

5.1 Inventories

- 10.1.2.103 It is considered that the impact of transition with regard to the change in measurement and acquisition on deferred settlement terms, will not apply to many inventories held by authorities.

It is expected that restatement of balances and transactions in relation to inventories will be rare. There are only three cases where restatement may be required (subject to materiality); these are cases on which the SORP was silent, and authorities may therefore have developed their own accounting policies or practices. The three cases are as follows:

- i) Where inventories were purchased, and the credit terms under which payment was to be made were unusually long.*
- ii) Where authorities received inventories without paying for them (or where only a nominal payment was received).*
- iii) Where authorities held inventories with the intention to pass on the items (or consume them in producing goods to be passed on), either for no charge or for a nominal charge.*

In all other cases, accounting for inventories under the Code is the same as the treatment required under the SORP, and no transition requirements will arise. Authorities will commonly hold inventories for use in the delivery of services. Examples include fuel for vehicles, salt for gritting roads and consumables in schools. Both the SORP and the Code require these inventories to be measured at the lower of cost and net realisable value, hence no transition requirements will arise. It is expected that, for most authorities, a review to confirm that no inventories fall into the three scenarios discussed above will be all that is required.

Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

- 10.1.2.104 The Code (following IFRS 1) requires local authorities to classify and account for inventories in their opening IFRS balance sheet (1 April 2009) in accordance with section 5.1 of the Code (see also IAS 2 and IPSAS 12). Accounting for Inventories following IAS 2 is a change of accounting policy that will require authorities to restate their opening balances in respect of Inventories. IPSAS 12 requires where inventories are acquired through a non-exchange transaction their cost is measured at their fair value as at the date of acquisition and where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost.

- 10.1.2.105 Where inventories are acquired through a non-exchange transaction (and held as at 31 March 2009) their carrying amount shall be adjusted to their fair value at the date of acquisition. Any previous adjustment to their carrying amount shall be reversed.

The fair value of inventories acquired through a non-exchange transaction would usually be the price at which the inventories are normally sold. Authorities may not have recognised the inventories at this value, either because they did not recognise the inventories on the balance sheet at all (where they were provided free of charge), or may have recognised them at a nominal amount (for example, where they were acquired for a nominal payment).

In these circumstances, authorities will need to restate the value of the inventories to their fair value. The corresponding entry will be to the Donated Inventories Account (see paragraph 5.1.2.8 of the Code). The entries required are as follows:

*Dr Inventories
Cr Donated Inventories Account*

With the value (or increase in value) of the inventories

- 10.1.2.106 Where inventories are provided at no charge or for a nominal charge (and held as at 31 March 2009) their carrying amount shall be adjusted to the lower of cost and current replacement cost. Any previous adjustment to their carrying amount shall be reversed.

Where authorities hold inventories that are to be used to provide services either by being given away or by being sold for a nominal charge, the Code requires their carrying amount to be the lower of cost and current replacement cost. Authorities may already be carrying such inventory on this basis, in which case no transitional requirements will arise. This is likely to be the case where the authority has a policy of carrying such inventories at cost, and there is no material difference between cost and current replacement cost (for example, recently purchased inventories).

In some cases, authorities might be carrying the inventories at cost, but this might be greater than the current replacement cost. In such cases, the carrying amount of the inventories would need to be adjusted to the current replacement cost. The entries required are as follows:

*Dr General Fund
Cr Inventories*

With the reduction in the carrying amount

Other authorities may have adopted a different approach. The SORP required inventories to be measured at lower of cost and net realisable value, and authorities may therefore have written down the value of the inventories to nil (or the nominal charge) prior to 31 March 2009. Where this is the case, authorities will need to restate the opening 1 April 2009 Balance Sheet to measure the inventories at the lower of cost or current replacement cost. The entries required are as follows:

*Dr Inventories
Cr General Fund*

With the reversal of any write-down that would not be required under the Code

- 10.1.2.107 Where inventories have been purchased on deferred settlement terms beyond normal credit terms (and held as at 31 March 2009) the carrying amount of the inventories shall be adjusted with the difference between the purchase price for normal credit terms and the amount paid. The resultant deferred debit (in effect the financing element of the arrangement) shall be written down from the initial period of the arrangement to 31 March 2009.

