

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:

$$\text{NRV_S} = [\text{Net Sales (B00)} + \text{Add.N.Sales Int (B20)} - \text{Sales Commissions (C10)} - \text{Freight Costs (C20)} - \text{Royalties (C40)}] / \text{Invoice Quantity (A01)}$$

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.