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STOCK PROVISION & STOCK DISPOSAL POLICIES

[For discussion and decision]
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1. **OBJECTIVE**

The purpose of this paper is to present and seek Boards approval for the proposed policy on stock write down, write off and disposal of stock in conjunction with the accounting standards.

2. **BACKGROUND**

The Authority's objective is to develop and produce affordable lots for low and middle income residents. Sale of lots is expected to be completed within period of six months.

The quality of lots delivered from 2013 to 2016 has improved compared to prior years resulting in unsaleable lots appearing in the inventory system.

The sales team is expected to dispose 100% of the residential lots delivered however past experienced encompass discrepancy faced in light of the following:

- Small lot size impinging building area
- Sewer lines and drains running across the lot affecting building area

The engineers and the team from 2010 have improved subdivision design eliminating such discrepancies.

The physical lots in line with the approved LT Plan are priced according to the valuation while adopting the cost plus method approach. In the past defects are detected after sale of lots while building area also affects buyers design & size preference when building.

Historically other contributing factors affecting sale of the lots which is **not recurrent** or relating to the new developments are:

- Encroachment
- Expired lease (TLTB)
- Residential lost occupied by land owners

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The discrepancy takes time to be resolved hence aging of the lots which attracts provision depending on nature of the discrepancy.
The lots are recorded at cost during and transferred to inventory after completion of the development while stock provisioning is required to reflect the age of the stock appearing in inventory assuming diminishing demand hence the need to record at Net Realisable Value.

3. CURRENT PROVISIONING METHOD

Currently, the Authority complies with guidelines on NPV stipulated in IAS 2 with conceptual framework

Process

- Valuation is carried out annually to determine:
  - The value of the lots appearing in stock which may decrease when encumbrance are identified.
  - The initial cost is higher than the current valuation or market price
  - This requires provision and reporting at net present value.
- Management with Boards approval allows monthly budget of $5000 to write down impaired stock that is identified after valuation of the property. Approved through the annual budget.
- The provision is accrued and posted against the respective lot in stock and reported in the stock write down GL.
- Write down of stock is based on the valuation report provided by the Senior Valuer.
- Writing off and deleting from stock is subject to Boards approval.

The valuation of the property is based on the professional opinion of the registered Senior Valuer.

The book entries are posted accordingly to reflect Net Realisable Value.

4. PROPOSED PROVISION METHODS

<table>
<tr><td>Issue Date: January 2018</td><td>Effective Date: Immediate</td><td>Responsible Agent: GMCR GMLHD</td><td rowspan="2">Board Paper No:</td></tr>
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Accounting for Expenditure</td></tr>
<tr><td colspan="4">POLICY
ACCOUNTING FOR INVENTORIES – WRITE OFF, WRITE DOWN OR DELETION/DISPOSAL</td></tr>
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1. POLICY

The purpose of this policy is to ensure that HA maintains optimum inventory management through controlled and methodical management of lot stocks to be written off and corresponding accounting adjustments are processed in accordance with International Accounting Standards
This policy applies to all lots appearing in the land stock inventory of the Authority.

All write-off or deletion of lots in the inventory must be in accordance with this policy and all write-downs must be in accordance with the recommendations of the Executive Management to CEO.

It is in the best interest of Management to proactively manage the aged and slow moving inventory

2. GUIDING PRINCIPLE

- International accounting standard (IAS) 28 "Inventories" establishes that inventories shall be measured at the lower of cost and net realisable value (paragraph 9). Net realisable 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 (paragraph 7).
- IAS 2 also states that the practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use (paragraph 28).
- Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Estimates of net realisable value also take into consideration the purpose for which the inventory is held (IAS 2, paragraphs 30 and 31).

