

Accounting Standard

**AASB 1019**  
March 1998

# **Inventories**

Issued by the  
**Australian Accounting Standards Board**

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## **MAIN FEATURES OF THE STANDARD**

The Standard:

- (a) requires inventories to be measured at the lower of cost and net realisable value
- (b) defines “inventories”, “cost of inventories” and “net realisable value”
- (c) requires the cost of inventories of items that are not ordinarily interchangeable or that are goods or services produced and segregated for specific projects to be assigned by using specific identification of their individual costs, and the cost of other inventories to be assigned by using the first-in-first-out or weighted average cost formulas
- (d) prescribes the manner and circumstances in which write-downs to net realisable value are recognised
- (e) requires specific disclosures in relation to inventories.

## ACCOUNTING STANDARD AASB 1019

The Australian Accounting Standards Board makes Accounting Standard AASB 1019 “Inventories” under section 32 of the *Corporations Act 1989*.

Dated 25 March 1998

K H Spencer  
Director – AASB

## ACCOUNTING STANDARD AASB 1019 “INVENTORIES”

### 1 Application

1.1 This Standard applies to each *entity* which is required to prepare financial statements in accordance with Part 3.6 of the Corporations Law and which:

- (a) is a *reporting entity*; or
- (b) holds those financial statements out to be, or form part of, a *general purpose financial report*.

### 2 Scope

2.1 This Standard applies to *inventories* other than:

- (a) inventories that are *self-generating and regenerating assets*
- (b) inventories arising under construction contracts, including directly related service contracts (as defined in Accounting Standard AASB 1009 “Construction Contracts”)
- (c) financial instruments, as defined in Accounting Standard AASB 1033 “Presentation and Disclosure of Financial Instruments”.

- 2.1.1 Whilst this Standard does not apply to inventories that are self-generating and regenerating assets, it does apply to the non-living produce derived from self-generating and regenerating assets such as felled logs.
- 2.1.2 The standards specified in this Standard apply to the *financial report* where information resulting from their application is material, in accordance with Accounting Standard AASB 1031 “Materiality”.

### **3 Operative Date**

- 3.1 **This Standard applies to *financial years* ending on or after 30 June 1999.**
- 3.2 **This Standard may be applied to financial years ending before 30 June 1999 where an election has been made in accordance with subsection 285(3) of the Corporations Law.**
- 3.3 **When operative, this Standard supersedes Accounting Standard AASB 1019 “Measurement and Presentation of Inventories in the Context of the Historical Cost System” as approved by notice published in *Gazette* No. S 338 on 30 October 1989 and amended by Accounting Standard AASB 1025 “Application of the Reporting Entity Concept and Other Amendments”.**
- 3.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 26 March 1998.

### **4 Purpose of Standard**

- 4.1 **The purpose of this Standard is to:**
- (a) **specify the method of measuring *inventories*, including the manner in which costs are to be assigned to inventories**
  - (b) **specify the recognition of *expenses* relating to inventories**
  - (c) **require specific disclosures to be made in relation to inventories.**

## 5 Inventory Measurement

- 5.1 Subject to paragraph 5.2, inventories must be measured at the lower of cost and *net realisable value* on an item by item basis.**
- 5.2 When it is impracticable to measure items of inventory separately because there are a large number of homogeneous items of inventory each having an insignificant cost, paragraph 5.1 must be applied to groups of such items.**
- 5.2.1 Inventories must not have a *carrying amount* in excess of amounts expected to be recovered in the ordinary course of operations. Therefore, where the cost of an inventory item exceeds the net realisable value of that item, the cost is written down to net realisable value.
- 5.2.2 The comparison of cost and net realisable value is made separately in respect of each item of inventory. However, in some circumstances it is appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that:
- (a) have a similar nature or function
  - (b) are produced and marketed in the same geographical area
  - (c) cannot be practicably evaluated separately from other items in that product line.
- 5.2.3 A question separate from and additional to the determination of cost is the assignment of costs to the inventory quantities held at *reporting date*. Assigning costs to inventories is dealt with in Section 7 of this Standard.

