



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG06-02

25 February 2025 – Online

Inventories

Summary	This paper proposes amended text for Section 13, <i>Inventories</i> in response to the TAG discussion at its September 2024 meeting.
Purpose/Objective of the paper	This paper seeks comments from TAG members on the proposed final text of Section 13, <i>Inventories</i> . TAG members reviewed the responses to ED 2 in September 2024, and provided comments on a draft of the text at that meeting.
Other supporting items	Agenda Item TAGFG03-04 Agenda Item TAGFG05-06
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Actions for this meeting	Advise on the Secretariat's proposals in respect of the proposed final text, in particular the Basis of Conclusions in respect of guidance on low value items.

Technical Advisory Group

Inventories

1. Introduction

- 1.1 Exposure Draft (ED) 2 sought stakeholders' views on the proposals for accounting for inventories. This Section was not fully reviewed, but amendments from the *IFRS for SMEs Accounting Standard* were made as a result of the permitted exceptions to the recognition and measurement of donations in-kind include in Section 23 *Revenue*.
- 1.2 The TAG considered the responses to ED 2 along with a first draft of the amended text proposed as a result of the consultation responses at its September 2024 meeting. This paper proposes additional amendments as a result of the discussions at that meeting. The full redraft of Section 13 is included in TAGFG06 – Annex.

2. Amendments made in finalising Section 13

Application Guidance

- 2.1 ED 2 included additional Application Guidance in Section 13. At the September 2024 meeting, the Secretariat had proposed relocating the Application Guidance to the core text, in line with the approach being taken across INPAG. At the meeting it was agreed that, because a full review of Section 13 had not been carried out, the text should remain in Application Guidance. This amendment has been reflected in the revised text.

Fair value measurement

- 2.2 Some respondents to ED 2 questioned whether it would always be possible to measure donated items of inventory at fair value. Similar concerns were expressed in the responses to other sections of INPAG. These concerns have been addressed through amendments to the text of Section 12, *Fair value measurement*, which were discussed at the last TAG meeting (see Agenda Item [TAGFG05-06](#)).

Permitted exceptions

- 2.3 ED 2 included permitted exceptions for recognising revenue from donations in-kind. As well as affecting the timing of revenue recognition, these exceptions also affect the recognition of inventories, and Section 13 includes the relevant requirements.
- 2.4 Respondents to ED 2 sought guidance on the term “low value items” used in some of the permitted exceptions. At its September 2024 meeting, the TAG considered proposals from the Secretariat for guidance on low value items based on similar guidance in IFRS 16, *Leases*. This approach proposed an absolute value being included in the Basis for Conclusions, with the exceptions for low value items being permitted on an item by item basis rather than applying to a whole class of inventories.
- 2.5 This approach did not receive support, and it was agreed that guidance would be developed for low value items based on materiality. As a consequence of this decision, the following amendments to the text of Section 13 have been made:
- A requirement to apply materiality when determining which items are of low value has been added (paragraph G13.6);
 - The permission to apply the low value permitted exceptions on an item by item basis has been replaced with a requirement to apply all exceptions to all items within a class of inventories, consistent with Section 23 *Revenue* (paragraph G13.7);
 - The Basis for Conclusions has been rewritten to reflect the approach adopted (paragraphs BC13.13–BC13.19, reproduced in Appendix A); and
 - A cross-reference to the Implementation Guidance in Section 23 has been added as Implementation Guidance in Section 13, to avoid duplication of a fairly lengthy piece of guidance (paragraph IG13.1).

Disclosures

- 2.6 ED 2 included two disclosure requirements in respect of donations in-kind received but not recognised as inventories on receipt. These covered donations where the NPO had elected to use a permitted exception to the normal recognition and measurement requirements, and donations which the NPO had not recognised because it was unable to reliably measure the donated items.



- 2.7 Section 23 includes similar disclosure requirements for donations in-kind. To ensure consistency between the sections, and to avoid duplication, the disclosure requirements in Section 13 have been replaced by a requirement to make the disclosures required by Section 23 (see paragraphs G13.28–G13.29).
- 2.8 A further permitted exception allows NPOs to immediately expense work in progress that comprises services to be provided for no or nominal consideration rather than recognising the work in progress as inventories. A specific disclosure requirement has been included in Section 13. This requires an NPO to disclose a description of the services to be provided and their significance to the NPO (see paragraph G13.30).

Question 1: Do TAG members support the amendments to Section 13 proposed by the Secretariat?

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Appendix A –

Responses to Exposure Draft 2

- BC13.13 Respondents to ED 2 generally supported the proposed exceptions for the reasons discussed above. Among those respondents who did not agree there was little consensus on a preferred alternative approach. For these reasons, the Secretariat has retained the permitted exceptions as set out in ED 2.
- BC13.14 Respondents, regardless of whether they supported the proposals or not, considered that guidance as to what constitutes a low value item was required for the purposes of applying the exceptions. Respondents also considered the phrase “other than non-current assets or high-value items” that is used in the exception for donated items for distribution or for the NPO’s own use, would be difficult to apply.
- BC13.15 As a consequence of this latter feedback, 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.
- BC13.16 With regards to low value items, some respondents 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 that is in this standard in the accompanying Basis for Conclusions. 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.
- BC13.17 This issue and the approach taken by the IASB in IFRS 16 was discussed with the Practitioners Advisory Group (PAG). PAG members indicated that a single value was unlikely to be appropriate, citing differences, for example, between both low income and high income countries. Some members considered that an indicative range could be used or benchmarked to a commonly available product. Other PAG members did not support the inclusion of any value in INPAG, whether that was a single figure or a range. These members considered that the advice on low value items should be based on materiality.
- BC13.18 TAG members agreed with those PAG members who supported guidance based on materiality. While members understood the benefits to NPOs of providing an amount in guidance, they did not consider this would be a workable approach in practice. TAG members did not consider that it would be possible to identify a range of values that would be appropriate for all NPOs in all jurisdictions. Nor did TAG members consider that regulators would necessarily be in a better position to supplement the guidance

on low value items with local guidance. In addition, values may become obsolete over time, leading to inconsistent approaches to updating the values.

- BC13.19 Consequently, TAG members agreed that guidance on low value items should be based on materiality. While TAG members accepted this might result in additional work for some NPOs, they considered that this approach would provide the most useful information. TAG members also noted that, after the initial assessment, annual updates to the materiality assessment would likely require less time. To support the application of materiality to this issue, additional guidance was developed.