Directive on Accounting Standards: GC 4200 Inventories

Note to reader

This document is part of the Appendix A of the Directive on Accounting Standards.

A. Primary PSAS reference

N/A

B. Effective date

April 1, 2017

C. Government of Canada Consolidated Financial Statements

1. Items in inventory are purchased or produced goods that are not immediately consumed. They encompass:
    a. Goods purchased and held for resale, i.e. physical items that will be sold or used to produce a product which will be sold

in the ordinary course of business outside the government reporting entity. They also include finished goods produced, or work-in-process being produced.

b. Goods purchased and held for consumption in the delivery of program outputs, such as ammunition, consumable stores, spare parts and materials held in stores and warehouses for issue at a later date. They include inventories held for resale within the Government of Canada. They exclude purchases that meet the capitalization criteria specified in PS 3150 Tangible capital assets or GC 3150 Tangible Capital Assets.
c. Goods maintained in strategic stockpiles of reserves, such as energy reserves (e.g. oil), for use in emergency or other situations. (IPSAS 12.14)
d. Goods purchased or produced for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. (IPSAS 12.11)

2. Inventory does not include items where legal title has not passed to the Crown, such as items on consignment from suppliers.
3. Unless otherwise arranged with another department, all items for which title has passed to the Crown that are under the control of a department shall be included in inventory of that department.
4. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items are recognized as inventory, but are not reported at face value. Instead, they are measured at their printing or minting cost. (IPSAS 12.13)

D. Measurement

5. Several methods are used in determining inventory cost, such as specific identification, average cost, first in, first out (FIFO), and standard costing. The method selected for determining cost should be one that results in the fairest matching of costs against revenues or program delivery activity, regardless of whether or not the method corresponds to the physical flow of goods.
6. For inventories of raw materials, goods purchased for resale and for internal consumption, the cost includes all costs incurred in acquiring the item, including duties, shipping and handling charges but excluding Goods and Services Tax (GST), Harmonized Sales Tax (HST) and Quebec Sales Tax (QST).
7. For work in process and finished goods, the cost includes all direct costs of materials and services, plus the cost of direct labour applied to the product. Overhead costs directly attributable to production should also be included in the cost.
8. Where the storage of goods for a significant time is an integral part of the manufacturing process, the cost may also include the applicable share of warehousing expenses.
9. Where inventories are acquired through a non-exchange transaction (PS 3400.05(d)), their cost shall be measured at their fair value (PS 3400.79) as at the date of acquisition. (IPSAS 12.16)
10. When inventories are held for distribution at no charge or nominal charge, their cost shall be measured at the lower of cost and current replacement cost. (IPSAS 12.17)
11. Costs that should be excluded from the cost of inventories and expensed in the period incurred include: (IPSAS 12.25)
    a. Abnormal amounts of wasted materials, labour, or other production costs;

   b. Storage costs, unless those costs are necessary in the production process before a further production stage;
   c. Administrative overheads that that do not contribute to bringing inventories to their present location and condition;
   d. Selling costs.
12. Inventories that no longer have service potential or have reduced service potential should be valued at the lower of cost or net realizable value (IPSAS 12.38). Departments and agencies should account for such items as follows:
   a. Obsolete items - Items no longer considered to be usable should be expensed. When charges are significant, it may be necessary to disclose specific details on the obsolete inventory for financial reporting purposes.
   b. Surplus/damaged items - Items no longer deemed to have service potential or that have been damaged should be valued at the lower of cost or net realizable value.
   c. Missing/lost items - Items that are no longer in inventory due to shortages, loss by fire, theft, or unauthorized distribution should be expensed.

E. Departmental Financial Statements

13. If a department has a significant value of inventories held for resale, it may choose to report these separately as a financial asset on the Statement of Financial Position.

F. Other related references

PS 1201 Financial statement presentation [1]

PS 3210 Assets [1]

IPSAS 12 Inventories

Footnotes

1 Please note that a CPA Canada membership or annual subscription is necessary to access this content.

Date modified: 2023-05-01