STAFF PAPER

June 2021

IFRS® Interpretations Committee meeting

Project	**Costs Necessary to Sell Inventories (IAS 2)**
Paper topic	Comment letters

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Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Costs Necessary to Sell Inventories (IAS 2)' published in February 2021.

Name: Sounder Rajan SP

Subject: Comments on Tentative Agenda Decision and comment letters: Costs Necessary to Sell Inventories (IAS 2)

1) I welcome the opportunity provided for sending comments on Tentative Agenda Decision and comment letters: Costs Necessary to Sell Inventories (IAS 2)
2) I support the International Accounting Standard's Board to clarify IAS 2 in respect of estimated costs necessary to make the sale.

Diversity and concerns:-

- ✓ Amendments as currently proposed because they raise a number of related issues and would not necessarily reduce diversity in practice. I believe that additional guidance should be provided on how to distinguish the costs before sold and cost incurred to promote sales, make sales.

- ✓ Guidance required on what costs should be considered for arriving at estimated cost to sell, whether to consider expenses like freight outward, probable discounts, sales team cost allocation, margin of broking traders etc.,

- ✓ The proposed amendments state that 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. However, the proposals do not provide any guidance on how to distinguish those costs from other costs incurred for returns & reshipment, sales team cost etc.,. Also guidance for how to allocate cost is required.

- ✓ I believe that measuring those costs would involve much more estimation and judgment. Entities would face challenges in allocating the costs between items sold, items not sold, In addition, allocating indirect personnel , product reshipment costs is also complicated and difficult for an entity and lots of judgment is involved.

Conclusion:-

- ✓ Additional guidance should be provided on how to distinguish the costs relating to items sold and cost incurred to promote sales, make sales.
- ✓ Guidance required on costs that should be considered for arriving at estimated cost to sell, whether to consider expenses like freight outward, probable discounts, sales team cost allocation etc.,

I concur that views stated above are my individual opinion and not of any organization where I am working or not of any committee or organization I am connect with.

Regards

Sounder Rajan

April 14, 2021

Emily Pierce
Metropolitan State University
epierc10@msudenver.edu

RE: Comments On Proposed Tentative Decision on Costs Necessary to Sell Inventories (IAS 2)

Dear Committee,

I have reviewed the proposed tentative decision on costs necessary to sell inventories and agree with the committee's decision in recognition for the need of clarification on IAS 2. Entities need the ability to be able to distinguish when all costs or incremental costs should be accounted for inventories for sale and reaching net realizable value.

Within the scope of IAS 2 there is a lack of identification of the specific costs that are 'necessary to make the sale' of inventories. The standard does not allow an entity to limit such costs to only those that are incremental thus, could result in the exclusion of costs the entity must incur to sell its inventories but that are not incremental to a particular sale.

The flexibility within entities that is enabled by the clarification of the proposed rule will encourage entities to implement their own standard of procedure for judgement of costs and apply it to their situation. Therefore, not adding a standard-setting project to the work plan is beneficial. However, there is faults in the matters of specifications that will still be questioned if an entity does not take action in preparing a standard procedure for judgements.

Reference to IFRS Conceptual Framework, Presentation and Disclosure section, provides:

> To facilitate effective communication of information in financial statements, when developing presentation and disclosure requirements in Standards a balance is needed between: (a) giving entities the flexibility to provide relevant information that faithfully represents the entity's assets, liabilities, equity, income and expenses; and (b) requiring information that is comparable, both from period to period for a reporting entity and in a single reporting period across entities.

Thus, no further specifications are provided rather the reinforcement of an entities ability to decide on allocation of cost on situational-basis.

Additional reference can be made from IFRS Conceptual Framework, Classification section:

> Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics

include—but are not limited to—the nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

The objective statement relates to IAS 2 paragraph 28, which demonstrated the conflict of an entity's ability to estimate the costs necessary to make the sale at full-scale. Hence, it is important that while entities have the flexibility in their judgement, they can not only include incremental costs as it would disobey conceptual framework and objective of paragraph 28 set in standard.

