



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG03-04

26-27 September 2024 – Hybrid meeting

Inventories

Summary	This paper presents the responses to Section 13 <i>Inventories</i> in ED 2, and proposes revised drafting to address the comments received.
Purpose/Objective of the paper	The paper seeks TAG members views on the responses to ED 2, and on the drafting changes proposed to address the comments received. The comments received, and the proposed drafting changes, need to be considered alongside the responses to Part 1 of Section 23 given the close links between revenue recognition and inventories for donated goods and services.
Other supporting items	Agenda Item TAGFG03-03 Revenue (elsewhere on this Agenda)
Prepared by	Paul Mason
Actions for this meeting	<p><u>Comment and advise</u> on:</p> <ul style="list-style-type: none">The proposed drafting changes to Section 13 <i>Inventories</i>, taking into account the earlier discussion on revenue.



Technical Advisory Group

Inventories

1. Introduction

- 1.1 Exposure Draft (ED) 2 (INPAG Section 13) included proposals for accounting for inventories. The proposals were generally in line with the requirements in the *IFRS for SMEs Accounting Standard*. Section 13 includes some additional guidance to reflect NPOs' circumstances, such as the fact that NPOs may hold inventories for non-commercial purposes, and may receive donated inventories.
- 1.2 Section 13 also includes permitted exceptions to the normal accounting for inventories. These allow certain types of donated inventory to only be recognised (as revenue and, where relevant, an expense) when sold or transferred to another party in the course of fundraising activities, or when distributed to service recipients.
- 1.3 These permitted exceptions arose as a consequence of the equivalent permissions being included in INPAG Section 23 *Revenue* (also ED 2). Consequently, the analysis of the responses to these exceptions, and any proposed drafting changes, need to also reflect the responses to Section 23, particularly as some respondents expressed different views about the proposed exceptions when responding to Section 23 than when responding to Section 13.
- 1.4 Responses to Section 23 were considered earlier in the Agenda (item 3); however, detailed proposals for drafting in Section 23 have not been developed at this stage, and therefore further proposals for the drafting of Section 13 may need to be considered at a later date to ensure consistency between the two sections.
- 1.5 The responses to Section 13 have been analysed, and this paper summarises the responses to the specific matters for comment included in ED 2. Details of the responses to each question are included in [Appendix A](#). This paper also proposes some changes to the drafting of Section 13, noting that further amendments may be required as a result of future discussions on revenue.
- 1.6 The draft of the full final guidance for Section 13, along with the related Basis for Conclusions and the Illustrative Examples is contained in a separate document TAGFG03 – Annex, which includes all the draft final guidance being considered at this meeting.



2. Responses to SMC 2(a) – inventory held for use internally, for fundraising or distribution

- 2.1 SMC 2(a) sought respondents' views on "the expansion of Section 13 *Inventories* to specifically include inventory held for use internally, for fundraising or distribution."
- 2.2 The proposed expansion was included because NPOs frequently hold inventories for non-commercial purposes. Respondents strongly supported the expansion, with 92% of those who responded agreeing with the proposal and only 3% (1 respondent) disagreeing. Respondents considered the inclusion of these types of inventories on the balance sheet were important to support stock control systems and for audit purposes.
- 2.3 Some respondents to SMC 2(a) commented on drafting issues. However, the comments relate to paragraph G13.5 of INPAG, which deals with permitted exceptions. These comments are considered alongside the comments on SMC 2(b). The comments raised by the respondent that disagreed related to a different point.
- 2.4 No changes are proposed in respect of the expansion of Section 13 *Inventories* to specifically include inventory held for use internally, for fundraising or distribution (paragraph G13.1).

Question 1: Do TAG members agree that no changes are required in respect of the proposed expansion of Section 13.

