1. **Net Realisable Value**

Under IAS 2, inventories should be measured at the lower of [cost](https://ifrscommunity.com/knowledge-base/cost-of-inventories/) and net realisable value (IAS 2.9).

Where necessary, inventories should be written down below their cost if e.g. they are damaged, become obsolete or simply their selling prices have declined.

In other words, inventory must be written down to its net realisable (not replacement) value. In this context net realisable value is the amount at which it is expected that items of inventory can be disposed i.e. the estimated proceeds of sale less all further costs to completion and less all costs to be incurred in marketing, selling and distributing directly related to the items in question.

If at its present value the inventory can be incorporated in a product that can be sold at a profit (e.g. leaf processed profitably into cigarettes), then no provision is necessary.

1. **NRV Adjustment calculation**

**Net Realisable Value Adjustment= (NTO/Unit – Cost of Sales/Unit) \* Year End Stock Volume (incl. GIT)**

The Selling Price is BAT price after any discounts or MI above GTO i.e., NTO.

Cost of Sale is estimated costs of completion and the estimated costs necessary to make the sales excluding any BAT ICO Margins.

Year End Stock Volume is the stock balance of the Entity calculating NRV Adjustment plus goods in transit value, for example Local Entity, NVT Hub. BAT buys stock on FCA terms from external suppliers so it owns it once picked up from supplier and therefore this stock is relevant to the NRV calculation. Where stock is being sent to a physical plant, the TAO template is not able to receipt goods until they reach the plant so stock in transit is off book. This is managed in NVT by quarterly journals and is viewed by BCT as not an IRI but a process issue. NVT is working on automating it. This is being flagged as markets will need to assess stock in transit fully for NRV.

1. **NRV Adjustment timeline**

The NRV provision for Actuals needs to be calculated quarterly. For Forecasts, the value needs to be reviewed/updated for SOP4, SOP8 and SOP10.

1. **NRV Adjustment Accounting & Management Reporting**

NRV adjustments is reported as MI and 5460103100 Write-offs of Finished Goods – Marketing GL should be used for posting.