Further comparison to the how inventory valuation is taken under US GAAP should be considered and outlined.

Overall, the change will lead to further clarification and understanding of sale of inventories that benefits entities by improving their ability to determine which costs to account for. Such change will make businesses efficient in allocation of costs and correlate to increased accuracy of record of sales. However, additional consideration towards specifications should be set and discussed in the meeting about not adding a standard-setting project to the work plan.

Sincerely,

Emily Pierce

March 19, 2021

International Accounting Standards Board
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Committee Members:

Consejo Mexicano de Normas de Información Financiera (CINIF), the accounting standard setting body in Mexico, welcomes the opportunity to submit its comments on the Tentative Agenda Decision of the IFRS Interpretations Committee (the Committee) on *Costs Necessary to Sell Inventories* (the TAD), issued for comments in February 2021. Set forth below you will find our comments on the conclusions reached in the TAD.

Overall comments

We agree with the conclusions reached by the Committee in the TAD, both with respect to the technical conclusions and the decision not to add a standard-setting project to the work plan of the IASB.

Specific comments

The Committee received a request about the costs an entity includes as the *estimated costs necessary to make the sale* when determining the net realizable 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.

We agree with the conclusion of the Committee that the principles and requirements in IFRS standards provide an adequate basis for an entity to conclude that the estimated costs necessary to make the sale include all costs and are not limited to incremental costs when determining the net realizable value of inventories.

We believe the definition of net realizable value in paragraph 6 of IAS 2, *Inventories*, makes this very clear when defining net realizable 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. We see no basis for limiting such costs to incremental costs.

Should you require additional information on our comments listed above, please contact William A. Biese at (52) 55-5433-3070 or me at (52) 55-5403-8309 or by e-mail at wbiese@cinif.org.mx or egarcia@cinif.org.mx, respectively.

Sincerely,

C.P.C. Elsa Beatriz García Bojorges
President of the Mexican Financial Reporting Standards Board
Consejo Mexicano de Normas de Información Financiera (CINIF)

Cc: Mr. Tadeu Cendon

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.

My comment: I agree with the committees view that the principles and requirements of paragraph 28 of IAS 2 do provide an adequate basis for **Measurement of inventories at the lower of cost and net realisable value (*Net realisable value* is 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).**

However, it would be helpful if illustrative wording, similar to that found in paragraphs 11 & 12 be included after paragraph 28, to give **examples, as follows:**

1. **estimated costs of completion may comprise ……xxxxx…………………..; and**
2. **estimated costs necessary to make the sale may include …………xxxx……………………**

Costs of purchase

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

PETROBRAS

Rio de Janeiro, April 07, 2021

CONTRIB 0016/2021

Ms. Lloyd, Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, United Kingdom

Subject: Costs Necessary to Sell Inventories (IAS 2)

Reference: Tentative Agenda Decision (TAD)

Dear Ms. Lloyd,

Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's Tentative Agenda Decision – Costs Necessary to Sell Inventories (IAS 2 Inventories). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Committee's activities.

We have some concerns regarding the use of the term 'incremental cost' in the Tentative Agenda Decision. Such term is neither defined in IAS 2, which is the Standard applicable to the request submitted to the Committee, nor clarified in the Tentative Agenda Decision.

Furthermore, the February 2021 Agenda Paper 3 ***considers*** the term 'additional costs', as asked by the submitter to the Committee, to have the same meaning as the term 'incremental costs' used in other IFRS Standards, for example, as part of the definitions of 'transaction costs' in IFRS 9 *Financial Instruments*, 'incremental costs of obtaining a contract' in IFRS 15 *Revenue from Contracts with Customers* and 'costs of disposal' in IAS 36 *Impairment of Assets*. [emphasis added]

In general, we understand that agenda decisions should not add terms defined in other IFRS Standards but that are not defined in the IFRS Standard subject to the analysis. Such addition may suggest that an analogy with other Standards, in which the term is defined, should be made. As a result, adding such terms may be viewed as a change or an additional requirement in IFRS Standards.

