

Component: Assets / Inventory (IAS 2)

Short title: Joint products

Issue

It is common in the metals industry for more than one metal to be produced by the same process. For example, base metals such as lead and zinc are often found together and are usually treated as joint or common products. The costs related to these products incurred after the point at which the individual products become identifiable (often called separable or added costs) can be identified with the product relatively easily. However, there are also common costs incurred prior to this point, which need to be allocated between the cost of production of the two metals.

The question is how should this allocation be carried out and how should the inventories of the different metals be valued.

Solution

Before the point at which the individual products become identifiable the entity must allocate costs to individual products by a reasonable method [IAS 2 R.12].

The key is to choose a method of allocation of common costs which best reflects the actual costs incurred and to apply this on a consistent basis.

The allocation of costs based on the relative sales value of the joint products is one possible method of allocating joint costs. On this basis joint costs are allocated based on the relative sales value of the products either at the point of separation or at the point of completion of production [IAS 2.12]. This method is practical when joint products are equally profitable, but inappropriate where products have significantly different profit margins, as the allocation does not reflect the underlying production costs.

An example of an acceptable alternative method would be the allocation of costs based on the relative volume of production of the joint products.