Write-down of inventory

Accounting principles 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. The carrying value is written down to its estimated realizable value. Assets eligible for write-down must still have some economic benefit to the Authority. Inventory write-

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offs record the decrease in stock in the inventory system to reflect the actual stock saleable on hand. Controlled management of stock to be written off is necessary for robust and prudent stock control and accounting. This will avoid unnecessarily reporting of unusable stocks with discrepancy.

Write-off of inventory
A write-off of inventory occurs when the inventory can no longer provide any economic benefit to the Authority. This is due to size of the lot, terrain, drains objecting construction on the lot and other discrepancy that restrict further sale transaction.

3. DIRECTIVE /RESPONSILITY

The Finance Team will maintain proper records of the lot inventory, the two divisions that are responsible to review saleability of lots in inventory are Land & Housing Development & Customer Relation Division. This is reviewed six monthly and discrepancy or defects are identified and submitted for write-off/deletion for the entire inventory whose future economic benefit to the Authority has diminished below the value at which it is carried in the accounting records in accordance with this policy. The month of review will be June & Dec every year.

The Authority's provision policy requires that the business segments provide for inventory against two key parameters;

- Where the lot or inventory has not recorded any sale for an extended specified period of time and it is likely that this inventory unit will not be sold, or
- Where the value of the lot or inventory is well above the annual level of demand for that product and a risk exists that this inventory will not be sold. These calculations are performed on an individual basis and the sum of these individual calculations makes up the total inventory provision

4. SIX MONTHLY REVIEW – LAND STOCK

- GMCR assess the valuation report & aging report annually and make recommendations accordingly to Executive Management for write down.
- The recommendations is submitted to GMFA for approval subsequently the team will passes write down accounting entry to record land stock at net realisable value.
- The entry is recorded in the stock write down provision GL.
- The valuation report of the respective lots is provided and signed off by the internal registered Snr Valuer.

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- Ageing stock will be reviewed by GMCR and submitted for write off to the Board.
- Ageing report on inventory/lots is reviewed monthly.

5. **Approval limits** Write Down/Write off
    - **Write down –**
        - Valuation of lots appearing in stock is provided by the Snr Valuer periodically.
        - The valuation report is updated in the property system and matched against cost recorded in inventory.
        - GMCR make submission to Executive management to discuss proposal which will be endorsed by the team and submitted to CEO for his approval.
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    - **Write off & Deletion**
        - Partial write down with some economic benefit will be submitted to the Board as IP
        - Write off & deletion from stock requires Board approval

6. **PRESENTATION FOR WRITE OFF**

   Complete documentation is required to support any write-off, deletion or write-down of inventory. The SNR Valuer and GMCR/GMLHD responsible for the inventory ensure to prepare and submit the following documentation. This documentation must contain, at a minimum:
    - Complete description of the inventory and geographical details.
    - History of sale transaction if any
    - Actions taken to dispose property through sale
    - reason that a write-off, deletion or write-down is requested;
    - complete documentation of all calculations made;
    - Original cost and copies of appraisals, quotes, standards used or other material to support the calculations;
    - total amount of the request;

In addition the team should ensure that:

- owner ship is transferred
- Respective land Lords are advised including municipal councils.
- The Authority should not be responsible for any future utility payment.

The Authority 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.

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7. APPROVAL LEVEL

The Authority to ensure that adequate provision is provided to ensure that stock is recorded at net realisable value in accordance to IAS 2. The Project Accountant submits request for provision write down with the endorsement of GMCR & Snr Valuer seeking approval through the discretion authority chain.

- Discretion authority:
  - Provision write down
    - Manager Finance authorise provision write down up to $10,000.00 per lot
    - GMFA authorise provision for write down up to $20,000.00 per lot.
    - CEO authorise provision write down up to $50,000.00
  - Sale of property at Net realisable value
    - CEO authorise sale of lots at NRV.
  - Disposal of lots through complete write off
    - Submitted to the Board for approval

5. RECOMMENDATION

Management invites the Board to deliberate and approve the stock provisioning and disposal policy.

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