In this sense, we respectfully suggest replacing the term 'incremental cost' with more suitable ones in the final agenda decision. Should the Committee agree with our proposal, the final Agenda Decision would be as follows (proposed text to be deleted is struck through and new proposed text is underlined):

> 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~~ additional costs required by the particular conditions of the inventories to make 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~~ other than the estimated costs necessary to make the sale, thereby potentially excluding costs the entity must incur to sell its inventories ~~but that are not incremental to a particular sale~~. Such exclusion ~~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~~ some particular costs when determining the net realisable value of inventories. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

We believe these minor changes would avoid potential for confusion and unintended consequences.

It is also worth noting that the paragraphs BCZ4 and BCZ37-BCZ39 in IAS 36 present an analysis made by the IASC regarding the interplay between the terms ‘net selling price’ and ‘recoverable amount’, as used in that standard, and ‘net realisable value’ as defined in IAS 2. More specifically, paragraph BCZ38 provides a list of the factors that based the IASC’s decision to not use the term ‘net realisable value’ as recoverable amount. Such list does not include cost as a factor of difference. Moreover, paragraph BCZ39 sets out that in most cases, net selling price and net realisable value will be similar.

The aforementioned literature provides a possibility to draw an analogy between ‘costs of disposal’, as defined in IAS 36, and ‘estimated costs necessary to make the sale’, as set out in IAS 2. In this sense, we believe such particular matter should be referred to the Board.

If you have any questions in relation to the content of this letter, please do not hesitate to contact us (cc-contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves
Rodrigo Araujo Alves
Chief Accountant and Tax Officer

April 11, 2021

International Accounting standard Board
IFRS Interpretation committee
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7 West ferry Circus
Canary Wharf, London E14 4HD
United Kingdom

Dear Committee Members,

Subject : Comment on IFRS Interpretations Committee Tentative Agenda Decision (TAD) on Costs necessary to sell inventories (IAS 2)

I welcome the opportunity to provide comments on the above Tentative Agenda Discussion (TAD) issued by IFRS interpretation committee.

I agree with the committee's decision for not adding a standard setting project to the work plan and believe that principal and requirements in IFRS standard provide an adequate basis for an entity to estimate the cost necessary to make the sale.

Para 6 of IAS 2 - Net realisable value *is 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.*

As noted down in the above TAD, 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.

Concerns and observation, which I urge the committee to consider in its meeting:

- There is lack of clarity on the estimated costs '*necessary to make the sale'* and the term is not specifically defined in the standard which may result in exclusion of costs that are not incremental to the sale. Example: Allocated sales overheads.

- Reference to objective paragraph of IAS 2:

  The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. ***This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value.*** *It also provides guidance on the cost formulas that are used to assign costs to inventories.*

  Since standard's objective is to provide guidance on the determination of cost and write down at net realisable value, the committee should set out additional consideration in its discussion in this aspect.

- In the case of damaged, near to expiry inventory it may have to be sold at excessive discounts or may require the transportation to the far ended depots, these costs estimation may involve stringent management judgement and estimation.

- Cost to sale for the new product line may highly judgemental and entity's experience with different product may not result in best estimation.

The specific guidance for the cost estimation may not be suitable for all industry and for the products in the different life cycles. Entity should design its methods and policy for valuation of inventories and estimation of costs necessary to make the sale, these policies be in-principal aligned with the IAS 2 and deal with entity's specific nature of the inventory. These policies should be followed consistently by the entity.

This will improve flexibility for the entity and provide better industry and product line specific estimation methods. These methods will evolve over time and provide consistency in the financial reporting.

Overall, I agree with committee's decision of not adding a standard setting to its work plan, however I urge the committee to consider the specific matters and provide additional guidance.

The views and opinions expressed above are my personal views and does not have any bearing with the organisation I work nor the Institute I am member of.

Kind Regards,

CA Vasu Goyal

India

goyalvasu94@gmail.com

Australian Government
Australian Accounting Standards Board

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Ms Sue Lloyd
Chair
IFRS Interpretations Committee
IFRS Foundation
7 Westferry Circus
Canary Wharf London E14 4HD
UNITED KINGDOM

13 April 2021

Dear Sue,

Tentative Agenda Decision *Costs Necessary to Sell Inventories (IAS 2)*

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IFRS Interpretations Committee's (the Committee) tentative agenda decision (TAD) on *Costs Necessary to Sell Inventories (IAS 2)*.

