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| Compiled Accounting Standard | AASB 102 |

Inventories

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2018. Early application is permitted. It incorporates relevant amendments made up to and including 12 December 2014.

Prepared on 24 February 2015 by the staff of the Australian Accounting Standards Board.



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# CONTENTS

COMPILATION DETAILS

Comparison With IAS 2

Accounting Standard

AASB 102 *Inventories*

Paragraphs

Objective 1

Application Aus1.1 – Aus1.7

Reduced Disclosure Requirements Aus1.8 – Aus1.9

Scope 2 – 5

Definitions 6 – Aus8.2

Measurement of Inventories 9 – Aus9.2

Cost of Inventories 10 – Aus10.1

Costs of Purchase 11

Costs of Conversion 12 – 14

Other Costs 15 – 18

Cost of Agricultural Produce Harvested from Biological Assets 20

Techniques for the Measurement of Cost 21 – 22

Cost Formulas 23 – 27

Net Realisable Value 28 – 33

Recognition as an Expense 34 – 35

Disclosure 36 – 39

Effective Date 40C – 40E

Transition Aus42.1 – Aus42.2

DELETED IAS 2 TEXT *Page 14*

BASIS FOR CONCLUSIONS ON AASB 2007-5 *Page 15*

BASIS FOR CONCLUSIONS ON IAS 2  
(available on the AASB website)

Australian Accounting Standard AASB 102 *Inventories* (as amended) is set out in paragraphs 1 – Aus42.2. All the paragraphs have equal authority. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 102 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

# compilation details

## Accounting Standard AASB 102 *Inventories* as amended

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2018. It takes into account amendments up to and including 12 December 2014 and was prepared on 24 February 2015 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 102 (July 2004) as amended by other Accounting Standards, which are listed in the Table below.

### Table of Standards

|  |  |  |  |
| --- | --- | --- | --- |
| Standard | Date made | Application date *(annual reporting periods … on or after …)* | Application, saving or transitional provisions |
| AASB 102 | 15 Jul 2004 | *(beginning)* 1 Jan 2005 |  |
| AASB 2007-3 | 26 Feb 2007 | *(beginning)* 1 Jan 2009 | see (a) below |
| AASB 2007-4 | 30 Apr 2007 | *(beginning)* 1 Jul 2007 | see (b) below |
| AASB 2007-5 | 25 May 2007 | *(beginning)* 1 Jul 2007 | see (b) below |
| AASB 2007-8 | 24 Sep 2007 | *(beginning)* 1 Jan 2009 | see (c) below |
| AASB 2007-10 | 13 Dec 2007 | *(beginning)* 1 Jan 2009 | see (c) below |
| AASB 2008-5 | 24 Jul 2008 | *(beginning)* 1 Jan 2009 | see (d) below |
| AASB 2009-6 | 25 Jun 2009 | *(beginning)* 1 Jan 2009  and *(ending)* 30 Jun 2009 | see (e) below |
| AASB 2009-11 | 7 Dec 2009 | *(beginning)* 1 Jan 2018 | see (f) below |
| AASB 2010-2 | 30 Jun 2010 | *(beginning)* 1 Jul 2013 | see (g) below |
| AASB 2010-7 | 6 Dec 2010 | *(beginning)* 1 Jan 2018 | see (h) below |
| AASB 2011-8 | 2 Sep 2011 | *(beginning)* 1 Jan 2013 | see (i) below |
| AASB 2012-10 | 18 Dec 2012 | *(beginning)* 1 Jan 2013 | see (j) below |
| AASB 2013-9 | 20 Dec 2013 | Pt B *(beginning)* 1 Jan 2014 | see (k) below |
| AASB 2014-1 | 4 Jun 2014 | Pt E *(beginning)* 1 Jan 2018 | see (l) below |
| AASB 2014-5 | 12 Dec 2014 | *(beginning)* 1 Jan 2017 | see (m) below |

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 8 *Operating Segments* is also applied to such periods.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(d) Paragraph 17 of this Standard specifies application provisions. Entities may elect to apply this Standard, or its amendments to individual Standards, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

(e) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

(f) AASB 2009-11 has been amended by AASB 2010-10 (made 31 December 2010) and AASB 2012-6 (made 10 September 2012). Part E of AASB 2014-1 (made 4 June 2014) updated the application date of the amendments in this Standard to 1 January 2018.