## 6 Determining Cost

### Production Overheads

- 6.1 Production overheads that relate to bringing *inventories* to their present location and condition must be systematically allocated in determining the *cost of inventories*. The systematic allocation of those production overheads must be based on the normal operating capacity of the production facilities.**



- 6.1.1 Production overheads are those indirect costs of production, preparation or conversion that cannot be identified specifically or traced to the goods or services being produced in an economically feasible manner. They are often allocated to inventories using cost drivers. Variable production overheads vary directly, or nearly directly, in proportion to changes of a cost driver. For example, variable production overheads such as indirect materials and indirect labour may vary in proportion to increased production volume, and variable production overheads such as setup costs may vary in proportion to the number of setups performed for each product.
- 6.1.2 The costs of conversion that are fixed production overheads, such as depreciation and maintenance of factory buildings, remain relatively constant in total and are allocated to each item of inventory on the basis of normal operating capacity of the production facilities. The amount of fixed overhead allocated to each item of inventory 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 arise. In periods of abnormally high production, the amount of fixed overhead allocated to each item of inventory is decreased so that inventories are not measured above cost.
- 6.1.3 Normal operating 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 to allocate fixed production overheads if it approximates normal operating capacity. In determining what constitutes normal operating capacity, the following factors are considered:
- (a) the volume of production which the production facilities are intended by their designers and by management to yield under the working conditions (for example, single or double shift) normally prevailing
  - (b) the budgeted level of activity for the current *financial year* and for the ensuing financial year
  - (c) the level of activity achieved both in the current financial year and in previous financial years.

Although temporary changes in the level of activity may be ignored, persistent variation may result in a revision of the previous norm.

## Standard Costs

**6.2** When standard costs are used as a basis for determining the cost of inventories, those standard costs must be:

- (a) realistically attainable
- (b) reviewed regularly
- (c) revised to reflect current conditions.

**The cost of inventories determined must be adjusted for significant cost variances caused by changes in material prices, labour rates, manufacturing expenses or operating conditions to the extent that such variances directly relate to inventories on hand.**

6.2.1 Standard costs are predetermined product costs established from bases such as:

- (a) planned products and/or operations
- (b) planned cost and efficiency levels
- (c) expected capacity utilisation.

To be acceptable for inventory measurement, standard costs should be realistically attainable and be reviewed regularly and revised to reflect actual costs. Balances in cost variance accounts may affect the measurement of inventories on hand as at *reporting date* and their treatment will depend upon the nature and causes of the variances. In most cases, where standards have been properly set and maintained, variances from standards are accounted for as a *revenue* or an expense in the financial year when they arise. Where changes in the prices of materials, labour rates, manufacturing expenses or operating conditions give rise to significant variances, these variances are apportioned between cost of inventories sold and inventories.

## Retail Inventory Method

**6.3** The retail inventory method can only be used to determine the cost of inventories when it results in an amount reasonably approximating the lower of cost and *net realisable value*.

- 6.3.1 Ascertaining the cost of inventories in merchandising businesses can be difficult where the inventory comprises a large number of items with a high rate of turnover and the cost of individual items is often not readily obtainable. Under these circumstances a method widely followed, and known as “the retail inventory method”, produces a measure of inventory which normally approximates the lower of cost and net realisable value.
- 6.3.2 The retail inventory method involves the discounting of the selling value (that is, value at current selling prices after mark-downs, if any) of the total inventory in a merchandise department, or classification, by the current average mark-up in that department, or classification, expressed as a percentage of the selling price. Where inventories contain seasonal and slow moving items which are not expected to be sold at their original selling price and their price has therefore been marked down, the application of the retail inventory method could result in the particular items being measured at less than cost; when those items are ultimately sold, the normal gross profit percentage would in these circumstances be achieved. The use of actual gross profit percentages (which reflect the incidence of mark-downs as well as losses through theft and damage), in place of the current financial year’s average mark-up, cannot be supported, as it could result in the cost of inventories being overstated.

