

New Zealand Equivalent to International Accounting Standard 2

Inventories (NZ IAS 2)

Issued November 2004 and incorporates amendments up to and including 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* and NZ IFRS 13 *Fair Value Measurement*

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes Financial Reporting Standard No. 4 *Accounting for Inventories* (FRS-4).

The following New Zealand Interpretation refers to NZ IAS 2:

- NZ SIC-32 *Intangible Assets—Web Site Costs*

NZ IAS 2

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ACCOUNTING STANDARD 2
INVENTORIES (NZ IAS 2)**

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New Zealand Equivalent to International Accounting Standard 2 *Inventories* (NZ IAS 2) is set out in paragraphs 1–42 and the Appendix. NZ IAS 2 is based on International Accounting Standard 2 *Inventories* (IAS 2) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard. NZ IAS 2 should be read in the context of its objective and the IASB’s Basis for Conclusions on IAS 2 and the New Zealand *Conceptual Framework for Financial Reporting* (NZ Framework). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with “NZ” and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 2 *Inventories*

This table lists the pronouncements establishing and substantially amending NZ IAS 2. The table is based on amendments approved as at 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* and NZ IFRS 13 *Fair Value Measurement*.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 2 <i>Inventories</i>	Nov 2004 (Approval 2)	1 Jan 2005	1 Jan 2007
<i>Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)</i>	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
<i>Amendment to the Framework for Differential Reporting</i>	Dec 2005 (Approval 76)	1 Jan 2005	1 Jan 2007
NZ IFRS 8 <i>Operating Segments</i>	Dec 2006 (Approval 85)	Early adoption encouraged	1 Jan 2009
<i>Omnibus Amendments (2006-01)</i>	Dec 2006 (Approval 86)	Early application permitted	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009
<i>Omnibus amendments (2007-1)</i>	Nov 2007 (Approval 95)	Early application permitted	1 Jan 2008
<i>Improvements to NZ IFRSs</i>	June 2008 (Approval 102)	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs (2008-2)	Aug 2008 (Approval 107)	Immediate	Immediate
Minor Amendments to NZ IFRSs	July 2010 (Approval 132)	Immediate	Immediate

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Table of Amended Paragraphs in NZ IAS 2		
Paragraph affected	How affected	By ... [date]
Paragraph 2(b)	Amended	Minor Amendments (2008-2) [Aug 2008]
Paragraph NZ 5.1	Inserted	Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005]
Paragraph NZ 5.2	Inserted	Amendment to the <i>Framework for Differential Reporting</i> [Dec 2005]
Paragraph NZ 5.2	Amended	NZ IAS 1 [Nov 2007]
Paragraph NZ 6.1	Amended	<i>Omnibus Amendments</i> (2006-01) [Dec 2006]
Paragraph NZ9.1	Amended	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ 9.2	Amended	<i>Omnibus Amendments</i> (2006-01) [Dec 2006]
Paragraph NZ9.2	Amended	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ9.3	Amended	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ9.4	Inserted	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph 20	Amended	<i>Improvements to NZ IFRSs</i> [June 2008]
Paragraph 26	Amended	NZ IFRS 8 [Dec 2006]
Paragraph 29	Amended	NZ IFRS 8 [Dec 2006]
Paragraph NZ34.1	Amended	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ36.1	Amended	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ42.1 and preceding heading	Inserted	<i>Omnibus amendments</i> (2007-1) [Nov 2007]
Paragraph NZ42.2	Inserted	<i>Omnibus amendments</i> (2007-1) [Nov 2007]

Introduction to NZ IAS 2

This Standard:

- (a) prescribes the accounting treatment for inventories;
- (b) provides guidance on the determination of cost and its subsequent recognition as an expense;
- (c) requires inventory to be measured at the lower of cost and net realisable value, or, in relation to public benefit entities that hold inventory for distribution at no or for nominal consideration, at cost, adjusted when applicable for any loss of service potential; and
- (d) prescribes disclosures required in relation to inventories.

In adopting IAS 2 for application as NZ IAS 2 the following changes have been made. NZ IAS 2:

- (a) includes a definition of public benefit entities (paragraph NZ 6.1);
- (b) includes a definition of “inventories held for distribution” (paragraph NZ 6.1);
- (c) introduces requirements, in relation to public benefit entities, to measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential (paragraph NZ 9.1);
- (d) introduces requirements, in relation to public benefit entities, that inventories acquired at no cost or for nominal value shall be recognised initially at current replacement cost (paragraph NZ 10.1); and
- (e) introduces requirements, in relation to public benefit entities, that the carrying amount of inventories held for distribution shall be recognised as an expense in the period in which the goods are distributed or services rendered (paragraph NZ 34.1).

Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 2 will simultaneously be in compliance with IAS 2. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 2. Whether a public benefit entity will be in compliance with IAS 2 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

Differential Reporting

Qualifying entities are given several concessions to the requirements of the Standard (as identified in the Standard).

New Zealand Equivalent to International Accounting Standard 2

Inventories (NZ IAS 2)

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.

Scope

- 2 **This Standard applies to all inventories, except:**
- (a) **work in progress arising under construction contracts, including directly related service contracts (see NZ IAS 11 *Construction Contracts*);**
 - (b) **financial instruments (see NZ IAS 32 *Financial Instruments: Presentation* and NZ IAS 39 *Financial Instruments: Recognition and Measurement*); and**
 - (c) **biological assets related to agricultural activity and agricultural produce at the point of harvest (see NZ IAS 41 *Agriculture*).**
- 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.**
 - (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.

Qualifying Entities

NZ 5.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime (2005)* are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

NZ 5.2 Qualifying entities are not required to disclose the carrying amount of inventories in classifications appropriate to the entity as required in paragraph 36(b). Qualifying entities are still required to disclose the total carrying amount of inventories in accordance with paragraph 36(b) and NZ IAS 1 paragraph 54(g).

Definitions

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

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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Public Benefit Entities

NZ 6.1 The following terms are used in this Standard with the meanings specified:

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

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 material or supplies to be consumed in the production process or in the rendering of services at no or nominal consideration.

Public benefit entities are reporting entities whose primary objective is to provide goods or services for the community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

- 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 amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. 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. In the case of a service provider, inventories include the costs of the service, as described in paragraph 19, for which the entity has not yet recognised the related revenue (see NZ IAS 18 *Revenue*).

Public Benefit Entities

NZ 8.1 Inventories held by public benefits entities may include:

- (a) ammunition;
- (b) strategic stockpiles (for example, energy reserves);
- (c) stocks of unissued currency; and
- (d) postal service supplies held for sale (for example, stamps).

NZ 8.2 Where a public benefit entity controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognised as inventories for the purposes of this Standard. They are not reported at face value,

* Paragraphs 10 to 27 in this Standard apply to both inventories (as defined in paragraph 6) and inventories held for distribution (as defined in paragraph NZ 6.1).

but measured in accordance with paragraph 13, that is their printing or minting cost.

Measurement of inventories

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

Public Benefit Entities

NZ 9.1 Notwithstanding paragraph 9, each public benefit entity shall measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential.

NZ 9.2 A public benefit 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.

NZ 9.3 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.

NZ 9.4 Public benefit entities would need to use judgement 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.

Public Benefit Entities

NZ 10.1 In respect of public benefit 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 NZ IAS 23 *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 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

- 20 In accordance with NZ IAS 41 *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 should 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. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.
- 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 NZ IAS 37 *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 (ie 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.

Public Benefit Entities

NZ 34.1 In respect of inventories held for distribution by public benefit entities, the carrying amount shall be recognised as an expense in the period in which the goods are distributed or the services rendered. 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.**

Public Benefit Entities

NZ 36.1 In respect of public benefit entities, the financial report shall disclose:

- (a) **the carrying amount of inventories held for distribution carried at current replacement cost;**
- (b) **the amount of any write-down of inventories held for distribution recognised as an expense in the period in accordance with paragraph NZ 34.1;**
- (c) **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 NZ 34.1;**
- (d) **the circumstances or events that led to the reversal of a write-down of inventories held for distribution in accordance with paragraph NZ 34.1; and**
- (e) **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. The inventories of a service provider may be described as work in progress.

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.

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- 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 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

Withdrawal of other pronouncements

- 41–42 [Paragraphs 41 and 42 are not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

Transition

Public Benefit Entities

NZ 42.1 Public benefit entities shall apply paragraph NZ 9.1 and measure inventories held for distribution at cost, adjusted when applicable for any loss of service potential, on a prospective basis for annual periods beginning on or after 1 January 2008. Early application is permitted only when an entity complies, or has complied with, NZ IFRS 1 in its annual financial statements for a period beginning on or after 1 January 2005.

NZ 42.2 Under paragraph NZ 42.1, public benefit 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 accounting period. Accordingly, comparative information is not adjusted.

Appendix Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

The amendments contained in this appendix when this Standard was revised in 2003 have been incorporated into the relevant pronouncements published in this volume.

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