3. Responses to SMC 2(b) – permitted exceptions

- 3.1 SMC 2(b) asked respondents for their views on "the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory."
- 3.2 While a majority of respondents (69% of those who responded) supported the proposed permitted exceptions, a significant minority either disagreed (13%) or partially disagreed (18%). However, these reservations only extended to the exceptions to recognising inventory. In the context of applying the same exceptions to revenue, 92% agreed with the proposals, and only 8% disagreed.
- 3.3 This reflects inconsistent views amongst some respondents. For example, two respondents who considered that inventories needed to be recognised to faithfully represent the NPO's financial position agreed with the proposed use of the exceptions for revenue, with no commentary. Another respondent considered the materiality should be assessed when considering whether the proposed exceptions were appropriate for inventories, but did not raise any issues with applying the same exceptions to revenue.



- 3.4 Recognising revenue and inventories are two sides of the same transaction; if revenue (the credit entry) is not recognised, inventories (the debit entry) cannot be recognised either. The only way to recognise inventories without revenue would be to recognise a liability as an alternative credit entry. However, the receipt of donated items in an other funding arrangement does not give rise to an obligation that satisfies the definition of a liability.
- 3.5 In the light of these inconsistent responses by some respondents, the Secretariat is of the view that the overall level of support for the exceptions is likely to lie somewhere between the levels of the two responses.
- 3.6 Respondents who supported the permitted exceptions commented that these would be beneficial to NPOs on cost-benefit and simplicity grounds.
- 3.7 One respondent who supported the permitted exceptions suggested they should be available for NPOs to use item by item rather than by class of inventories. While this issue is not addressed in Section 13, it is covered elsewhere in ED 2. Section 23 requires that the exceptions be applied to a class of inventories (or other assets). The Secretariat notes that allowing the exceptions for low value items to be applied on an item by item basis would be consistent with the low value exception included in IFRS 16, which is relevant to the discussion on the definition of low value in paragraphs 3.14–3.20 below.
- 3.8 Respondents who disagreed or partially disagreed with the permitted exceptions did so for a variety of reasons, with some respondents identifying separate factors for the individual exceptions.
- 3.9 Two common issues raised by respondents regardless of whether they supported the permitted exceptions related to guidance on what constitutes a low value item, and concerns regarding the drafting of paragraph G13.5 in ED 2. The Secretariat notes that concerns about what constitutes a low-value item were only raised in responses to the inventories section; no such issues were raised in the response to the proposed exceptions in the revenue section. The Secretariat’s proposals for addressing these issues is included below in paragraphs 3.14–3.27
- 3.10 The remaining concerns were generally only mentioned by one (or occasionally two) respondents. These concerns are set out in [Appendix B](#).
- 3.11 The Secretariat acknowledges that these comments reflect valid views as to the balance that needs to be struck between cost-benefit, practicality and faithful representation. However, given the discussions that took place in developing ED 2 and the limited number of respondents supporting the different positions represented by these concerns, the Secretariat does not propose to amend the current balance between cost-benefit, practicality and faithful representation.
- 3.12 This issue was discussed by the PAG at its last meeting, and PAG members were generally in support of retaining the proposed exceptions.



- 3.13 Having considered all the comments, the Secretariat recommends that the exceptions proposed in ED 2 are retained.
- 3.14 Respondents noted the need for guidance on what constitutes low value items. One respondent noted that in IFRS 16 *Leases* the IASB considered that low value should not be affected by the size, nature, or circumstances of the entity (see paragraph B4 and the examples listed in paragraph B8 of IFRS 16). The IASB suggested in the Basis for Conclusion to IFRS 16 (BC 100) a maximum value of US\$5000 for a lease to be low value.
- 3.15 Conversely, another respondent considered low value should be assessed by reference to materiality.
- 3.16 The Secretariat concur that including guidance on low value donated inventories would be helpful. The Secretariat notes that in including the low value exception in IFRS 16, the IASB set it at a level that was expected to usually be below materiality levels even in aggregate. The IASB noted that a similar result could be achieved by applying materiality, but included the exception because this approach was expected to produce cost relief for entities by removing the burden of justifying that such leases would not be material in aggregate. The Secretariat considers that a similar approach could be adopted in INPAG, which would simplify the requirements by avoiding the need for NPOs to consider materiality.
- 3.17 The Secretariat presented this issue to the PAG at its September 2024 meeting. The PAG generally supported the proposal to include guidance as to what constitutes a low value item, but there was no consensus as to the form of that guidance.
- 3.18 The Secretariat initially proposed a single absolute amount, in line with the approach in IFRS 16. PAG members were clear that the amount proposed (US \$100) was likely to be too high for many NPOs in low income countries, and too low for many NPOs in high income countries. Some PAG members suggested that a range of values could be provided. Others suggested that the guidance should be based on materiality, and others suggested that the guidance should set out the principles without discussing an amount.
- 3.19 The Secretariat has taken the advice regarding a single absolute amount on board. However, the Secretariat consider that relieving NPOs of the burden of applying materiality would be beneficial, and that this would require some reference to an amount.
- 3.20 Consequently, the Secretariat is proposing to include a range of absolute amounts in the Basis for Conclusions, and is seeking TAG members' views on an appropriate range of values.
- 3.21 Based on comments from PAG members, the Secretariat is suggesting a lower value of US \$20 for low income countries, and a higher amount of US \$250 for high income countries.



