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II - Inventories: Specific points

1. Valuation of by-products, waste and recyclable products

A production process can result in the simultaneous production of more than one product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis.

The costs of these products are measured at the lower of the net realizable value or the production cost. This value is deducted from the cost of the main product. The cost of the main product will therefore be as close as possible to its actual cost.

In practice:

- A **by-product** (manufactured at the same time as the main product) should be valued at the lower of its monetary value or its production cost, namely the lower of:
 - the value of the cost price therein if it is reused as a raw material (less any reprocessing costs if it is recycled), and of
 - its sales value if it is sold (less any reprocessing costs that are necessary in order to sell it).

A by-product value is always considered as proportional costs in full. The non-proportional costs are therefore absorbed by the main product as the value of the by-product only consists of proportional costs.

- **Waste** (residue from the production process that is to be destroyed) is valued at **zero** in inventory. The cost of its disposal (destruction costs) must be included in the manufacturing cost of the products that created this waste.
- **Recyclable** or "out of spec" **products** (products that cannot be sold without being reprocessed) should be revalued (depreciated) so as to be valued at the cost of the variable cost of production consumed and thus excluding non-proportional costs.