

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 102 “Inventories” replaces AAS 2/ AASB 1019 “Inventories”

Major impacts of changes

- For *not-for-profit entities*, introduces a new class of inventories ‘held for distribution’, that must be measured at the lower of cost and replacement cost.

Key features of Standard

- AASB 102 substantially replicates the requirements of AAS 2 / AASB 1019, except for the areas discussed under ‘main differences’ below.
- AASB102 contains some scope differences, including agricultural activities now covered by AASB 141 *Agriculture*, previously covered by AASB 1037 *SGARA* (paras 2-3).

Main differences compared to previous Australian requirements

For not-for-profit entities only

- AASB 102 introduces a new class of inventory, inventory ‘held for distribution’. AASB 102 defines inventories ‘held for distribution’ as assets:
 - (a) held for distribution at no or nominal consideration in the ordinary course of operations;
 - (b) in the process of production for (a) above; and
 - (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 (para Aus 6.1).
- Inventories ‘held for distribution’ are measured at the lower of cost and current replacement cost (para Aus 9.1). Where inventories are acquired at no cost, or for nominal consideration, the cost must be the current replacement cost at the date of acquisition (para Aus10.1). AAS 2 required measurement at the lower of cost and net realisable value.
- When ‘held for distribution’ inventory is distributed, the carrying amount is expensed (Aus 34.1).
- The standard does not apply to work in progress *of services* to be provided for no or nominal consideration directly in return from the recipients (para Aus 2.1).
- Additional disclosures are required for ‘held-for distribution’ inventory (para Aus 36.1).

Impact on the public sector

- For most ‘not for profit’ entities, inventories held for distribution are not expected to be material.
- GFS/GAAP Convergence – Under GFS, all inventories are valued at current replacement cost, which is different to AASB 102 valuation. The Australian Accounting Standards Board’s GFS/GAAP convergence project is addressing this issue.

Policy and Implementation issues

- If material, ‘not for profit’ agencies will need to change the value of any ‘held for distribution’ inventories to comply with AASB 102.

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