Inventory Impairment

Inventory Depreciation Rules

SBS-FRM-DRTR-03-017 Inventory Depreciation Rules.xlsx

PF1 inventory Depreciation rules

- Inventories are valued at the lower of cost and net realizable value (IFRS) based on the most reliable evidences available at the date of the estimation.
- Impairment of inventories in case of:
  - Damage;
  - Obsolescence;
  - Sales price fall;
  - Increase of necessary cost for completion or sale.
- Impairments are posted in the fiscal year the event occurs and as well the reversals.
- Impairments for slow moving are not accepted unless it can be proved that sales prices decrease in line with age or movements of products (IFRS).
- No impairment for strategic materials and for materials with unit value > 15000 € and lifetime > 12 months (= tangible assets).
- No automatic posting in accounting (we keep the unit gross value of each material).
- Periodicity: mandatory once in a year but more usually quarterly.
- Possible to group materials similar or linked together (e.g. same product line), but not appropriate to group a whole activity sector or geographical zone.

A) There are two types of flow that are function of the materials:

1) **For the industrial supplies:** The program edits a proposition of the stock depreciation, based on a search notion of the last effective issue date of the stock.

2) **The other materials**: Primary goods, merchandises, half-finished products and end products, packaging. The system proceeds in three phases to execute the proposition of the depreciation:

a) Calculate depreciation based on the **coverage rate,**

b) Calculate depreciation based on the **market price,**

c) Edit a proposition that uses those **2 calculations.**

B) There are 2 types of Inventory Impairment:

1) Rotation Depreciation : Calculation of a percentage of impairment based on

a) Last consumption date or last "first acquisition" date for industrial supplies,

b) Monthly average consumption on the analysis period for other materials,

Only if: Range of coverage > 0. Percentage of inventory value at Material Price (MP)

2) Financial Depreciation: It is based on the **Market Value or Net Realizable Value (NRV_S)** of the last 12 months.

Calculation based on COPA:

NRV_S = [Net Sales (B00) + Add.N.Sales Int (B20) – Sales Commissions (C10) – Freight Costs (C20) – Royalties (C40)] / Invoice Quantity (A01)

Only used for finished products (Z150) and trading goods (Z130).

Only if: Net Realizable Value (NRV_S) < Material Price "end of period of reference" (MP). Financial Impairment = (MP – NRV_S) x Inventory Quantity.

Calculation of Provisions for Inventory Impairment

Financial depreciation = 0

- Rotation provision = Rotation depreciation
- Financial provision = 0

Rotation depreciation = 0

- Rotation provision = 0
- Financial provision = Financial depreciation

Rotation depreciation > Financial depreciation

- Financial provision = Financial depreciation
- Rotation provision = Rotation depreciation – Financial depreciation

Rotation depreciation < Financial depreciation

- Financial provision = Financial depreciation
- Rotation provision = 0

There are 2 types of Inventory Impairment:

1) Rotation Depreciation : Calculation of a percentage of impairment based on

a) Last consumption date or last “first acquisition” date for industrial supplies,

b) Monthly average consumption on the analysis period for other materials,

2) Financial Depreciation (LCM): It is based on the **Market Value or Net Realizable Value (NRV_S)** of the last 12 months.

1. Only used for finished products (Z100) and trading goods (Z101).
2. Only if: Net Realizable Value (NRV_S) < Material Price “end of period of reference” (MP). Financial Impairment = (MP – NRV_S) x Inventory Quantity.