### **Exceptional Wastage**

- 6.4 Costs arising from exceptional wastage (material, direct labour or production expenses) must be excluded from the determination of cost of inventories.**
- 6.4.1 The costs of wastage necessarily created in normal production activities are included in the determination of the cost of inventories.

### **Joint Products and By-Products**

- 6.5 When a production process results in more than one product being produced from the same inputs or processes, and the cost of conversion of each product is not separately identifiable, the cost must be allocated between the products on a rational and consistent basis.**
- 6.5.1 The allocation of joint costs to joint products 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.

- 6.5.2 Paragraph 5.1 requires inventories to be measured at the lower of cost and net realisable value. By-products that are immaterial when compared with the principal product or products, are often measured at net realisable value and this value is deducted from costs of production in determining the cost of the main product. The *carrying amount* of the main product would remain materially the same as its cost.

## **7 Assigning Costs to Inventories**

**7.1 The cost of inventories of items that are:**

- (a) **not ordinarily interchangeable; or**
- (b) **goods or services produced and segregated for specific projects**

**must be assigned by using specific identification of their individual costs.**

**7.2 The cost of inventories, other than those dealt with in paragraph 7.1, must be assigned by using the first-in-first-out (FIFO) or weighted average cost formulas.**

7.2.1 Specific identification of cost means that specific costs are attributed to specific items of *inventory*. This is an appropriate treatment for items of inventory that:

- (a) are not ordinarily interchangeable; or
- (b) have been made or purchased for a specific project and are separately identifiable.

Specific identification is not appropriate when there are large numbers of items of inventory which are ordinarily interchangeable, as the selection of items remaining in inventory could be made to obtain predetermined effects on the result for the *financial year*.

7.2.2 The FIFO and weighted average cost formulas are based on particular views about the flow of interchangeable items of inventory and their associated costs:

- (a) the FIFO formula assumes that items of inventory that were taken into inventory first are sold or used first, and therefore assumes that the items remaining in inventory at

the end of the financial year are those most recently purchased or produced

- (b) the weighted average cost formula determines the cost of each item of inventory from the weighted average cost of similar items at the beginning of a financial year and the cost of similar items purchased or produced during the financial year. The average may be calculated on a periodic basis, or as each additional batch or shipment is received, depending upon the circumstances of the *entity*.

## 8 Net Realisable Value

8.1.1 Paragraph 5.1 requires *inventories* to be measured at the lower of cost and *net realisable value*. The assessment of net realisable value is made in relation to the future proceeds estimated at the *reporting date*. The assessment does not take into account short term fluctuations in sale price at and after reporting date except to the extent that these fluctuations may be reflected in the expected selling price. The selling price is considered in light of:

- (a) any existing contracts for future sales of items of inventory
- (b) the general pattern of sales, inventories and discounts
- (c) fluctuations in the price of materials which will affect the selling price of items of inventory or where the raw materials are expected to be sold in their unprocessed state.

8.1.2 The initial calculation to determine net realisable value may often be made by using formulas based on predetermined criteria. The formulas normally take into account, as appropriate, the age, past movements, expected future movements and estimated scrap values of the inventories. These formulas establish a basis which can be consistently applied. However, the results must be reviewed in the light of any special circumstances not anticipated in the formulas, such as changes in the current demand.

8.1.3 The principal situations in which net realisable value is likely to be less than *cost of inventories* are those where there has been:

- (a) a fall in selling price
- (b) physical deterioration of inventories

- (c) obsolescence of products
- (d) a decision, as part of an *entity's* marketing strategy, to manufacture and sell products for the time being at a loss
- (e) miscalculations or other errors in purchasing or production.

Furthermore, when inventories held are in excess of the quantities expected to be sold within the turnover period normal in a particular industry, there is an increased possibility that the situations outlined in (a) to (c) will be encountered and these are taken into account in assessing net realisable value.