In formulating these comments, the views of Australian stakeholders were sought through limited outreach activities with key stakeholders, such as auditors.

The AASB acknowledges the efforts of the Committee. However, during our outreach activities we heard mixed views about the conclusion reached in this TAD. We have outlined the primary concerns we heard from our stakeholders below.

It is our understanding that the conclusion reached in the TAD is inconsistent with the predominant practice in Australia when estimating net realisable value (NRV). That is, when determining the estimated costs necessary to make a sale as part of the NRV estimation, we understand that entities presently include only the estimated direct and incremental costs necessary to make a sale.

While we acknowledge that IAS 2 is not sufficiently clear on which costs should be included in NRV estimation, we were not made aware of any significant diversity in practice in Australia. A number of stakeholders expressed concern that if the TAD is finalised as drafted, entities may be required to include additional costs in their NRV estimations (i.e. they may need to include costs that they must incur, but that are not incremental to a particular sale) and that this would lead to a change in practice for many entities. Feedback further suggested that such a change is likely to give rise to inconsistency in accounting outcomes due to the high level of judgement required to determine which costs are necessary to make a sale, as this judgement would be made based on the specific facts and circumstances of each situation. The exercise of this judgement may result in diversity in practice.

A number of stakeholders were also concerned that if entities were required to change their current practice and consider costs they must incur, but that are not incremental to a particular sale in their NRV estimation, they may need to change their accounting systems and processes. As we have not been made aware of significant diversity in practice, it may be that any costs incurred to make changes to systems and process as a result of the TAD may exceed any benefits from the change.

Finally, feedback from some stakeholders has suggested the TAD as currently drafted may be inconsistent with the principles in other IFRS Standards. For example:

- We acknowledge the Committee's consideration that the concept of 'costs to sell' in IAS 41 *Agriculture* and 'costs necessary to make the sale' in IAS 2 are not the same and that IAS 41 includes requirements that were designed to address the specific characteristics of agricultural activity. However, the fair value less costs to sell of agricultural produce that is to be sold is subsequently considered cost in applying IAS 2. Therefore, the TAD may give rise to a 'day 2 loss' as an entity that is required to apply IAS 2 to the subsequent measurement of their agriculture assets may need to include additional costs in their NRV estimation.
- The conclusion in the TAD is inconsistent with the principles in amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* from May 2020. In accordance with IAS 37 'costs to fulfil a contract' comprise costs that relate directly to fulfilling contracts (i.e. incremental costs and an allocation of other costs that relate directly to fulfilling contracts). However, the TAD appears to conclude that in estimating NRV, entities would need to consider costs more broadly than only those costs that are directly related. We acknowledge however that the Committee considered the inclusion of all costs and not only those that are incremental in drafting the TAD.

Overall, the AASB heard mixed views about the conclusion in the TAD. Therefore, we suggest that the Committee consider whether the concerns outlined above are consistent with other jurisdictions and if so, reconsider the conclusion in the TAD.

If you have any questions regarding this letter, please contact me or Kimberley Carney, Senior Manager (kcarney@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall
AASB Chair

Accounting Standards Board of Japan (ASBJ)
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13 April 2021

Ms. Sue Lloyd
Chair of the IFRS Interpretations Committee
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Columbus Building, 7 Westferry Circus
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United Kingdom

Comments on the Tentative Agenda Decision Relating to Costs Necessary to Sell Inventories (IAS 2 Inventories)

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to comment on the IFRS Interpretation Committee (the "Committee")'s tentative agenda decision relating to "Costs Necessary to Sell Inventories (IAS 2 *Inventories*)" in the February 2021 IFRIC Update.

