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Chapter: Accounting for Expenditures			
Directive Title: ACCOUNTING FOR INVENTORIES - GENERAL			

1. POLICY

Inventories must be accounted for in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

2. DIRECTIVE

Departments are responsible for maintaining accounting records and controls so as to ensure that inventory can be accurately reflected in the Public Accounts and that the inventory is protected from misuse, loss or theft.

3. PROVISIONS

3.1. Types of Inventories

- 3.1.1. Financial asset – Inventory that is held for resale, is in a condition to be sold, has an active market available, has a plan in place for its sale and is expected to be sold within the next fiscal year.
- 3.1.2. Non-financial asset – Inventory that is held for consumption or use by the Government in the course of its operations.

3.2. Controls over Inventories

- 3.2.1. Departments are to institute controls over inventories within their departments to meet the following objectives:
 - to minimize the investment in inventories while maintaining sufficient inventory to support operations;
 - to minimize losses from damage, obsolescence, perishability, theft or misuse;
 - to ensure efficient and effective control over inventory issue, receipt and storage;

- to ensure that the most economical purchasing practices are followed;
- to supply accurate and timely data for accounting and management purposes and to facilitate the forecasting of inventory requirements.

3.3. Valuing Inventory

- 3.3.1. Inventories shall be measured at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

- 3.3.2. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

- 3.3.3. The costs of inventories comprise the purchase price, plus import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

- 3.3.4. Write-offs and deletions of inventories must be in accordance with Regulation 9918 (Delegation of Authority Regulations) and Directive 704-4 (Accounting for Inventories – Deletion or Write-off).

3.4. Managing Inventory

- 3.4.1. Departments are responsible to ensure the following:

- Optimum inventory levels are maintained.
- Appropriate inventory records are maintained to meet reporting and internal control requirements.
- Adequate control and physical security measures are taken to prevent material loss of inventory due to theft, damage or obsolescence.
- Periodic comparison of physical quantities to inventory records to ensure early detection of material differences or irregularities and immediate corrective action taken.

- 3.4.2. Departments should determine the optimum inventory levels by considering the following:

- calculation of economic order quantity;

- calculation of inventory usage rates or turnover, with comparison to historical data, to identify trends and comparison to inventory turnover for other comparable operations to determine if excessive inventory is maintained;
 - When inventories are required for emergency use or the usage rate is unpredictable, departments may maintain suitable safety stocks of inventory;
 - the cost to the Government of funds invested to acquire the inventory;
 - storage costs, including warehousing costs;
 - inventory shrinkage costs, including the cost of spoilage of perishable goods and loss of value due to obsolescence;
 - the time required to replace stock because of sea-lift schedules;
 - any fixed cost associated with placing an order to acquire inventory; and
 - other relevant costs.
- 3.4.3. Departments should implement physical security measures to safeguard inventory from risks of theft, damage, misuse and spoilage. Measures selected should take into account the nature, quantity and value of inventory and the costs to implement them.
- 3.4.4. The procedures for controlling inventories and taking annual stock for the purpose of Public Accounts are found in the Year End Instructions Manual issued by the Comptroller General.
- 3.5. Inventory Records
- 3.5.1. Departments and revolving funds must maintain proper records to safeguard inventory. Goods that would be treated as inventory but are excluded because their value is not significant enough to warrant such treatment, must still be controlled and have sufficient records to meet reporting needs and to mitigate risks of theft or other loss.
- 3.5.2. Departments are to establish and maintain records that, at a minimum, record:
- a description of goods and the storage location;
 - information pertinent to all purchases or acquisitions and sales or other removals from inventory including:
 - o transaction date;
 - o cost and quantity of goods added or removed from inventory; and
 - o the purpose of the transaction.
- 3.5.3. If it is not cost effective to maintain inventory records as required above, departments may request an exemption from the Comptroller



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General in writing. In such cases, Departments are to submit to the Comptroller General alternate policies to safeguard, control and account for the inventories.