Issue Date: **September 2009**	Effective Date: **Immediate**	Responsible Agency: **Comptroller General**	Directive No: **704-4**
Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING FOR INVENTORIES – WRITE-OFF, WRITE-DOWN OR DELETION**			

1. POLICY

All write-off or deletion of inventory must be in accordance with *S.24* or *S.64* of the *Financial Administration Act (FAA)* and this directive. All write-downs must be in accordance with the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

2. DEFINITIONS

2.1. Write-off of inventory

A write-off of inventory occurs when the inventory can no longer provide any economic benefit to the Government. This may be because it has been damaged, lost, stolen, become obsolete or for some reason no longer has any economic value. The inventory may or may not physically exist. The value of this material that had been carried in the financial records must be written-off. Write-offs of inventory tend to be caused by involuntary acts and usually do not involve any judgment on the part of the public official. Examples of situations that require a write-off are when a property has been damaged beyond repair, is destroyed by fire or has been stolen. Write-offs can be required for inventory within a revolving fund and for inventories carried outside a revolving fund. Deletions, mentioned below, can only occur when the inventory is held within a revolving fund.

2.2. Deletions from a revolving fund

Deletions from inventory in a revolving fund occur when the physical inventory is still on hand but its economic benefit has been reduced to an insignificant amount. For a deletion to occur the inventory must physically exist.

Examples of deletions of inventory are obsolete forms in the government warehouse; liquor stock that has been damaged and is no longer in a condition for sale; petroleum products that have been contaminated. Deletions usually require a decision to determine that the asset value is insignificant. Deletion of inventory may only occur when the inventory is held in a revolving fund. Directive 806 deals with revolving funds.

2.3. Write-down of inventory

Generally accepted accounting principals require that inventory be carried at the lower of its cost or net realizable value. Each year inventory is examined and an estimate made of its net realizable value. In this instance, the inventory is on hand but, in the judgment of management, it can no longer be sold for the value that it is being carried at. An example would be computers on hand that are usable but have been devalued because a newer version is available; particular brands of liquor carried that have been slow moving. The carrying value is written down to its estimated realizable value. Assets eligible for write-down must still have some economic benefit to the Government.

Notwithstanding the definitions of write-down and write-off above, there may be situations when the adjustment to the value of the inventory may involve both a write-down and a write-off. Some fluctuation in the quantity of inventory is normally expected due to the nature or physical properties of the inventory. Examples are breakage, spillage, the effects in the variations in temperature, etc. In valuing the inventory and comparing the physical count to the amount recorded in the accounting records, professional judgment is required and the use of relevant recognized industry standards and the experience of other jurisdictions must be considered. Adjustments that fall within the norm to be expected for the type of inventory involved are considered a write-down. Should the physical count of inventory vary by more that the norm to be expected a write off is required and further investigation is called for. The provisions of Directive 913 and 913-1 dealing with loss of assets and *S.105* of the *FAA* must be followed in conducting the investigation, if they are applicable.

3. DIRECTIVE

Departments that have responsibility for inventory shall review their inventory at least annually and submit for write-off, deletion, or write-down, all that inventory whose future economic benefit to the Government has declined below the value at which it is carried in the accounting records of the Government, in accordance with this Directive.

4. PROVISIONS

4.1. *S.24* of the *FAA* provides that the Financial Management Board (FMB) must approve all write-offs that do not exceed $20,000. All write-offs that exceed $20,000 must be approved by the legislature. The FMB has delegated its write-off authority, under *FAA* Regulation 9918 as follows:

- Ministers – not exceeding $20,000
- Deputy Head – not exceeding $10,000.

4.2. *S.64* of the *FAA* allows a Board of Survey for a revolving fund or a public officer to recommend that the Deputy Head of the department responsible for the inventory delete inventory from a revolving fund provided that the deletion does not exceed $20,000. For deletions that exceed $20,000 the approval of the FMB is required.

4.3. The write-down required in order to value inventory at the lower of cost or net realizable value involves professional judgment and is not considered either a write-off or a deletion of inventory.

4.4. Complete documentation is required to support any write-off, deletion or write-down of inventory. The Executive Finance Officer of the Department responsible for the inventory is responsible for preparing this documentation. This documentation must contain, at a minimum:

- a complete description of the inventory or class of inventory involved;
- reason that a write-off, deletion or write-down is requested;
- complete documentation of all calculations made;
- copies of appraisals, quotes, standards used or other material to support the calculations;
- total amount of the request;
- appropriation or revolving fund account to which the write-off, deletion or write-down is to be charged.

4.5. The Comptroller General has responsibility for the Public Accounts under *S.12* of the *FAA* and must review all requests for write-off or deletion that exceed $20,000 and provide his recommendation prior to submitting the request to the FMB.

4.6. The Comptroller General must approve all write-downs that exceed $20,000 before the entries are made in the accounting records.

4.7. The Comptroller General has free access to all of the information contained in the records mentioned in 4.4 above. Departments are to provide the Comptroller General with all information requested relating to the subject of this directive. The Comptroller General may engage the services of experts in the types of inventory involved or any other professionals that are considered necessary to make a professional judgment on the valuation of the inventory.

4.8. The determination as to whether an adjustment falls within the definition of a write-down, deletion or a write-off can be difficult to arrive at. The Comptroller General shall make the final decision in situations where there are doubts concerning the proper treatment.

The provisions of Directive 913 and 913-1 dealing with loss of assets must be followed when the conditions covered by those Directives exist.

4.9. Notwithstanding that write-downs of inventory do not require the approval of the FMB or the Legislature, any write-down of an asset or a class of asset that exceeds $20,000 must be reported to the FMB. Write-downs or deletions of inventory that exceed $100,000 must be reported to the Legislature.

4.10. The approval thresholds contained in this directive ($10,000 and $20,000) refer to each line item of inventory on a consolidated basis within each department and not to each location or individual inventory item. For example, if ten identical items costing $3,000 each, whether stored in one location or in different locations, are to be written-off, deleted or written-down, the amount, for the threshold purposes, is $30,000. The Comptroller General shall be consulted on questions of the applicability of the thresholds and will make the final determination.

4.11. When an asset is determined to meet the criteria for write-off or deletion, as defined by this Directive, it must be considered for write-off or deletion at that time. It cannot first be written down to circumvent the thresholds contained in this Directive.

4.12. Inventories must be valued at the lower of cost and net realizable value and all write-offs, deletions, and write-downs must be considered to arrive at the proper inventory value. Write-offs, deletions, and write-downs must not be staged so as to circumvent the thresholds contained in this Directive. Write-offs, deletions, and write-downs may take place over a period of time if the circumstances surrounding the asset justify that action.

4.13. A write-down of inventory cannot be reversed.

4.14. All write-offs, deletions, and write-downs must be charged to an appropriation of the department controlling the asset.

4.15. A Board of Survey consisting of, as a minimum, a representative from the Comptroller Generals office and from the responsible department who is familiar with the inventory shall be established by the Minister of Finance or delegate for each revolving stock, in accordance with *S.62* of the *FAA*. A Board of Survey will review the inventory and operations of each revolving fund at least every four years and make recommendations concerning the operations of the fund and deletions of inventory to the Department responsible for the Revolving Fund.

4.16. All write-offs or deletions of inventory that exceed $500 must be reported to the Comptroller General so they may be reported in the Public Accounts, as is required by *S.26* of the *FAA*.