- 3.22 The Secretariat is also proposing to include in the Basis for Conclusions a comment that regulators are in the best position to know an appropriate value for their jurisdiction, and that guidance on the amount issued by a regulator would be helpful to NPOs.
- 3.23 There is also a question as to whether the same amounts are appropriate for items for resale and items for distribution. TAG advice on this distinction would be helpful.
- 3.24 PAG members were generally of the view that NPOs should be able to apply the low value exceptions on an item-by-item basis. PAG members noted that requiring the exceptions to be applied by class of inventories was likely to lead to fewer items being recognised. The approach proposed in respect of low value items is also expected to mean that the items will not be material.
- 3.25 The Secretariat agrees with this view, and is proposing to permit the low value exceptions to be used on an item-by-item basis. This will require an amendment to the text in Section 23, and this will be brought back to the TAG when the draft final text of Section 23 is considered.
- 3.26 The draft text to be included in the Basis of Conclusions, subject to an amount (or amounts) being agreed, is shown in [Appendix C](#) and is also included in the full text of the Basis for Conclusions provided in TAGFG03 - Annex at paragraphs BC13.13–BC13.20.
- 3.27 Respondents also identified some issues with the drafting of paragraph G13.5 in ED 2. The Secretariat has considered these issues, and is proposing to address respondents' concerns as follows:
- The paragraph heading is recognition of inventories, but the paragraph only specifies when inventories should not be recognised. Secretariat response: the wording is amended so that the paragraph starts "*An NPO shall recognise all inventories within the scope of this Section unless it has elected to apply one of the following permitted exceptions...*".
 - The reference to non-current assets in subparagraph (b) could be read as implying that such items are inventory. In the same subparagraph, it is not clear whether high value items is the opposite of low value items, or whether there is a range of values between low value and high value items. Secretariat response: the wording is amended to simply refer to low value items, with guidance on this amount being provided (see paragraph 3.20 above).
 - It is not clear whether an NPO can use all the exceptions, or only one. Secretariat response: Additional wording is added to clarify that NPOs can use any combination (or none) of the exceptions. The wording also permits NPOs to apply the low-value exceptions on an item by item basis, as the amounts involved will not be material (see also the discussion at paragraph 3.24).



The revised text is shown below and is included in the full text of the draft final guidance provided in TAGFG03 - Annex at paragraphs G13.5 and G13.6.

- G13.5 An NPO shall ~~not~~ recognise all inventories within the scope of this Section unless where it has elected to apply one or more of the following permitted exceptions in respect of those inventories:
- (a) low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO's fundraising activities, recognised as revenue when the items are sold or fundraising activity takes place, in accordance with paragraph **G23.37(a)**;
 - (b) low-value items (~~other than non-current assets or high-value items~~) donated to the NPO for distribution to service recipients or for the NPO's own use, recognised as revenue and an expense when the items are distributed or used in accordance with paragraph **G23.37(b)**;
 - (c) work in progress that comprises services in-kind donated to the NPO that are not recognised as revenue, an asset or an expense in accordance with paragraph **G23.37(c)**; and
 - (d) work in progress that comprises services to be provided for no or nominal consideration and the NPO elects to expense the costs as they are incurred.
- G13.6 When applying a permitted exception, the NPO may apply the exceptions set out in paragraphs G13.5(a) and G13.5(b) on an item-by-item basis. An NPO shall apply the exceptions set out in paragraphs G13.5(c) and G13.5(d) to all items within a class of inventories.

