

TREASURY ANALYSIS - AASB 2007-5

AASB 2007-5 Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities (May 2007) amends AASB 102 Inventories (July 2004)

Major impact of changes for 2007/08

- Amended measurement criteria for inventories held for distribution by not-for-profit entities.
- In practice, the impact on NSW not-for-profit entities should be minimal.

Key features of Standard

- The Standard amends paragraph Aus9.1 of AASB 102 to require inventories held for distribution by not-for-profit entities to be measured at cost, adjusted for any loss of service potential. The previous requirement was to measure these inventories at the lower of cost and current replacement cost.
- The Standard requires judgment to be exercised in determining whether there is a loss of service potential. For example, a loss of service potential might be measured based on a loss of operating capacity due to obsolescence.
- However, the Standard clarifies that identifying and measuring a loss of service potential based on the current replacement cost remains an appropriate approach for many entities (paragraph Aus9.2).
- The amendments are applicable on a prospective basis and comparative information is not adjusted.
- The Standard applies to annual reporting periods beginning on or after 1 July 2007 (i.e. years ending on or after 30 June 2008, for 30 June year end entities).

Other Information

- A copy of AASB 2007-5 is available from the AASB website: <http://www.aasb.com.au>.

Main differences applicable for 2007/08 compared to 2006/07

- There should be very few, if any, differences in 2007/08 compared with 2006/07 because NSW Treasury believes that current replacement cost is an appropriate surrogate for loss of service potential.

Impact on the public sector

- The amendments apply to not-for-profit entities only.

Policy and implementation issues

- Any amendments are applied prospectively.
- For most inventories held for distribution in the NSW public sector, Treasury believes current replacement cost is an appropriate surrogate for loss of service potential.

This summary has been written in general terms and is intended for reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.