Entities may elect to apply the amendments in this Standard to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2018, provided that AASB 9 (2009) *Financial Instruments* is also applied to such periods.

(g) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 July 2009 but before 1 July 2013, provided that AASB 1053 *Application of Tiers of Australian Accounting Standards* is also applied to such periods.

(h) AASB 2010-7 has been amended by AASB 2010-10 (made 31 December 2010) and AASB 2012-6 (made 10 September 2012). Part E of AASB 2014-1 (made 4 June 2014) updated the application date of the amendments in this Standard to 1 January 2018.

Entities may elect to apply the amendments in this Standard as set out in paragraph 6 of AASB 2010-7.

(i) AASB 2011-8 has been amended by AASB 2011-10 (made 5 September 2011) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013, provided that AASB 13 *Fair Value Measurement* is also applied to such periods.

(j) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013.

(k) Early application of Part B of this Standard is not permitted.

(l) Entities may elect to apply Part E of this Standard to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2018, provided that AASB 9 *Financial Instruments* (2009) or AASB 9 *Financial Instruments* (2010) is also applied to such periods.

(m) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2017, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to such periods.

### Table of Amendments

| Paragraph affected | How affected | By … [paragraph] |
| --- | --- | --- |
| Aus1.4 | deleted | AASB 2013-9B [37, 38] |
| Aus1.8-Aus1.9 (and preceding heading) | added | AASB 2010-2 [24] |
| 2 | amended  amended  amended  amended | AASB 2007-4 [25]  AASB 2009-11 [22]  AASB 2010-7 [7, 23]  AASB 2014-5 [27] |
| 6 | amended | AASB 2011-8 [13] |
| Aus6.1 | amended  amended | AASB 2007-8 [6]  AASB 2009-6 [34] |
| 7 | amended | AASB 2011-8 [40] |
| 8 | amended | AASB 2014-5 [27] |
| Aus9.1 | amended | AASB 2007-5 [5] |
| Aus9.2 | added | AASB 2007-5 [6] |
| 19 | deleted | AASB 2014-5 [27] |
| 20 | amended | AASB 2008-5 [16] |
| 26 | amended | AASB 2007-3 [9] |
| 29 | amended  amended | AASB 2007-3 [9]  AASB 2014-5 [27] |
| Aus34.1 | amended | AASB 2007-5 [7] |
| Aus36.1 | amended | AASB 2007-5 [8] |
| 37 | amended | AASB 2014-5 [27] |
| 40 (preceding heading) | amended | AASB 2012-10 [46] |
| 40A | added  deleted | AASB 2009-11 [22]  AASB 2010-7 [7, 23] |
| 40B | added  deleted | AASB 2010-7 [23]  AASB 2014-1E [84] |
| 40C | added | AASB 2011-8 [41] |
| 40D | added | AASB 2014-1E [84] |
| 40E | added | AASB 2014-5 [27] |
| Aus42.1-Aus42.2 (and preceding heading) | added | AASB 2007-5 [9] |

### General Terminology Amendments

References to ‘financial report(s)’ were amended to ‘financial statements’ by AASB 2007-8 and AASB 2007-10, except in relation to specific Corporations Act references. These amendments are not shown in the above Table of Amendments.

### Basis for Conclusions on AASB 2007-5

The Basis for Conclusions accompanying AASB 2007-5 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities* is attached to this compiled Standard.

# Comparison with IAS 2

## AASB 102 and IAS 2

AASB 102 *Inventories* as amended incorporates IAS 2 *Inventories* as issued and amended by the International Accounting Standards Board (IASB). Paragraphs that have been added to this Standard (and do not appear in the text of IAS 2) are identified with the prefix “Aus”, followed by the number of the preceding IASB paragraph and decimal numbering. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

### Compliance with IAS 2

For-profit entities that comply with AASB 102 as amended will simultaneously be in compliance with IAS 2 as amended.

Not-for-profit entities using the added “Aus” paragraphs in the Standard that specifically apply to not-for-profit entities may not be simultaneously complying with IAS 2. Whether a not-for-profit entity will be in compliance with IAS 2 will depend on whether the “Aus” paragraphs provide additional guidance for not-for-profit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the not-for-profit entity.