Question 2: Do TAG members agree with:

- (a) The approach to the permitted exceptions proposed by the Secretariat;
- (b) The approach to low value items, and appropriate amounts; and
- (c) The revised wording intended to address concerns about drafting.

4. Responses to SMC 2(c) – fair value

- 4.1 SMC 2(c) asked respondents whether they considered that fair value should be used to initially value donated inventory; and if not, what alternative they would propose.



- 4.2 Respondents generally supported the use of fair value, with 80% of those who responded agreeing with the proposal compared to 15% who disagreed. A number of respondents commented that their views may change once they have been able to review the guidance on fair value (which is included in Section 12 in ED 3).
- 4.3 Respondents who disagreed mainly did so on cost-benefit grounds, with some respondents suggesting items could be measured at a nominal amount (one currency unit, for example \$1). The Secretariat does not consider a nominal amount is appropriate when inventories are required to be recognised.
- 4.4 The Secretariat is not proposing any amendments to the requirement to measure donated inventories at fair value at this stage. Depending on the responses to ED 3, this issue may need to be revisited at a later date.

Question 3: Do TAG members agree that no changes to the requirement to measure donated inventories at fair value should be made at this stage?

5. Responses to SMC 2(d) – inventories held for distribution at no or nominal consideration

- 5.1 SMC 2(d) asked respondents whether they agreed that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives should be measured at the lower of cost adjusted for any loss of service potential, and replacement cost.
- 5.2 Respondents strongly supported this approach, with 89% of those who responded agreeing with the proposal and only 3% disagreeing.
- 5.3 Some respondents who supported the proposal nevertheless commented that difficulties might arise for NPOs if current replacement cost was volatile. The Secretariat notes that this is no different to the other inventories, where net realisable value could be volatile. Consequently, the Secretariat does not propose any changes in response to these comments.
- 5.4 One respondent noted that they agreed with the proposal, unless the NPO was in a hyperinflationary economy. The Secretariat considers that the requirements for hyperinflationary economies in INPAG Section 31 (ED 2) already deal with this situation.
- 5.5 Other respondents commented that while they supported the principle, the drafting of paragraph G13.8 in ED 2 was difficult to follow. The Secretariat is proposing to reformat the paragraph to deal with this issue. The text is shown below and is included in the full text of the full final guidance provided in TAGFG03 - Annex at paragraph G13.9.



G13.9 Inventories held:
(a) for distribution at no or nominal consideration; or
(b) for use by the NPO in meeting its objectives
shall be measured at the lower of cost (or deemed cost for donated inventories in accordance with paragraph ~~G13.8~~G13.7), adjusted for any loss of service potential and replacement cost.

- 5.6 The respondent who disagreed with the proposal did not consider that writing inventories down to current replacement cost provided useful information to users. They suggested valuing inventories held for no or nominal consideration at cost. The Secretariat does not support this suggestion as it would lead to inventories being overstated.
- 5.7 Those who partly disagreed with the proposal also commented that impairment was an important issue. Impairment is included in ED 3, and the Secretariat will review comments received to determine whether any changes to Section 13 are required.

Question 4: Do TAG members:

- (a) Agree that no substantive changes are required in respect of the measurement of inventories held for distribution for no or nominal contribution; and
- (b) Support the reformatted text included in the full text of the draft final guidance provided in TAGFG03 - Annex at paragraph G13.9.

6. Responses to SMC 2(e) – disclosures

- 6.1 SMC 2(e) sought respondents' views on the proposed disclosure requirements, particularly regarding:
- (a) the use of permitted exceptions; and
- (b) donated inventories that are not recognised because they cannot be reliably measured.
- 6.2 Respondents strongly supported the proposed disclosures, with 92% of those who responded agreeing with the proposed disclosures and only 5% disagreeing.
- 6.3 A number of respondents commented that disclosures about fair value should be included. INPAG Section 12 (included in ED 3) covers fair value; the Secretariat considers that the disclosure requirements in that section will address respondents' concern.