2. We do not support the issuance of this tentative agenda decision for the following reasons:

   (a) As noted by IASB staff, IAS 2 does not identify which specific costs are 'necessary to make the sale' of inventories, and as a result, diversity in views exists. Including non-incremental costs in 'costs necessary to make the sale,' simply because there is no specific guidance nor basis in IAS 2 for including incremental only costs 'necessary to make the sale,' is inconsistent with the conclusion of the tentative agenda decision which states that the principles and requirements in IFRS Standards provide an adequate basis.

   (b) Although the tentative agenda decision concludes that an entity uses its judgement to determine which costs, including non-incremental costs, are necessary to make the sale considering its specific facts and circumstances, the tentative agenda decision does not provide specific guidance for determining the costs that should be considered as 'costs necessary to make the sale.' Accordingly, the issuance of this tentative agenda decision would not necessarily resolve the diversity in views regarding the ‘costs necessary to make the sale’.

(c) The tentative agenda decision particularly rejects the notion of limiting ‘costs necessary to make the sale’ to incremental costs. Our understanding is that there is a considerable number of entities that have adopted the notion of limiting ‘costs necessary to make the sale’ to incremental costs. However, IAS 2 nor the tentative agenda decision does not clearly prescribe which costs other than incremental costs should be included in ‘costs necessary to make the sale’. Because it is not easy to determine the costs other than incremental costs in terms of identifying which costs to include and how to allocate costs that relate to multiple items, requiring an entity to determine the ‘costs necessary to make the sale’ without specific guidance is likely to cause confusion in practice. Therefore, we believe that the tentative agenda decision should not be issued in its current form.

3. In our view, the principles and requirements of IAS 2 do not provide an adequate basis for addressing this issue. If the IASB were to address this issue, the IASB should consider adding this issue on its agenda as a standard-setting project in accordance with paragraph 5.16 of the Due Process Handbook.

4. Because the agenda decision is likely to lead to changes in accounting for a considerable number of entities and is likely to cause confusion in practice, we believe that this issue should not be concluded hastily through the issuance of an agenda decision. We note that some are asking for aligning the definition of ‘cost’ across IFRS Standards. If the IASB were to address this issue, we think that it would be necessary to sufficiently discuss the scope of standard-setting project, that is, whether or not the project should address only the cost of inventories.

5. We hope that our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Atsushi Kogasaka
Chair

Accounting Standards Board of Japan

Building a better
working world

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INVESTOR IN PEOPLE

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13 April 2021

Dear IFRS Interpretations Committee members,

Invitation to Comment - Tentative Agenda Decision (TAD): Costs Necessary to Sell Inventories (IAS 2 *Inventories*)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above TAD of the IFRS Interpretations Committee (the Committee) published in the February 2021 *IFRIC Update*.

The Committee discussed the question whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale when determining the net realisable value (NRV) of inventories in accordance with IAS 2.

We agree with the Committee's conclusion that an entity should not limit such costs to only those that are incremental, <u>if doing so</u> would result in the exclusion of costs the entity must incur to sell its inventory. We note that 'incremental' is defined in other standards (e.g., IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*). However, we recognise that the Committee did not go further and define incremental in the context of IAS 2. We agree that an entity may need to use judgement to determine the appropriate costs to include, considering the specific facts and circumstances, including the nature of inventories, because IAS 2 does not specify which costs are necessary to sell inventories when determining NRV. In applying that judgement, we observe that incremental costs are often the starting point and an entity has to decide whether, using its judgement, taking into consideration all relevant facts and circumstances, additional costs need to be included. For entities that decide to include additional costs, we would observe a range of possibilities, from direct costs at the point of sale to full costs. Within that range, direct costs at point of sale may be quite similar to incremental costs.

However, without further defining selling costs, we do not think it would be possible to limit what is appropriate as IAS 2 does not specify which costs must be included. Consequently, entities may appropriately reach different conclusions about which costs to include, and we think this should be explicitly stated. In addition, we recommend that the Committee revises the second sentence of the third paragraph to state, "This requirement does not allow an entity to limit such costs to only those that are incremental if doing so would exclude other costs the entity must incur to sell its inventory."