ACCOUNTING STANDARD AASB 102

The Australian Accounting Standards Board made Accounting Standard AASB 102 *Inventories* under section 334 of the *Corporations Act 2001* on 15 July 2004*.*

This compiled version of AASB 102 applies to annual reporting periods beginning on or after 1 January 2018. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 12 December 2014 (see Compilation Details).

# aCCOUNTING STANDARD AASB 102

Inventories

## Objective

1 The objective of this Standard is to prescribe the accounting treatment for *inventories*. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to *net realisable value*. It also provides guidance on the cost formulas that are used to assign costs to inventories.

## Application

Aus1.1 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

Aus1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005.  
[Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Aus1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

Aus1.4 [Deleted by the AASB]

Aus1.5 When applicable, this Standard supersedes:

(a) AASB 1019 *Inventories* as notified in the *Commonwealth of Australia Gazette* No S 132, 26 March 1998; and

(b) AAS 2 *Inventories* as issued in March 1998.

Aus1.6 Both AASB 1019 and AAS 2 remain applicable until superseded by this Standard.

Aus1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

### Reduced Disclosure Requirements

Aus1.8 Paragraphs 36(c), 36(g) and Aus36.1(f) of this Standard do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

Aus1.9 The requirements that do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements are identified in this Standard by shading of the relevant text.

## Scope

2 This Standard applies to all inventories, except:

(a) [deleted by the IASB]

(b) financial instruments (see AASB 132 *Financial Instruments: Presentation* and AASB 9 *Financial Instruments*); and

(c) biological assets related to agricultural activity and agricultural produce at the point of harvest (see AASB 141 *Agriculture*).

Aus2.1 Notwithstanding paragraph 2, in respect of *not-for-profit entities*, this Standard does not apply to work in progress of services to be provided for no or nominal consideration directly in return from the recipients.

3 This Standard does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change; and

(b) commodity broker-traders who measure their inventories at *fair value* less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

4 The inventories referred to in paragraph 3(a) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded from only the measurement requirements of this Standard.

5 Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders’ margin. When these inventories are measured at fair value less costs to sell, they are excluded from only the measurement requirements of this Standard.

## Definitions

6 The following terms are used in this Standard with the meanings specified.

*Fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See AASB 13 *Fair Value Measurement.*)

*Inventories* are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

*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.

Aus6.1 The following terms are also used in this Standard with the meanings specified.

A *not-for-profit entity* is an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

In respect of not-for-profit entities, *current replacement cost* is the cost the entity would incur to acquire the asset at the end of the reporting period.

In respect of not-for-profit entities, *inventories held for distribution* are assets:

(a) held for distribution at no or nominal consideration in the ordinary course of operations;

(b) in the process of production for distribution at no or nominal consideration in the ordinary course of operations; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services at no or nominal consideration.[[1]](#footnote-1)

7 Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

8 Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by a retailer and held for resale, or land and other property held for resale. Inventories also encompass finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process. Costs incurred to fulfil a contract with a customer that do not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*.

Aus8.1 A not-for-profit entity may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an entity has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 9.

Aus8.2 The replacement cost that an entity would be prepared to incur in respect of an item of inventory would reflect any obsolescence or any other impairment.

## Measurement of Inventories

9 Inventories shall be measured at the lower of cost and net realisable value.

Aus9.1 Notwithstanding paragraph 9, each not-for-profit entity shall measure *inventories held for distribution* at cost, adjusted when applicable for any loss of service potential.

Aus9.2 Not-for-profit entities would need to use judgment in determining the factors relevant to the circumstances in assessing whether there is a loss of service potential for inventories held for distribution. For many inventories held for distribution, a loss of service potential would be identified and measured based on the existence of a *current replacement cost* that is lower than the original acquisition cost or other subsequent carrying amount. For other inventories held for distribution, a loss of service potential might be identified and measured based on a loss of operating capacity due to obsolescence. Different bases for determining whether there has been a loss of service potential and the measurement of that loss may apply to different inventories held for distribution within the same entity.

## Cost of Inventories

10 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Aus10.1 Notwithstanding paragraph 10, in respect of not-for-profit entities, where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost as at the date of acquisition.

### Costs of Purchase

11 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

### Costs of Conversion

12 The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

13 The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

### Other Costs

15 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

16 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary in the production process before a further production stage;

(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) selling costs.

