

Corporate Policies

SECTION: FINANCE		DEPT: Finance Department	
SUBJECT: Inventory Valuation			
POLICY NO. 13.5.0	SUPERCEDES POLICY DATED: June 21, 2006		PAGE: 1 OF 8
EFFECTIVE DATE: January 1, 2003 June 28, 2004 June 21, 2006 November 28, 2007	APPROVED Council BY: AF042-2003/C117-2003 CW364-2004/C179-2004 CW261-2006/C205-2006 CW499-2007	APPROVAL DATE: March 24, 2003 Amended: June 28, 2004 Amended June 21, 2006 Amended Nov. 28, 2007	

POLICY STATEMENT:

To document the inventory valuation methods used for the different inventories at the City of Brampton.

PURPOSE:

To ensure that inventories are valued appropriately and methods used are acceptable for reporting purposes.

SCOPE:

This Inventory Valuation Policy applies to all City Staff who deal with the various inventories at the City of Brampton.

PROCEDURE:

Inventories are goods and materials held in stock for future use in operation or held for future sale such as concession inventory items. All items held for future sale are considered inventory items.

At the City of Brampton there are various types of other inventories such as maintenance supplies, central fleet parts and supplies, transit parts, salt and sand which are held in stock for use in the future and are recorded as an expense when used.

Departments are responsible for determining the inclusion and deletion of an item as inventory specific to their operations in consultation with Finance and ensuring compliance with this policy.

Two distinct steps need to be undertaken in valuing the inventory:

1. Identification and measurement of the quantity of physical goods (items and quantities) that should be included in inventory at the end of the accounting period. Once an item is determined to be subject to inventory, consistency must be maintained from year to year. A deletion of an inventory item may occur due to obsolescence or permanent write down of its value. Deletion due to any

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other reasons must be supported by appropriate departmental justification approved by the Commissioner of Finance/Treasurer or his designate.

- Measurement of the accounting value assigned to the physical goods included in inventory at the end of the period.

INVENTORY VALUATION METHOD:

First-in, First-out Cost Method

The first-in, first-out method (FIFO) is based on the view that the first goods purchased should be the first units costed out upon sale or issuance. Because the costs are “flowed out” in the same order they flowed in, goods issued are valued at the oldest unit costs. The goods remaining in inventory are valued at the most recent unit cost amounts. For example, Concession inventory.

Last-in, First-out Cost Method

The last-in, first-out (LIFO) method of inventory costing is based on the view that the latest unit acquisition cost should be matched with the current sales revenue. The units remaining in ending inventory are costed at the oldest unit costs available.

Average Cost Method

Under average costing, all items in inventory are valued based on their purchase order cost. This results in the weighted average of the purchase order unit costs being reflected in inventory value for quantity on-hand.

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INVENTORY SYSTEM:

The physical quantities in inventory may be measured by use of (a) a periodic inventory system or (b) a perpetual inventory system.

Period Inventory:

When a periodic inventory system is used, an actual physical count of the goods on hand is taken at the end of each accounting period for which financial statements are prepared. The goods are counted, weighed, or otherwise measured, and then extended at unit costs to value the inventory.

Perpetual Inventory

When a perpetual inventory system is used, a detailed perpetual inventory records are maintained for each inventory item on an ongoing basis. The detailed inventory record for each item must provide for recording (a) receipts, (b) issues, and (c) balances on hand, usually in both quantities (units) and dollar amounts. Physical inventory count is done annually and if there difference is found between the perpetual inventory records and physical count, the perpetual inventory records are adjusted to the physical count.

Write Downs

Write- downs could occur in either inventory system. An inventory item should be written down when there is permanent reduction in value due to its diminishing service potential or is deemed to be obsolete or permanently damaged. Write down of inventory must be properly authorized and accounted for as an expense of the current accounting period.

Appendix "A" lists the type of inventory, its description, valuation method and inventory system that exist at the City of Brampton.

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ACCOUNTABILITY:

1. Inventory Valuation

Respective departments are accountable to act in accordance with this policy.

