Group is the production of units that will either be sold to wholesale or retail customers.

Measurement

The Group values inventories at the lower of cost, using the weighted average/FIFO method, or net realizable value.

Recognition

When there are outflows of units (sale, destructions), the carrying amount of those units should be recognized as expenses in the period in which the related revenue is recognized.

Certain samples are provided from the supplier at no cost. Other samples provided to Sales Representatives are expensed as selling costs when allocated to a Sales Representative. Samples used in retail locations or at Luggage fairs are maintained in inventory. Upon return, they are identified as 2nd or 3rd choice and may be sold through The Group’s outlets.

7.5 Inventory valuation at a closing date

7.5.1 Definitions

Inventories should be measured at each reporting date at the lower of cost (refer to Recognition and measurement of inventories) and net realizable value.

**Net Realizable Value** is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to perform the sale. It refers to the net amount that the Group expects to realize from the sale of inventories in the ordinary course of business.

A new assessment of Net Realizable Value is made in each subsequent period.

7.5.2 Write‑down of inventories

The cost of inventories may not be recoverable if:

* those inventories are damaged,
* or if they have become wholly or partially obsolete,
* or if their selling prices have declined,

or the estimated costs to be incurred to make the sale have increased.

Inventory reserves are established and reviewed at each reporting period.

The amount of any loss related to the write-down of inventories should be recognized as an expense in the period the write-down occurs.

When a decrease in Net Realizable Value (decrease of estimated selling price or increase of estimated costs) leads to an impairment of inventories, this impairment should be accounted as “Cost of sales” in the income statement.

However, it should be noted that raw materials held for use in the production of inventories should not be written down below cost if the units in which they will be incorporated are expected to be sold at or above cost.

7.5.3 Reversal of write‑down

The amount of the write‑down shall be reversed:

‑ when the circumstances that previously caused inventories to be written down below cost no longer exist,

‑ or when there is clear evidence of an increase in Net Realizable Value because of changed economic circumstances.

The reversal is limited to the amount of the original write‑down and, the new carrying amount is the lower of the cost and the revised Net Realizable Value.

When an increase in Net Realizable Value (increase of estimated selling price or decrease of estimated costs) leads to a reversal of the related write‑down, this reversal should be accounted for as “Cost of sales” (where the change in inventories is already recognized) in the income statement. The amount of any reversal of any write‑down of inventories, arising from an increase in Net Realizable Value, should be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

7.6 Inventory count

The Group performs full physical inventory counts annually. In some instances, cycle counts are performed throughout the year as needed. Inventory balances are adjusted to reflect the results of the physical or cycle counts.

**7.7 Disclosure**

Footnote

The Group has developed forms to assist with the completion of the financial statement footnote disclosures.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **December 31,** | | |
|  |  | **20X1** |  | **20XX** |
| Raw materials and consumables |  |  |  |  |
| Work in progress |  |  |  |  |
| Finished goods |  |  |  |  |
| Total inventories |  |  |  |  |

The amounts above include inventories carried at net realizable value (estimated selling price less costs to sell) of US$\_\_\_\_\_ and US$\_\_\_\_\_ as of December 31, 20X1 and 20XX, respectively. During the years ended December 31, 20X1 and 20XX, the impairment of inventories to net realizable value amounted to US$\_\_\_\_\_ and US$\_\_\_\_\_, respectively. During the years ended December 31, 20X1 and 20XX the reversal of impairments recognized in profit or loss amounted to US$\_\_\_\_\_ and US$\_\_\_\_\_, respectively, where the Group was able to sell the previously written-down inventories at higher selling prices than previously estimated.

7.8 Illustrative example

Weighted average method calculation

The following information pertains to 20XX for Cosmolite:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Source units** | **Unit** | **Cost (US$)** | **Total cost (US$)** |
| 1/1/20XX | Inventory | 200 | 10 | 2,000 |
| February | Purchases | 50 | 11 | 550 |
| June | Purchases | 400 | 12 | 4,800 |
| November | Purchases | 350 | 14 | 4,900 |
|  |  | 1,000 |  | 12,250 |

**Physical inventory at 12/31/XX** = 400 units

**Weighted average cost per unit:** 12,250/1,000 = 12.25

**Weighted average inventory at 12/31/XX:** 400 x 12.25 = 4,900

**Cost of sales for 20XX:** 12,250 – 4,900 = 7,350