17 AASB 123 *Borrowing Costs* identifies limited circumstances where borrowing costs are included in the cost of inventories.

18 An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

### Cost of Inventories of a Service Provider

19 [Deleted by the IASB]

### Cost of Agricultural Produce Harvested from Biological Assets

20 In accordance with AASB 141 *Agriculture* inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

### Techniques for the Measurement of Cost

21 Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

22 The retail method is often used in the retail industry for measuring inventories of large numbers of rapidly changing items with similar margins for which it is impracticable to use other costing methods. The cost of the inventory is determined by reducing the sales value of the inventory by the appropriate percentage gross margin. The percentage used takes into consideration inventory that has been marked down to below its original selling price. An average percentage for each retail department is often used.

## Cost Formulas

23 The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

24 Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.

25 The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

26 For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

27 The FIFO formula assumes that the items of inventory that were purchased or produced first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

## Net Realisable Value

28 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets shall not be carried in excess of amounts expected to be realised from their sale or use.

29 Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment.

30 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.

31 Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

32 Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

33 A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

## Recognition as an Expense

34 When inventories are sold, the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Aus34.1 When inventories held for distribution by a not-for-profit entity are distributed, the carrying amount of those inventories shall be recognised as an expense. The amount of any write-down of inventories for loss of service potential and all losses of inventories shall be recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from a reversal of the circumstances that gave rise to the loss of service potential shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

35 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

## Disclosure

36 The financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the carrying amount of inventories carried at fair value less costs to sell;

(d) the amount of inventories recognised as an expense during the period;

(e) the amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 34;

(f) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense in the period in accordance with paragraph 34;

(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and

(h) the carrying amount of inventories pledged as security for liabilities.

Aus36.1 Notwithstanding paragraph 36, in respect of not-for-profit entities, the financial statements shall disclose:

(a) the accounting policies adopted in measuring inventories held for distribution, including the cost formula used;

(b) the total carrying amount of inventories held for distribution and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories held for distribution recognised as an expense during the period in accordance with paragraph Aus34.1;

(d) the amount of any write-down of inventories held for distribution recognised as an expense in the period in accordance with paragraph Aus34.1;

(e) the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories held for distribution recognised as expense in the period in accordance with paragraph Aus34.1;

(f) the circumstances or events that led to the reversal of a write-down of inventories held for distribution in accordance with paragraph Aus34.1;

(g) the carrying amount of inventories held for distribution pledged as security for liabilities; and

(h) the basis on which any loss of service potential of inventories held for distribution is assessed, or the bases when more than one basis is used.

37 Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods.

38 The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold and unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other amounts, such as distribution costs.

39 Some entities adopt a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.

## Effective Date

40 [Deleted by the AASB]

40A [Deleted by the IASB]

40B [Deleted by the IASB]

40C AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*, issued in September 2011, amended the definition of fair value in paragraph 6 and amended paragraph 7. An entity shall apply those amendments when it applies AASB 13.

40D AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended) amended paragraph 2(b) and deleted paragraph 40A. Paragraph 40B, added by AASB 2010-7, was deleted by AASB 2014-1 *Amendments to Australian Accounting Standards*. An entity shall apply those amendments when it applies AASB 9 as amended in June 2014.

40E AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*, issued in December 2014, amended paragraphs 2, 8, 29 and 37 and deleted paragraph 19. An entity shall apply those amendments when it applies AASB 15.

## Withdrawal of Other Pronouncements

41 [Deleted by the AASB]

42 [Deleted by the AASB]

## Transition

Aus42.1 Not-for-profit entities shall apply paragraph Aus9.1 and measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential, on a prospective basis from the beginning of the annual reporting period to which this Standard is first applied.

Aus42.2 Under paragraph Aus42.1, not-for-profit entities shall make any necessary adjustment to the opening balance of inventories held for distribution, previously carried at the lower of cost and current replacement cost, against opening retained earnings for the current annual reporting period. Accordingly, comparative information is not adjusted.

# DELETED ias 2 TEXT

*Deleted IAS 2 text is not part of AASB 102.*

Paragraph 40

An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

Paragraph 41

This Standard supersedes IAS 2 *Inventories* (revised in 1993).