The SORP did not explicitly require authorities to separately account for the financing (interest) element where inventories were purchased on deferred settlement terms. It is therefore likely that some authorities will have accounted for the full payment as being the cost of the inventories. In such cases, the cost of the inventories should be reduced to the purchase price for normal credit terms.

Where payment has been made by 31 March 2009, the interest would (under the Code) have been charged to the Income and Expenditure Account, and should therefore be recognised in the General Fund. The entries required are as follows:

*Dr General Fund
Cr Inventories*

With the financing (interest) element of the payment

Where payment has not been made by 31 March 2009, the authority will need to recognise the interest chargeable up to 31 March 2009, and reduce the creditor recognised under the SORP (or recognise deferred interest) in respect of interest that relates to the period from 1 April 2009 to the payment date. The entries required are as follows:

*Dr General Fund
Cr Inventories*

With the financing (interest) element (up to 31 March 2009)

*Dr Creditors (or Deferred Interest)
Cr Inventories*

With the financing (interest) element (after 31 March 2009)

Authorities should note that additional interest will be recognised after 31 March 2009, up to the date that payment is made.

Step 2 - Restate Comparative Figures for 2009/10 (inventories held prior to 1 April 2009)

- 10.1.2.108 Following the restatement in step 1, where inventories are provided at no charge or for a nominal charge are still held at 31 March 2010, their carrying amount shall be adjusted to the lower of cost and current replacement cost (if required) as at that date. Any previous adjustment to their carrying amount shall be reversed.

As the carrying amount of the inventories was restated in Step 1, further adjustments will only be required where there has been a material movement in the value of the inventories. This may result in either a decrease in the carrying amount (where the current replacement cost is lower than the carrying amount) or an increase in the carrying amount (where the inventories were being carried at current replacement cost, as this was below cost, and where there has been a subsequent increase in the current replacement cost). The increase or decrease should be charged to the General Fund. The entries required are as follows:

*Dr / Cr General Fund (Service Revenue Account)
Cr / Dr Inventories*

With any decrease or increase in the carrying amount of the inventories

A worked example is shown as Example 1 in the spreadsheet

- 10.1.2.109 Following the restatement in step 1, where inventories have been purchased on deferred settlement terms beyond normal credit terms, are still held at 31 March 2010 and the period of credit covers 2009/10, the deferred debit relating to 2009/10 shall be written down and recognised as interest in Surplus or Deficit on provision of services.

Where the period of credit includes 2009/10, interest will be recognised in the Comprehensive Income and Expenditure Statement. This applies to all inventories, whether still recognised on the Balance Sheet at 31 March 2010 or not, as the creditor will need to be increased to match the payment due (or the deferred expenditure written down). The entries required are as follows:

*Dr General Fund (Financing and Investment Income and Expenditure)
Cr Creditors (or Deferred Interest)*

With the interest chargeable in respect of 2009/10

A worked example is shown as Example 2 in the spreadsheet

- 10.1.2.110 Following the restatement in step 1, where inventories acquired through a non-exchange transaction were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any corresponding credit to match the inventories sold or used shall be charged to Surplus or Deficit on provision of services. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

Paragraph 5.1.2.8 of the Code states that the cost of inventories acquired through a non-exchange transaction is deemed to be their fair value at the date of acquisition. Where the net realisable value (or current replacement cost if the inventories are to be provided at no charge or for a nominal charge) falls below the deemed cost, the carrying amount of the inventories should be adjusted in line with the guidance shown under paragraph 10.1.2.108 above.

Where inventories are sold or used in 2009/10, the carrying amount is charged to the relevant Service Revenue Account as an expense. Where the carrying amount has been restated in Step 1, the charge to the Service Revenue Account will need to be adjusted. The balance on the Donated Inventories Account (in respect of the specific inventories) will need to be credited to the Service Revenue Account as income. The entries required are as follows:

*Dr General Fund (Service Revenue Account)
Cr Inventories*

With the difference in the carrying amount of the inventories

*Dr Donated Inventories Account
Cr General Fund (Service Revenue Account)*

With the balance in respect of the inventories sold or used on the Donated Inventories Account

A worked example is shown as Example 3 in the spreadsheet.