- 8.1.4 Net realisable value is assessed as at each subsequent reporting date. When the circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed so that the new *carrying amount* is the lower of the cost and the revised net realisable value. For example, when an item of inventory is carried at net realisable value because its selling price has declined, but remains on hand in a subsequent period in which its selling price has increased, it is measured at the lower of cost and net realisable value based on the now prevailing selling price.

### **Spares**

- 8.1.5 In determining the net realisable value of spares held for sale or use in after-sales service, consideration is given to past and future inventory movements relative to the total number of units in existence on which the spares can be used and also to the approximate date by which the last of those units can be expected to have gone out of service.

### **Materials, Consumable Stores and Supplies**

- 8.1.6 Normal quantities of materials, consumable stores and other supplies to be consumed in the production of inventories are not written down below cost if the finished products in which they will be used are expected to be realised at or above cost. However, when a change in the price of materials, consumable stores and other supplies is an indication that the cost of finished products will exceed net realisable value, the materials, consumable stores and other supplies are written down to net realisable value. In some circumstances, *replacement cost* may be the best available measure of the net realisable value of those materials, consumable stores and other supplies.

## **Firm Sales Contract Price**

- 8.2** When assessing the lower of cost and net realisable value, the net realisable value of inventory held for delivery against firm sales contracts must be based on the contract price.

## **Replacement Cost**

- 8.3** Replacement cost can only be used as a basis for determining net realisable value where it represents a fair approximation of net realisable value.

- 8.3.1 Items of inventory are sometimes carried at their estimated replacement cost where this is lower than cost. This practice is consistent with the requirements of this Standard provided that replacement cost represents a fair approximation of net realisable value. Where replacement cost is less than net realisable value, it is not acceptable to measure inventories at replacement cost because it could have the effect of distorting results between successive *financial years*.

## **9 Recognition as an Expense**

- 9.1** The *carrying amount of inventories sold must be recognised as an expense in the financial year in which the related revenue is recognised*.

- 9.1.1 Some inventories may be allocated to other *assets*, for example, items of inventory used as components of self-constructed property, plant and equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

## **Net Realisable Value Write-downs and Other Losses**

- 9.2** The amount of any write-down of inventories to *net realisable value* and any other loss relating to inventories must be recognised as an expense in the financial year in which the write-down or loss occurs.

- 9.2.1 Circumstances in which net realisable value write-downs may occur are identified in paragraph 8.1.3. Other losses could include “shrinkage” for a retailer resulting from theft and damage.

## Reversal of Net Realisable Value Write-downs

- 9.3 The amount of any reversal of any write-down of inventories arising from an increase in net realisable value, must be recognised as a reduction of the expense relating to inventories in the financial year in which the reversal occurs.

## 10 Disclosures

- 10.1 The following information must be disclosed:

- (a) the accounting policies adopted for measuring *inventories*, including the method or methods used to assign costs
- (b) the aggregate *carrying amount* of inventories
- (c) the carrying amount of inventories classified as *current assets* and further sub-classified in a manner appropriate to the *entity's* operations
- (d) the carrying amount of inventories classified as *non-current assets* and further sub-classified in a manner appropriate to the *entity's* operations
- (e) the carrying amount of inventories in each of the sub-classifications identified under sub-paragraph 10.1(c) and 10.1(d) that have been measured at *net realisable value*
- (f) the aggregate write-downs and other losses *recognised* as an *expense* in accordance with paragraph 9.2
- (g) the aggregate reversals of write-downs recognised as a reduction of an expense in accordance with paragraph 9.3
- (h) the circumstances or events that led to the reversal of write-downs of inventories in accordance with paragraph 9.3
- (i) the carrying amount of inventories pledged specifically and separately from the other *assets* of the entity as security for *liabilities*, and the nature of the security.