Paragraph 42

This Standard supersedes SIC-1 *Consistency—Different Cost Formulas for Inventories*.

# BASIS FOR CONCLUSIONS on AASB 2007-5

*This Basis for Conclusions accompanies, but is not part of, AASB 102. The Basis for Conclusions was originally published with AASB 2007-5* Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities*.*

## Background Relating to Standards on Inventories

BC1 For reporting periods beginning prior to 1 January 2005, under AASB 1019 *Inventories* (now superseded by AASB 102 *Inventories*), inventories were defined only in terms of items held for sale or in the process of sale. The treatment of items in the nature of inventories that were not held for sale needed to be determined by analogy because they were not explicitly covered by AASB 1019.

BC2 Inventories held for distribution by not-for-profit entities were scoped into AASB 102, issued in July 2004, and were required to be measured at the lower of cost and current replacement cost.

BC3 This is the same as the requirement in the International Public Sector Accounting Standards Board’s IPSAS 12 *Inventories* issued in July 2001. (IPSAS 12 has since been revised in December 2006 for application from 1 January 2008.)

BC4 The Board notes that inventories held for distribution do not include major spare parts and stand-by equipment that qualify as property, plant and equipment, which are discussed in AASB 116 *Property, Plant and Equipment* at paragraphs 8 and 12.

## Background Relating to Key Issue

BC5 A number of constituents raised issues with the Board relating to the conceptual soundness of applying the lower of cost and current replacement cost treatment to inventories held for distribution as well as the practicality of its application to certain types of inventories held for distribution.

BC6 The Board considered the view that writing down inventory held for distribution when its current replacement cost falls below cost may result in the recognition of impairments when the service potential to the entity of those inventories remains unchanged. In addition, the Board noted that the service potential to the entity of inventories held for distribution may fall, but that current replacement cost to the entity may remain higher than the original cost. The Board concluded that this is in part because the lower of cost and current replacement cost requirement focuses on financial values, whereas the service potential of inventories held for distribution by many not-for-profit entities is considered in physical terms.

BC7 The Board also considered the practical problem that current replacement costs are sometimes not readily available for many of the inventories held for distribution that have long lives because they have not been replenished for long periods. In some cases, such inventories may have maintained their service potential, but may no longer be available in the form held by the entity.

BC8 The Board noted that a for-profit entity will readily know its costs and its net realisable values, because most businesses buy and sell inventories regularly. In a not-for-profit entity that holds inventories for distribution and buys and distributes them regularly, the lower of cost and current replacement cost requirement has been viewed as the nearest available equivalent requirement.

BC9 The Board noted that the practical problems emerge when the inventories held for distribution are retained over the long term and replacement costs are not readily available. A major part of the burden is the possible need to maintain records of three prices for each type of inventory: (1) the cost; (2) the up-to-date replacement cost in case there is a need for write down; and (3) in the event that the replacement cost has previously fallen below cost, that replacement cost [carrying amount]. The Board also noted that the records of the three prices might also need to be maintained to facilitate the reversal of write downs in the event that the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in current replacement cost because of changed economic circumstances.

## Alternative Solutions

BC10 The Board considered developing a proposed solution only in respect of long-lived inventories held for distribution by not-for-profit entities in order to address the practical problems raised by constituents. However, the Board concluded that it would be more appropriate to develop a solution for all types of inventories held for distribution by not-for-profit entities that addresses the issues at both the principle and practical levels. This is because the Board prefers a solution based on a high-level principle that can be applied consistently by all not-for-profit entities in a manner that best suits the character of their inventories held for distribution.

BC11 Among the possible solutions considered by the Board was applying an AASB 136 *Impairment of Assets*-style impairment test, however, it was noted that this would have many of the problems already associated with the existing requirements.

## Cost Adjusted when Applicable for Any Loss of Service Potential

BC12 The Board noted that the lower of cost and net realisable value requirement in AASB 102 in respect of inventories other than those held for distribution can be viewed as being based on a notion of recognising a loss of service potential in a for-profit environment. That is, an entity that seeks to sell inventories for more than they cost generally considers the service potential of those inventories in financial terms. If net realisable value falls below cost, the entity can be viewed as suffering a loss of service potential.