- 6.4 One respondent noted that when items are not recognised in the financial statements due to the use of an exception, the use of the exception should be disclosed as part of the NPO's accounting policies. The respondent suggested that paragraph G13.26(a) (in ED 2) is redrafted to be make this clearer. The Secretariat agrees, and the revised drafting is shown below and in the full text of the draft final guidance provided in TAGFG03 - Annex at paragraph G13.36.

G13.36 An NPO shall disclose the following:

(a) the accounting policies adopted in measuring inventories, including the cost formula used, as part of the disclosure of material accounting policy information required by paragraph G8.5;

- 6.5 Some respondents considered that, in addition to the description of the inventories not recognised due to their being unable to be measured reliably, the reasons as to why such inventory cannot be measured reliably should also be stated and disclosed. The Secretariat can see the benefit in including this disclosure. The wording for such a disclosure is shown below and in the text of the full final guidance provided in TAGFG03 - Annex at paragraph G13.36. An explanation is included in the Basis for Conclusions, and this text is also shown below.

G13.36 An NPO shall disclose the following:

...

(e) a description of any inventories not recognised because they do not meet the recognition criteria due to the NPO being unable to reliably measure the inventories, along with an explanation of why the NPO us unable to reliably measure the inventories; and

BC13.24 Respondents to ED 2 generally supported this approach. Some respondents suggested that an NPO should disclose an explanation as to why the donated items could not be reliably measured. TAG members agreed this would aid transparency, and has included this additional disclosure requirement.



Question 5: Do TAG members:

- (a) Support the revised drafting regarding the disclosure of accounting policies; and
- (b) Consider that NPOs should disclose, in addition to a description, the reasons as to why inventory cannot be measured reliably?

7. Relocation of Application Guidance paragraphs

- 7.1 ED 2 included a separate Application Guidance section. Respondents have indicated that separating the authoritative requirements into two sections is confusing.
- 7.2 The TAG considered the structure of INPAG at its July 2024 meeting. In line with the discussions at that meeting, the Secretariat has reviewed the Application Guidance (AG), and consider that the material is best located in the authoritative guidance. This is because the AG sets out requirements for applying the principles that are set out in the authoritative requirements. It would, therefore, not be appropriate to include the AG in non-authoritative Implementation Guidance. Consequently, the core text and Application Guidance sections have been merged.
- 7.3 [Appendix D](#) includes a table that shows how the Application Guidance paragraphs have been integrated into the authoritative requirements.

Question 6: Do TAG members have any comments on the integration of the Application Guidance into the authoritative requirements?

8. Next steps

- 8.1 The draft text including the Basis for Conclusions will be updated to reflect TAG member feedback. It will also be updated to reflect any changes to the Third edition of the *IFRS for SMEs Accounting Standard* which is currently being finalised. Changes to this standard will result in changes to Section 23 *Revenue*, and may therefore result in consequential changes to this section.
- 8.2 If these amendments are not substantial in nature and do not raise issues that have previously considered by TAG members, the resulting updated version will be considered the draft final. Even if there are no substantial issues, TAG members will have another opportunity to comment on the draft of Section 13 when all sections of INPAG have been updated.

September 2024



Appendix A – Analysis of responses to SMCs (ED 2)

SMC 2(a) Do you agree with the expansion of Section 13 <i>Inventories</i> to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?	Response	Number	% of those who responded (39)
	Agree	36	92%
	Disagree	1	3%
	Partially Agree	2	5%
	No Response	8	–
	Total	47	100%

SMC 2(b) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory? If not, what would you propose instead?	Response	Number	% of those who responded (39)
	Agree	27	69%
	Disagree	5	13%
	Partially Agree	7	18%
	No Response	8	–
	Total	47	100%

SMC 2(c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	Response	Number	% of those who responded (39)
	Agree	31	80%
	Disagree	6	15%
	Partially Agree	2	5%
	No Response	8	–
	Total	47	100%