- 10.1.1 Information about the carrying amounts of inventories sub-classified in a manner appropriate to the entity's operations is considered to be useful to users of *financial reports*. Common sub-classifications of inventories are merchandise, raw materials, work in progress and finished goods.
- 10.1.2 The amount of inventories pledged as security for liabilities is disclosed when inventories have been charged specifically and separately from other assets of the entity. However, paragraph 10.1(i) does not apply to retention of title clauses, as such clauses merely modify expectations that ownership passes with the delivery of goods sold on credit terms.

## **11 Comparative Information**

- 11.1 Information for the preceding corresponding *financial year* which corresponds to the disclosures specified for the current financial year must be disclosed, except where, in respect of the financial year to which this Standard is first applied, the superseded Standard did not require corresponding information.**
- 11.1.1 Disclosure of comparative information for the financial year to which this Standard is first applied is encouraged where the superseded Standard did not require corresponding information.

## **12 Transitional Provisions**

- 12.1 Where the superseded Standard did not apply to the *entity* and accounting policies required by this Standard are not already being applied as at the beginning of the *financial year* to which this Standard is first applied, they must be applied as at that date. Where this gives rise to initial adjustments which would otherwise be *recognised* in the *profit and loss account*, the net amount of those adjustments, including any adjustments to deferred income tax balances, must, in accordance with Accounting Standard AASB 1018 "Profit and Loss Accounts", be adjusted against retained profits or accumulated losses as at the beginning of the financial year in which this Standard is first applied.**

## **13 Definitions**

### **13.1 In this Standard:**

*accounts* is defined in the Corporations Law

*assets* means future economic benefits controlled by the *entity* as a result of past transactions or other past events

*borrowing corporation* is defined in the Corporations Law

*carrying amount* means, in relation to an *asset* or a *liability*, the amount at which the asset or liability is recorded in the accounting records as at a particular date

*company* is defined in the Corporations Law

*consolidated accounts* is defined in the Corporations Law

*cost of conversion* means the aggregate of:

- (a) the cost of direct labour (including any charges directly incurred in connection with the employment of such labour) and of sub-contracted work
- (b) other production, preparation or conversion costs

*cost of inventories* means the aggregate of:

- (a) the *cost of purchase*
- (b) the *cost of conversion*
- (c) other costs

incurred in the normal course of operations in bringing the *inventories* to their present location and condition

*cost of purchase* means the aggregate of:

- (a) the purchase price
- (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities)

- (c) inwards transport and handling costs
- (d) any other directly attributable costs of acquisition

after deducting trade discounts, rebates and other similar items

*current assets* means cash or other assets of the entity that would in the ordinary course of operations of the entity be consumed or converted into cash within twelve months after the end of the last *financial year* of the entity

*economic entity* means a group of entities comprising the *parent entity* and each of its *subsidiaries*

*entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives

*equity* means the residual interest in the assets of the entity after deduction of its liabilities

*expenses* means consumptions or losses of future economic benefits in the form of reductions in assets or increases in liabilities of the entity, other than those relating to distributions to owners, that result in a decrease in *equity* during the financial year

*financial report* means *accounts* or *consolidated accounts* or both

*financial year* is defined in the Corporations Law

*general purpose financial report* means a *financial report* intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs

*holding company* is defined in the Corporations Law

*inventories* means assets:

- (a) held for sale in the ordinary course of business; or
- (b) in the process of production, preparation or conversion for such sale; or

- (c) **in the form of materials or supplies to be consumed in the production of goods or services available for sale**

**excluding depreciable assets, as defined in Accounting Standard AASB 1021 “Depreciation”**

***liabilities* means future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events**

***listed corporation* is defined in the Corporations Law**

***net realisable value* means the estimated proceeds of sale less, where applicable, all further costs to the stage of completion and less all costs to be incurred in marketing, selling and distribution to customers**

***non-current assets* means all assets other than *current assets***

***parent entity* means an entity which controls another entity**

***profit and loss account* is defined in the Corporations Law**

***recognised* means reported on, or incorporated in amounts reported on, the face of the *profit and loss account* or the balance sheet (whether or not further disclosure of the item is made in notes)**