BC13 The Board observed that the lower of cost and current replacement cost requirement for measuring inventories held for distribution by not-for-profit entities can be viewed as seeking to emulate the approach taken for other inventories and its focus is also on a loss of value in financial terms. However, the Board considered that this financial measure of the loss of service potential may not always be the most relevant measure in respect of inventories held for distribution by not-for-profit entities for the reasons outlined in paragraph BC6.

BC14 The Board considered that the measurement of inventories held for distribution by not-for-profit entities at cost, adjusted when applicable for any loss of service potential, is consistent with the *Framework for the Preparation and Presentation of Financial Statements*, which notes at paragraph Aus49.1:

In respect of not-for-profit entities in the public or private sector, in pursuing their objectives, goods and services are provided that have the capacity to satisfy human wants and needs. Assets provide a means for entities to achieve their objectives. Future economic benefits or service potential is the essence of assets. Future economic benefits is synonymous with the notion of service potential, and is used in this Framework as a reference also to service potential. Future economic benefits can be described as the scarce capacity to provide benefits to the entities that use them, and is common to all assets irrespective of their physical or other form.

BC15 The Board noted that a fall in the current replacement cost of inventories held for distribution may at times indicate a loss of service potential, but that this is not necessarily always the case, and that a loss of service potential may at times be identified on other, more relevant, bases. For example, obsolescence, which may occur with or without there being a fall in current replacement cost, may be the main factor leading to a loss of service potential for many not-for-profit entities. The term ‘obsolescence’ covers both ‘technical obsolescence’ and ‘functional obsolescence’. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired. In either case, a loss of service potential may need to be recognised.

BC16 The Board also considered that a problem with a purely physical service potential approach is identifying ways in which physical service potential would be measured. However, the Board concluded that many not-for-profit entities will often be more likely to monitor the service potential of their inventories held for distribution than they are to monitor the current replacement costs of those inventories. The Board considered that this is especially likely to be the case when those inventories are important to maintaining its functions or operating capability and, therefore, often in cases when it is most likely to be material to the financial statements.

BC17 The Board considers that there is a need for the circumstances of a not-for-profit entity to be the determining factor behind its manner of assessing any loss of service potential for inventories held for distribution. The measurement requirement for inventories held for distribution would require each not-for-profit entity to identify the basis (or bases) for determining any loss of service potential that best suits the circumstances relating to the entity. Different bases may apply to different inventories held for distribution within the same entity.

BC18 There was considerable support for the approach of requiring inventories held for distribution to be measured at cost, adjusted for any loss of service potential, in the submissions on Exposure Draft ED 154 *Proposed Amendments to AASB 102 – Inventories Held for Distribution by Not-for-Profit Entities*. However, some submissions expressed concerns that the lower of cost and current replacement cost requirement is being applied without difficulty by many entities and argued that it might be unnecessarily disruptive to introduce the change proposed in ED 154.

BC19 The Board noted that a current replacement cost that is lower than cost might be a common way of identifying and measuring a loss of service potential for inventories held for distribution. Accordingly, many entities are likely to continue their existing practices under a revised AASB 102, and the Board concluded few entities would be disrupted by the change.

BC20 The Board concluded that the requirement to measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential, would give rise to more relevant information that better reflects the various accountabilities of not-for-profit entities. In addition, the Board concluded that the requirement is likely to be more appropriate in practical terms than the former requirement in some circumstances.

## Transition

BC21 The Board considered that, in some cases, measuring at the lower of cost and current replacement cost versus measuring at cost, adjusted when applicable for any loss of service potential, would give rise to different carrying amounts for inventories held for distribution. The Board concluded that, on transition to the changed requirement, it is appropriate to require not-for-profit entities to adjust any difference prospectively against opening retained earnings and not amend comparative information on the basis that:

(a) there are likely to be practical problems associated with trying to retrospectively determine whether there have been further losses of service potential and precisely when they occurred, which may not be overcome by the impracticability override in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(b) the relatively short period of development involved in amending AASB 102 and, therefore, the absence of a long period during which constituents would be made aware of the changes; and

(c) requiring rather than permitting the prospective transitional approach is desirable from a comparability viewpoint.

1. Paragraphs 10 to 18 and 20 to 27 in this Standard apply to both inventories (as defined in paragraph 6) and inventories held for distribution (as defined in paragraph Aus6.1). [↑](#footnote-ref-1)