SMC 2(d) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss of service potential, and replacement cost? If not, what would you propose instead?	Response	Number	% of those who responded (37)
	Agree	33	89%
	Disagree	1	3%
	Partially Agree	3	8%
	No Response	10	–
	Total	47	100%



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SMC 2(e) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognised because they cannot be reliably measured? If not, what would you propose instead?	Response	Number	% of those who responded (38)
	Agree	35	92%
	Disagree	2	5%
	Partially Agree	1	3%
	No Response	9	-
	Total	47	100%



Appendix B – Concerns regarding the permitted exceptions

Concern	Secretariat comment
<p>The exception in respect of low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO's fundraising activities should be limited to situations when it is impracticable to estimate the value of the resource with sufficient reliability at the time that the resource is received or receivable. For example, the exception might be suitable in the case of high volume, low value second-hand goods donated for resale.</p>	<p>This comment reflects a valid view as to the balance needs to be struck between cost-benefit, practicality and faithful representation. However, the Secretariat does not consider that the responses show sufficient support for an alternative balance to that included in ED 2.</p> <p>The proposals in respect of low value items may mitigate this concern.</p>
<p>The effect of the exceptions for donated items for resale or distribution is to mirror the 'matching principle', which is not generally appropriate.</p>	<p>The Secretariat accepts this comment is correct. However, this is a pragmatic proposal that was known and accepted when ED 2 was developed.</p>
<p>Unlike in the case of low-value goods for resale, the subsequent distribution or use of such inventory may not provide any additional information about the value of the inventory that would not already have been available at the point of receipt.</p>	<p>The Secretariat accepts that this will be the case for many inventories. For some items, there will be significant uncertainty as to whether the NPO will be able to use or distribute them (for example, medical supplies close to their expiry date). For those items, their distribution (or non-distribution) will resolve the uncertainty and this will provide new information.</p>
<p>Donated inventory should be recognised on receipt, even when the NPO intends to distribute it for nil or nominal consideration. Until the NPO has given the inventory away for no or nominal consideration, or used the inventory itself, it could instead choose to sell that inventory for market value, and therefore an asset should be recognised.</p>	<p>The Secretariat accepts that it is possible that an NPO may choose to sell inventory that it had initially not recognised because it intended to distribute the items or use them itself. However, an NPO that intended to sell the items may be able to use the permitted exception for items for resale.</p> <p>The proposals in respect of low value items may mitigate this concern.</p>



Concern	Secretariat comment
<p>Permitting donations not to be recognised until they are distributed or used could lead to the financial statements understating the size and impact of the NPO, and of the need that it addresses, and could have other unintended implications, such as exempting an NPO from an audit regime.</p>	<p>The Secretariat accepts that there is a risk that an NPO's financial statements could be understated. However, this is a pragmatic proposal where the risk was known and accepted when developing ED 2.</p>
<p>Could the exemptions also include not just donated items, but items that funding has been received for and already expensed i.e. produced prints of publications distributed for free and/or sale, supplies for training etc. -will the transition affect nonprofits significantly in the year of transitioning to this disclosure, in their accounts and result in a significant deficit?</p>	<p>The exemptions have been included because of practical issues with identifying values for donated items. This is not the case or items purchased and for which funding has been received.</p> <p>No changes are proposed in response to this comment.</p>
<p>We do not agree with that services in-kind that are not mission-critical should be the determining factor here and as such some services in-kind should be recognised, which could include those that contribute to work in progress. We agree that some services in-kind (such as general volunteer time) will not be reliably measurable and should therefore not be recognised.</p>	<p>There was much debate about which services in-kind should be recognised in developing ED 2.</p> <p>While different views exist, only one respondent raised this issue and the Secretariat therefore considers it appropriate to retain the approach in ED 2. The exemption is permissive and an NPO can recognise such services.</p>
<p>The proposed exception in paragraph G13.5(d) permits the following: “[an NPO shall not recognise] work in progress that comprises services to be provided for no or nominal consideration and the NPO elects to expense the costs as they are incurred.”</p> <p>We understand that in cases when there is work in progress in respect of services provided at no or nominal consideration, which would not result in an asset, this exception would be appropriate. We are also unclear whether expensing the costs as they are incurred in such a situation is in fact an election, and, if so, where in the guidance this is set out. We note that paragraph G13.5(d) does not cross-refer to another section of the guidance.</p>	<p>Work in progress in respect of services provided at no or nominal consideration would provide service potential, and could therefore meet the definition of an asset under INPAG.</p> <p>The Secretariat agrees that guidance that costs incurred in such work in progress should be included in inventories unless the NPO elects to apply the exemption.</p>