- 10.1.2.111 Following the restatement in step 1, where inventories to be provided at no charge or for a nominal charge were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

Where inventories are sold or used in 2009/10, the carrying amount is charged to the relevant Service Revenue Account as an expense. Where the carrying amount has been restated in Step 1, the charge to the Service Revenue Account will need to be adjusted. The entries required are as follows:

*Dr General Fund (Service Revenue Account)
Cr Inventories*

With the difference in the carrying amount of the inventories

A worked example is shown as Example 4 in the spreadsheet.

If the inventories were acquired through a non-exchange transaction, a balance might exist on the Donated Inventories Account. Similarly, if the inventories were acquired on deferred purchase terms, interest may be outstanding. Entries in relation to these items are covered in the guidance under paragraphs 10.1.2.108 and 10.1.2.109 above.

Step 3 - Restate Comparative Figures for 2009/10 (inventories recognised in 2009/10)

The principles in Step 3 are the same as those discussed in Steps 1 and 2 above. The accounting entries are shown below, but the issues are not discussed further.

- 10.1.2.112 Where inventories acquired through a non-exchange transaction were recognised during 2009/10 and are still held at 31 March 2010, their carrying amount shall be adjusted to their fair value as at the date of acquisition. Any previous adjustment to their carrying amount shall be reversed.

The entries required are as follows:

*Dr Inventories
Cr Donated Inventories Account*

With the value (or increase in value) of the inventories

- 10.1.2.113 Where inventories to be provided at no charge or for a nominal charge were recognised during 2009/10 and are still held at 31 March 2010, their carrying

amount shall be adjusted to the lower of cost and current replacement cost as at that date. Any previous adjustment to their carrying amount shall be reversed.

The entries required are as follows:

Carried at cost under SORP, which is higher than the current replacement cost:

*Dr General Fund (Service Revenue Account)
Cr Inventories*

With the reduction in the carrying amount

Carrying amount written down to nil (or the nominal charge):

*Dr Inventories
Cr General Fund*

With the reversal of any write-down that would not be required under the Code

- 10.1.2.114 Where inventories that have been purchased on deferred settlement terms beyond normal credit terms, are held at 31 March 2010, the carrying amount of the inventories shall be adjusted with the difference between the purchase price for normal credit terms and the amount paid. The resultant deferred debit (in effect the financing element of the arrangement) shall be written down to reflect the period of credit covering 2009/10 and recognised as interest in the Surplus or Deficit on provision of services.

The entries required are as follows:

*Dr General Fund (Financing and Investment Income and Expenditure)
Cr Inventories*

With the financing (interest) element (relating to 2009/10)

*Dr Creditors (or Deferred Interest)
Cr Inventories*

With the financing (interest) element (relating to future years)

A worked example is shown as Example 5 in the spreadsheet.

- 10.1.2.115 Where inventories acquired through a non-exchange transaction recognised during 2009/10 were sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any corresponding credit to match the inventories sold or used shall be charged to Surplus or Deficit on provision of services. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

The entries required are as follows:

*Dr General Fund (Service Revenue Account)
Cr Inventories*

With the difference in the carrying amount of the inventories

*Dr Donated Inventories Account
Cr General Fund (Service Revenue Account)*

With the balance in respect of the inventories sold or used on the Donated Inventories Account

A worked example is shown as Example 6 in the spreadsheet.

- 10.1.2.116 Where inventories to be provided at no charge or for a nominal charge, were recognised during 2009/10 and sold or used during 2009/10, the carrying amount of the inventories shall be charged to Surplus or Deficit on provision of services as an expense. Any outstanding deferred debit associated with the inventories sold or used shall be written off to Surplus or Deficit on provision of services. Transactions in relation to the previous accounting treatment shall be reversed.

The entries required are as follows:

*Dr General Fund (Service Revenue Account)
Cr Inventories*

With the difference in the carrying amount of the inventories

A worked example is shown as Example 7 in the spreadsheet.