2. Dispute Resolution

The procedure for dispute resolution shall be as follows:

- (a) Commissioners shall resolve disputes arising within their own departments.
- (b) The Treasurer and /or Deputy-Treasurer shall resolve disputes that cannot otherwise be resolved.

ADMINISTRATION:

The Finance Department is responsible for keeping this policy up to date.

CONTACT:

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Appendix "A":

TYPE OF INVENTORY	DESCRIPTION	VALUATION METHOD	INVENTORY SYSTEM
Fleet Stores Inventory	Inventory parts for maintenance and repair of fleet vehicles	Average Cost	Perpetual
Transit Parts Inventory	Inventory parts for maintenance	Average Cost	Perpetual
Operations Inventories – Works and Transportation (Williams Parkway and Sandalwood Yards)	Inventories of all maintenance and winter control supplies and materials. Examples are salt and sand mix, cement bags, guide rail hardware, catch basin lids	FIFO – First-in, First Out Cost Method FIFO – First-in, First Out Cost Method	Periodic
Traffic Signs Inventory	Inventories of all the signs and raw materials for manufacturing signs.	FIFO – First-in, First Out Cost Method	Periodic
Traffic Signals Inventory	Inventories include traffic controllers, vehicle detectors, load switches, channel monitors	FIFO – First-in, First Out Cost Method	Periodic
Concession Inventory – Recreation Centres <ul style="list-style-type: none"> • Food Supplies • Beer and Liquor 	Inventory at the concessions at the parks and recreation facilities. Both inventories are kept separate.	FIFO – First-in, First Out Cost Method	Periodic

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TYPE OF INVENTORY	DESCRIPTION	VALUATION METHOD	INVENTORY SYSTEM
Peel Village Pro Shop	Inventories at the Peel Village Golf Course – Pro Shop. Includes golf shirts, hats, balls	FIFO – First-in, First Out Cost Method	Periodic
Peel Village Pro Shop	Inventories at the Peel Village Golf Course – Pro Shop. Includes golf shirts, hats, balls	FIFO – First-in, First Out Cost Method	Periodic
Transit Concession Inventory	Inventories for transit concession stores (food products, cigarettes etc.) at Trinity Common, Bramalea City Centre, Brampton Downtown, Shoppers World	FIFO – First-in, First Out Cost Method	Periodic
Diesel Fuel Inventory	Inventory for Diesel fuel used in transit buses	FIFO – First-in, First Out Cost Method	Periodic
Printing Supplies Inventory	Print shop inventories includes paper supplies, inks, toners etc. used in the print shop.	FIFO – First-in, First Out Cost Method	Periodic
Small Engine Shop Parts Inventory	Inventory parts for maintenance and repair of small equipment for Parks Operations.	FIFO – First-in, First Out Cost Method	Periodic

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TYPE OF INVENTORY	DESCRIPTION	VALUATION METHOD	INVENTORY SYSTEM
Stationery Inventory	Two types of inventories are included in the stationery inventory. They are: <ul style="list-style-type: none"> Stationery items such as letterheads, printed forms, Brampton staff directories etc Promotional items with City of Brampton logo such as pins, pencils, etc.	FIFO – First-in, First Out Cost Method	Periodic
Garbage Tags Inventory	This inventory includes the Garbage tags for the Region of Peel that are sold at our recreation centers and the Cashier Booth at City Hall	FIFO – First –in, First Out Cost Method	Periodic
Postage Inventory	This inventory includes total postage value in Pitney Bowes as Neopost Postage meters	FIFO – First –in, First Out Cost Method	Periodic

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Mississauga Transit Ticket Inventory	This inventory includes Mississauga Transit ticket and pass inventory at following locations: Bramalea City Centre, Downtown, Shopper's World and Trinity Common.	FIFO – First –in, First Out Cost Method	Periodic
Fire Services Parts Inventory	Inventory parts for maintenance and repair of fire vehicles.	Average Cost Method	Perpetual