Concern	Secretariat comment
The exceptions listed should be considered in the context of materiality. For example, even though donated items may be low in value individually, in some instances the aggregate value of all individual items can be highly significant to the NGO's statement of assets and liabilities.	The proposals in respect of low value items may mitigate this concern.
The exceptions would not allow the initial Donor and even the NPO if it is a donor, to make a comparison between the normal outlay that would have been required (Fair Value of Donated Inventories) to make that positive impact on a given population that will be the End User of that donation.	Donated inventories would be recognised and measured at fair value when they are distributed.



Appendix C – Extracts from the Basis for Conclusions

Responses to Exposure Draft 2

- BC13.25 Respondents to ED 2 generally supported the proposed exceptions for the reasons discussed above. In addition, there was little consensus among those respondents who did not agree regarding the preferred alternative approach. For these reasons, the Secretariat has retained the permitted exceptions as set out in ED 2.
- BC13.26 Respondents, regardless of whether they supported the proposals or not, considered that guidance was required as to what constitutes a low value item for the purposes of applying the exceptions. Respondents also considered the phrase “other than non-current assets or high-value items” used in exception for donated items for distribution or for the NPO’s own use to be difficult to apply.
- BC13.27 TAG members agreed with these comments. The exception for donated items for distribution or for the NPO’s own use has been amended to apply to low value items, using the same description as used for donated items for resale.
- BC13.28 TAG members noted that in IFRS 16 *Leases* the IASB considered that low value should not be affected by the size, nature, or circumstances of the entity. The IASB provided an indicative amount for the low value exception in the Basis for Conclusions accompanying IFRS 16. This was set at a level that was expected to be below materiality levels even in aggregate. The IASB noted that a similar result could be achieved by applying materiality, but included the exception because this approach was expected to produce cost relief for entities by removing the burden of justifying that such leases would not be material in the aggregate.
- BC13.29 The TAG considered that it would be appropriate to adopt a similar approach for INPAG, which would simplify the requirements by avoiding the need for NPOs to consider materiality.
- BC13.30 This issue was discussed with the Practitioners Advisory Group (PAG). Members indicated that a single value was unlikely to be appropriate in both low income and high income countries, and some members considered that the TAG would be best served by providing an indicative range.
- BC13.31 TAG members agreed with this approach. In including the permitted exceptions for low value items, the TAG considered that low value was intended to reflect donated items with an individual value between US \$xx (for lower income countries) to US \$xxx (for higher income countries) as at the time the TAG considered this issue (September 2024). TAG members also considered that regulators would be in a better position to understand what constitutes a low value item in their jurisdiction, and that any guidance they were to publish regarding this issue would be helpful.



BC13.32 TAG members also agreed that, as low value items should not be material, it would be appropriate to allow NPOs to apply the low value exceptions on an item by item basis. TAG members considered that requiring the exceptions to be applied to a whole class of inventories might result in fewer items being recognised on receipt.



Appendix D – Relocation of Application Guidance

This table sets out how the Application Guidance paragraphs in ED 2 have been relocated to the mandatory requirements.

Paragraph (ED 2)	Paragraph (FG)	Rationale and amendments to paragraph
AG13.1–AG13.6	G13.10–G13.15	These paragraphs provide guidance on measuring inventories using fair value (by reference to Section 12), or by assessing a loss of service potential. They have been moved to directly follow the measurement principles that sets out the requirements for measuring inventories.
AG13.7–AG13.9	G13.16–G13.18	These paragraphs provide guidance on how an NPO should report items that cannot be reliably measured in accordance with the measurement principles. The paragraphs have been moved to follow the measurement principles and the related guidance (see previous note).