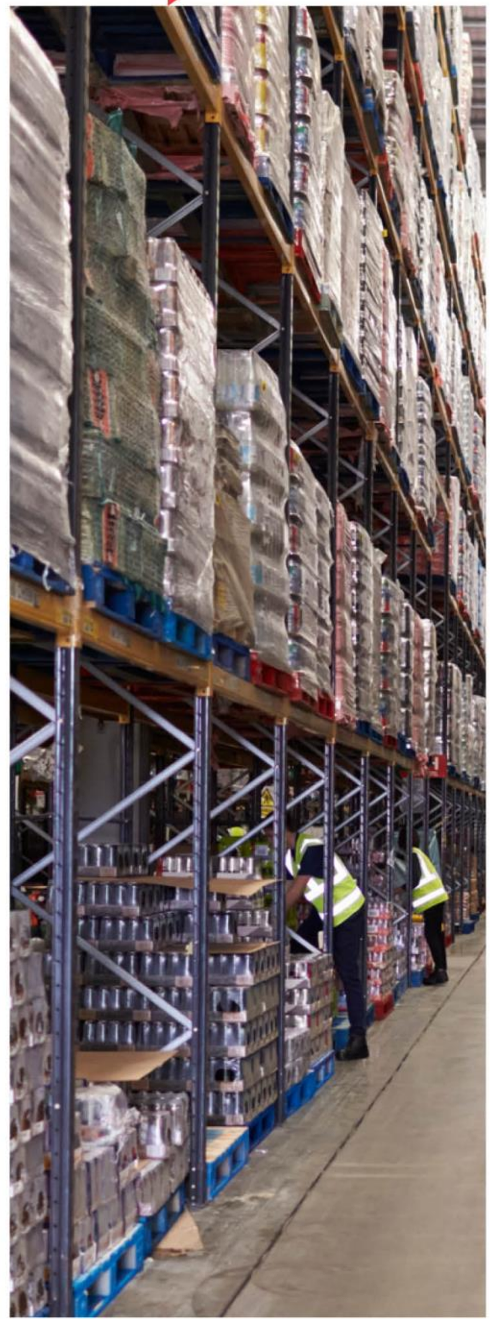
ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Inventories

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) related to inventories.



References

ASPE	IFRS
• **Section 3031 - *Inventories***	• IAS 2 – *Inventories*

Overview of Major Differences

ASPE and IFRS are substantially converged in terms of their treatment of inventories. Section 3031 was written to be harmonized with IAS 2. Inventories are goods purchased, work in progress and finished goods held for resale by an entity in the normal course of operations or to be used in the production of goods to be sold.

Under both ASPE and IFRS, inventory is generally measured initially at cost and subsequently at the lower of cost and net realizable value. Cost consists of the cost of purchase, conversion (including an application of applicable overheads), shipping and other costs incurred in bringing inventories to their present location and condition. Cost is assigned using either the specific identification, first-in, first-out (“FIFO”) or weighted average cost formulas. Net realizable value is the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business.

Minor scope differences exist between the standards as IFRS addresses certain areas where ASPE is silent.

ASPE-IFRS differential rating scale

Scope

Slight differences exist in terms of the scope of the standards, in that IAS 2 scopes out biological assets related to agricultural activity and agricultural produce at the point of harvest, as these assets are addressed in IAS 41 – *Agriculture*.

Section 3031 also contains scope exemptions relating to living animals and plants and the harvested product of an entity's biological assets. Section 3041 - *Agriculture* provides guidance on the accounting for agricultural inventories and productive biological assets.

Initial Recognition

The initial recognition requirements are substantially converged between ASPE and IFRS.

Both standards require inventories to be initially measured at cost, which comprises costs of purchase, costs of conversion and other costs incurred in bringing inventories to their present location and condition.

Purchase costs typically include the purchase price, import duties, taxes, transportation, handling and other costs directly attributable to the acquisition of inventories.

Costs of conversion include a systematic allocation of fixed and variable production overhead that is incurred in converting materials into finished goods. In allocating these overheads, entities must do so under the assumption of "normal capacity" such that excess overheads are not allocated to inventories during periods of lower than normal operations.

The first-in, first-out ("FIFO") and weighted average cost formulas are permitted in determining the cost of inventories.

Costs excluded from the cost of inventories include abnormal waste, storage costs (unless those costs are necessary in the production process before a further production stage, such as aging certain cheeses), administrative overheads and selling costs.

Subsequent Measurement

The subsequent recognition requirements are substantially converged between ASPE and IFRS.

Both standards require inventories to be measured at the lower of cost and net realizable value.

Net realizable value (NRV) is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimate of net realizable value also takes into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts.

A difference may arise, due to an IFRS Interpretations Committee Agenda Decision on the costs necessary to sell inventory. The Committee agreed that, while the standard does not specify which costs to consider, an entity cannot limit the costs it includes in the determination of NRV to those that are only incremental. Such guidance does not exist in ASPE.

The net realizable value of raw materials and supplies to be used in the production of inventories is generally the replacement cost of such materials.

Write-downs of inventory to net realizable value are recorded through profit or loss. When circumstances that previously caused inventories to be written down below cost no longer exist or net realizable value has recovered, the amount of the write-down is reversed through profit or loss up to the lower of cost and the new net realizable value.

Inventories are derecognized when they are sold, in accordance with the applicable standard within ASPE or IFRS. Please refer to our Comparison Series document on revenue recognition for further guidance.

Conclusion

In general, the principles related to inventory under ASPE and IFRS are substantially converged. However, differences may arise due to the differing scope of the standards and the timing of revenue recognition. If you require further guidance on accounting for inventories under ASPE or IFRS please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Accounting Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.

The information in this publication is current as of October 31st, 2021.