***replacement cost* means the cost at which an identical inventory item could be purchased or manufactured as at *reporting date*, having regard to normal purchasing or production quantities and conditions**

***reporting date* means the end of the financial year to which the financial report relates**

***reporting entity* means an entity (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

- (a) **a *listed corporation***
- (b) **a *borrowing corporation***

- (c) a *company* which is not a subsidiary of a *holding company* incorporated in Australia and which is a subsidiary of a foreign company where that foreign company has its securities listed for quotation on a *stock market* or those securities are traded on a stock market

*revenues* means inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners, that result in an increase in equity during the financial year

*self-generating and regenerating asset* means a non-human living asset

*stock market* is defined in the Corporations Law

*subsidiary* means an entity which is controlled by a parent entity

### **Inventories**

- 13.1.1 Inventories include 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 include finished goods produced, or work in progress being produced, by the entity and include materials and supplies awaiting use in the production process.

### **Inventories and Service Providers**

- 13.1.2 In many circumstances the work in progress of service providers would not meet the definition of inventories under this Standard. The only circumstances in which work in progress of a service provider would be *recognised* as inventories is where costs have been incurred and the related *revenues* remain unrecognised.
- 13.1.3 If revenues related to service provision have not been recognised, the remaining work in progress is considered to be inventories and is measured at the costs of their production. Such costs do not include profit margins or non-production costs that are often factored into charge rates at which work in progress is measured by service providers.

### **Other Production Costs**

- 13.1.4 Other production costs included in the cost of conversion are limited to costs which contribute to bringing inventories to their present location and condition. The cost of conversion includes the costs of distribution to the point of sale. However, the cost of conversion does not include costs which relate to marketing, selling and subsequent distribution to customers.

### **General Administration Costs**

- 13.1.5 General administration costs that contribute to bringing inventories to their present location and condition are included in the *cost of inventories*. An example is an allocation of the payroll department costs to the factory or production process. An example of a general administration cost that does not contribute to bringing inventories to their present location and condition, and which is not included in the cost of inventories, is storage costs of finished goods which are unrelated to the production process.

### **Other Costs**

- 13.1.6 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 the costs of designing specific products for specific customers in the cost of inventories.
- 13.1.7 In limited circumstances, borrowing costs are included in the cost of inventories. These circumstances are identified in Accounting Standard AASB 1036 “Borrowing Costs”.

## **CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS**

### **Conformity with International Accounting Standards**

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 2 “Inventories” except to the extent that IAS 2 requires the disclosure of the cost of inventories recognised as an expense during the reporting period; or the operating costs applicable to revenues, recognised as an expense during the reporting period, classified by their nature. This disclosure requirement will be included in a forthcoming AASB Standard that harmonises with the requirements of International Accounting Standard IAS 1 “Presentation of Financial Statements”.

### **Conformity with New Zealand Accounting Standards**

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with Financial Reporting Standard FRS-4 “Accounting for Inventories”.

## **BACKGROUND TO REVISION**

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard.

- 1 The reissue of the Standard is part of a program being undertaken by the Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation (the Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee (IASC).
- 2 The issue of the Standard follows consideration of the responses received on Exposure Draft ED 80 "Inventories and Disclosure of the Cost of Goods Sold", which was prepared by the Boards and released in June 1997. ED 80 contained proposals aimed at harmonising with International Accounting Standard IAS 2 "Inventories".

