

# **Explanatory Statement**

**Accounting Standard AASB 2007-5**  
***Amendments to Australian Accounting***  
***Standard – Inventories Held for***  
***Distribution by Not-for-Profit Entities***

**May 2007**



**Australian Government**

---

**Australian Accounting  
Standards Board**

## **EXPLANATORY STATEMENT**

### **Adoption of Australian equivalents to IFRSs**

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the 'foundation' Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

## **Reasons for Issuing AASB 2007-5**

AASB 2007-5 makes amendments to AASB 102 *Inventories* to improve the accounting treatment of inventories held for distribution by not-for-profit entities.

## **Main Features of AASB 2007-5**

### **Application Date**

AASB 2007-5 is applicable to annual reporting periods beginning on or after 1 July 2007, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

### **Main Requirements**

Paragraph Aus9.1 of AASB 102 issued in July 2004 requires inventories held for distribution by not-for-profit entities to be measured at the lower of cost and current replacement cost. This Standard changes paragraph Aus9.1 to require inventories held for distribution by not-for-profit entities to be measured at cost, adjusted when applicable for any loss of service potential. An explanatory paragraph Aus9.2 is added to make it clear that identifying and measuring a loss of service potential based on the existence of a current replacement cost that is lower than cost remains an appropriate approach for many entities.

## **Consultation Prior to Issuing AASB 2007-5**

The AASB issued Exposure Draft ED 154 *Proposed Amendments to AASB 102 – Inventories Held for Distribution by Not-for-Profit Entities* in March 2007, which invited comments from Australian constituents on proposed amendments to AASB 102. The AASB received twelve submissions on ED 154 which were broadly supportive of the proposals.

A Regulatory Impact Statement has not been prepared in connection with the issue of AASB 2007-5 as the amendments made do not have a substantial direct or indirect impact on business or competition, are of a minor or machinery nature or clarify existing requirements.