STAFF PAPER

June 2021

IASB® meeting

Project	Costs Necessary to Sell Inventories (IAS 2)		
Paper topic	Finalisation of agenda decision		
CONTACT	Stefano Tampubolon	stampubolon@ifrs.org	+44 (0) 20 7246 6410
	Gustavo Olinda	golinda@ifrs.org	+44 (0) 20 7246 6481

Introduction and purpose

1. At its June 2021 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission on IAS 2 *Inventories*. The Committee instead decided to finalise an agenda decision that would include material explaining how the applicable principles and requirements in IFRS Standards apply to the fact pattern described in the submission.

2. The purpose of this meeting is to ask Board members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. The Committee received a submission about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the submission asked whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.

4. In February 2021, the Committee discussed the submission and decided to publish a tentative agenda decision, having concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether the estimated costs necessary to make the sale are limited to incremental costs when determining the net realisable value of inventories.

Overview of the feedback on the tentative agenda decision

5. The Committee received 21 comment letters on its tentative agenda decision by the comment letter deadline.

6. Most respondents agreed with the Committee's analysis and conclusions in the tentative agenda decision—that is, they agreed that IAS 2 does not allow an entity to limit its estimate of the costs necessary to make the sale to only such costs that are incremental.

7. Some respondents:

   (a) disagreed with the Committee's analysis and conclusions and said that, in their view, it would also be acceptable for an entity to include only incremental costs in their estimate of costs necessary to make the sale—particularly by considering requirements in other IFRS Standards.

   (b) suggested not finalising the tentative agenda decision. These respondents said:

      (i) the agenda decision, if finalised, could disrupt the established practice in some jurisdictions of including only incremental costs when estimating costs necessary to make the sale. Changing this accounting policy could be costly and complex.

      (ii) IAS 2 provides an inadequate basis for an entity to estimate the costs necessary to make the sale. Finalising the agenda decision without adding requirements on how to make such an estimate would increase, rather than reduce, diversity. These respondents suggested adding requirements or providing guidance on how to estimate the costs necessary to make the sale.[1]

   (c) expressed concerns about the use of the term 'incremental costs' in the tentative agenda decision.

[1] Some respondents who agreed with the Committee's analysis and conclusions also suggested adding requirements or providing guidance on how to estimate the costs necessary to make the sale.

8. The Committee considered this feedback and confirmed the technical analysis and conclusions in the tentative agenda decision.[2] The Committee made no changes to the wording of the tentative agenda decision.

9. Nine of 14 Committee members voted to finalise the agenda decision.

10. Appendix A to this paper includes the wording of the agenda decision, approved by the Committee.

Questions for the Board
Do Board members object to the Committee's: (a) decision that a standard-setting project should not be added to the work plan; and (b) conclusion that the agenda decision does not add or change requirements in IFRS Standards?

[2] Agenda Paper 2 to the Committee's June 2021 meeting analyses comments received.

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its June 2021 meeting.

Costs Necessary to Sell Inventories (IAS 2 *Inventories*)

The Committee received a request about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the request asked whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.

Paragraph 6 of IAS 2 defines net realisable value as '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'. Paragraphs 28–33 of IAS 2 include further requirements about how an entity estimates the net realisable value of inventories. Those paragraphs do not identify which specific costs are 'necessary to make the sale' of inventories. However, paragraph 28 of IAS 2 describes the objective of writing inventories down to their net realisable value—that objective is to avoid inventories being carried 'in excess of amounts expected to be realised from their sale'.

The Committee observed that, when determining the net realisable value of inventories, IAS 2 requires an entity to estimate the costs necessary to make the sale. This requirement does not allow an entity to limit such costs to only those that are incremental, thereby potentially excluding costs the entity must incur to sell its inventories but that are not incremental to a particular sale. Including only incremental costs could fail to achieve the objective set out in paragraph 28 of IAS 2.

The Committee concluded that, when determining the net realisable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business. An entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine whether the estimated costs necessary to make the sale are limited to incremental costs when determining the net realisable value of inventories. Consequently, the Committee decided not to add a standard-setting project to the work plan.