### **Principal Changes from the Previous Standard**

- 3 Consistent with the proposals in ED 80, the Standard:
  - (a) applies to work in progress under real estate development projects (but not inventories dealt with under Accounting Standard AASB 1009 "Construction Contracts")
  - (b) requires the cost of inventories to include a systematic allocation of those production overheads that relate to bringing the inventories to their present location and condition
  - (c) requires costs to be allocated to joint products and by-products on a rational and consistent basis
  - (d) requires the cost of inventories of items that are not ordinarily interchangeable or that are goods or services produced and segregated for specific projects to be assigned by using specific identification of their individual costs, and the cost of other inventories to be assigned by using the first-in-first-out or weighted average cost formulas
  - (e) requires the carrying amount of inventories sold to be recognised as an expense in the financial year in which the related revenue is recognised



- (f) requires any write-down of inventories to net realisable value and any other loss relating to inventories to be recognised as an expense in the financial year in which the write-down or loss occurs
- (g) requires disclosure of:
  - (i) the accounting policies adopted for measuring inventories, including the method or methods used to assign costs
  - (ii) the aggregate carrying amount of inventories
  - (iii) the carrying amount of inventories, separately for current and non-current, in sub-classifications which are appropriate to the entity
  - (iv) the carrying amount of inventories in each of the sub-classifications identified under (iii) measured at net realisable value
  - (v) the aggregate write-downs and other losses recognised as an expense
  - (vi) the aggregate reversals of write-downs recognised as a reduction of an expense
  - (vii) the circumstances or events that led to the reversal of write-downs of inventories
  - (viii) the carrying amount of inventories pledged specifically and separately from the other assets of the entity as security for liabilities, and the nature of the security.

### **Noteworthy Differences from ED 80**

- 4 ED 80 proposed harmonising AASB 1019 with IAS 2 by requiring the disclosure of the cost of goods sold. A recently reissued version of International Accounting Standard IAS 1 “Presentation of Financial Statements” requires disclosure of an analysis of expenses using a classification based on either the nature of expenses or their function within an entity. A functional classification would involve disclosure of the cost of goods sold.

- 5      Whilst the proposal to require the disclosure of the cost of goods sold was supported by most of the respondents to ED 80, the Boards decided that it would be more appropriate to include this disclosure in the context of harmonising with IAS 1 and International Accounting Standard IAS 8 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”. Accordingly, the revised Standard does not include the cost of goods sold disclosure requirement. The Boards are committed to requiring the disclosure of cost of goods sold in new and revised standards that aim to harmonise with IAS 1 and IAS 8.

## TABLE OF COMPARATIVE PARAGRAPHS

Superseded	New	Comments
.00, .01		Deleted
.02	1.1 - 2.1.1, 3.1 - 3.3.1	Application, Scope and Operative Date (amended)
.03, .04	4.1	Purpose of Standard
.05	2.1.2	Materiality
.06	13.1	Definitions (added, amended and deleted)
.10, .11	5.1 - 5.2.3	Inventory measurement (commentary added)
.20	6.4	Exceptional wastage
.21	6.2	Standard costs
.22	8.3	Replacement cost
.23	8.2	Firm sales contract price
.24	6.3	Retail inventory method
.30	7.1 - 7.2.2	Assigning costs to inventories (amended and commentary added)
.31		Deleted
.40	8.1.6	Materials, consumable stores and supplies (amended as commentary)
.50	6.5 - 6.5.2	Joint and by-products (amended and commentary added)
.60	10.1 - 10.1.2	Disclosures (added, amended and commentary added)
.70	12.1	Transitional provisions
(i) - (v)		Deleted
(vi)	6.1.3	Determining normal capacity
(vii)	6.2.1	Standard costs
(viii)	6.3.1 - 6.3.2	Retail inventory method
(ix)	8.1.2	Net realisable value
(x)	8.1.5	Spares
(xi)		Deleted
(xii)	8.1.3	Net realisable value
(xiii)	covered in 5.1 and 5.2	Inventory measurement
(xiv)	8.3.1	Replacement cost
(xv), (xvi)		Deleted
	6.1 - 6.1.2	Production overheads (standards and commentary added)

<b>Superseded</b>	<b>New</b>	<b>Comments</b>
	8.1.1, 8.1.4	Net realisable value (commentary added)
	9.1 - 9.3	Recognition of inventory expenses (standards and commentary added)
	11.1 - 11.1.1	Comparative information (standards and commentary added)
	13.1.1 - 13.1.7	Definitions (commentary added)