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| FRD 102 |  |  | Inventories (April 2022) |
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| Purpose |  |  | To prescribe cost formulas applicable to the measurement of *‘*inventorie*s’*. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act 1994*. Application by State owned corporations is encouraged. |
| Operative date |  |  | Annual reporting periods commencing on or after 1 July 2016. |
|  |  |  | FRD 102A *Inventories* is renamed to FRD 102 *Inventories* effective 1 April 2022*.* |
| **Requirements** |  | **4.1** | Measurement cost formulas:  Water shall not be recognised as inventory; consequently, cost of sales will not be disclosed in the financial report. |
|  |  | **4.2** | Land held for sale inventories shall be measured on a ‘specific identification of cost’ basis. |
|  |  | **4.3** | High value, low volume inventory items shall be measured on a ‘specific identification of cost’ basis. |
|  |  | **4.4** | All other inventories shall be measured using the ‘weighted average cost*’* (WAC) formula. |
| Definitions |  | 5.1 | Refer to AASB 102 for the following definitions:  ***Inventories*** (paragraph 6);  ***Net realisable value*** (paragraph 6);  ***Current replacement cost*** (paragraph Aus 6.1);  ***Inventories held for distribution*** (paragraph Aus 6.1);  ***Specific identification of cost*** (paragraph 24);  ***First-in-first-out*** (paragraph 27); and  ***Weighted average cost*** (paragraph 27). |
| Guidance |  | 6.1 | The above cost measurement requirement of this FRD does not eliminate the need for inventories to be measured on an item-by-item basis at the lower of cost (refer to requirement above) and net realisable value, or in the case of inventories held for distribution by not‑for‑profit entities, to be measured at the lower of cost and current replacement cost. |
|  |  | 6.2 | Spare parts and servicing equipment are usually carried as inventory and recognised in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they should be accounted for and depreciated as property, plant and equipment’. |
|  |  | 6.3 | Other than land held for sale and high value, low volume items, all other inventories shall be measured using the WAC method. However, an exception to this requirement has been given to entities that prior to the date of transition to A-IFRS were using inventory systems configured to measure such inventories using the FIFO method. |
|  |  | 6.4 | This concession has been granted because the differences resulting from the use of FIFO method by those entities is considered to be immaterial from the whole‑of‑State perspective. However, it is expected that entities that have applied this concession to use the FIFO method shall change to WAC method when they upgrade/replace their inventory systems. |
|  |  | 6.5 | Specific identification of cost is considered to be appropriate to inventory items that are not ordinarily interchangeable (such as land held for sale) and high value/low volume inventory items that are ordinarily accounted for separately. Obviously, each item of such inventories shall be separately identifiable. Land held for sale inventories, is intended to apply to entities whose primary intention is to develop land for sale and/or to hold land for trading purposes. |
| Relevant pronouncements |  | 7.1 | AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*  AASB 101 *Presentation of Financial Statements*  AASB 102 *Inventories*  AASB 116 *Property, Plant and Equipment* |
| Background |  | 8.1 | AASB 102 requires an entity to apply the same cost formula to all inventories having a similar nature and use (to the entity), using any of the following methods:  Specific identification of cost;  FIFO; or  WAC.  To ensure consistency of same cost formula application to all inventories having a similar nature and use across the economic entity of State of Victoria, this FRD limits the choice of available cost formulas to:  Specific identification of cost for land held for sale and high value, low volume inventory items; and  WAC for other inventories. |
|  |  | 8.2 | This FRD was revised in:  July 2016 to:  Remove the first-time adoption requirements as they are no longer required.  Remove the transitional exception which allowed entities to measure inventories (other than land held for sale and high value, low volume items) using the FIFO formula  Remove references to FRD 5 *Accounting for Water as Inventory* as this FRD has been withdrawn.  Remove the ‘Model for Disclosure within Financial Report’ section as this disclosure has been included in the *Model Report for Victorian Government Departments*. |