We support the Committee's tentative decision not to take the specific request onto its agenda. However, we believe that the wording suggestions above are necessary, in recognition of the fact that IAS 2 does not specify the costs that are necessary to make the sale.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +31 88 407 5035.

Yours faithfully

Ernst + Young Global Limited

Ms Sue Lloyd
Chair
IFRS interpretations committee
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Canary Wharf
London E14 4HD
United Kingdom

12 April 2021

Dear Sue,

Tentative Agenda Decision (TAD): Costs Necessary to Sell Inventories (IAS 2)

We are responding to your invitation to comment on the tentative agenda decision - Costs Necessary to Sell Inventories (IAS 2) - published in February 2021, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the tentative agenda decision. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In general we support the conclusions reached in the tentative agenda decision. In addition we have some suggestions:

1) The term 'incremental costs' is not defined in the TAD which may lead to different interpretations. We recommend the following edits to clarify the Committee's conclusions:

> *"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* ***as defined in IFRS 15****, thereby potentially excluding* ***other*** *costs* ***necessary to make the sale*** *~~the entity must incur to sell its inventories but~~ that are not incremental to a particular sale. Including only incremental costs* ***as defined in IFRS 15*** *could* ***in some cases*** *fail to achieve the objective set out in paragraph 28 of IAS 2."*

2) We believe it could be helpful to emphasise in the TAD that the judgement made in arriving at the necessary costs to sell could be a significant judgement. Where this is

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the case it should be disclosed under paragraph 122 of IAS 1 Presentation of Financial Statements.

3) We also wanted to bring to the Committee's attention the interaction between IAS 41 and IAS 2. IAS 2 requires agricultural produce after harvest to be measured at the lower of cost (being fair value less incremental cost to sell) and net realisable value (being expected sales price less all costs necessary to make the sale) which could lead to a day one loss. Were the Committee comfortable with this outcome?

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney PwC Head of Reporting and Chief Accountant (henry.daubeney@pwc.com) or Gary Berchowitz (gary.x.berchowitz@pwc.com).

Yours Sincerely

PricewaterhouseCoopers

PricewaterhouseCoopers International Limited
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SOCPA
الهيئة السعودية
للمراجعين والمحاسبين

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

April 13, 2021

IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Costs Necessary to Sell Inventories (IAS 2)

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Costs Necessary to Sell Inventories (IAS 2).*

We are of the view that IFRS Standards complement each other as they are principle based standards. This is also supported by the requirement stated in IAS 8, paragraph 11, that "…management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRSs dealing with similar and related issues; …". This equally applies to accounting treatments and term definitions.

Therefore, when a term is defined in a standard and appears in another without a definition, the definition in the former should apply. '*Cost to sell*' and '*Cost of disposal*' (which are arguably synonyms to '*Costs necessary to make the sale*') are defined in other IFRSs. Both IFRS 5 and IAS 41 define 'cost to sell' to be "the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense". Similarly, IAS 36 defines 'cost of disposal' to be "incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense". Accordingly, we believe that the definition of '*cost necessary to make the sale*' in IAS 2 should be defined in the same way as similar terms in other standards.

With the absence of a specific definition of 'cost necessary to make the sale' in IAS 2, we do not see any basis for the Committee inference that the requirement of IAS 2 "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" and the Committee conclusion that "including only incremental costs could fail to achieve the objective set out in paragraph 28 of IAS 2".

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Secretary General

April 12, 2021

Ms Sue Lloyd,
Chair, IFRS Interpretations Committee,
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms Sue,

Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee on Costs Necessary to Sell Inventories (IAS 2)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decisions of IFRS Interpretations Committee (IFRS IC).

In view of the objective stated in paragraph 28 of IAS 2 that asset should not be carried in excess of amounts expected to be realised from their sale or use, we agree with the decision of the IFRS IC that all costs necessary to make the sale should be considered when determining the net realisable value of inventories. It is appropriate in view of the fact that IAS 2 does not specifically require an entity to limit such costs to only incremental costs. However, there is practical difficulty in allocating certain costs that are although necessary to make sale but are not incremental in nature. In such cases, the cost of allocation may outweigh benefits. Therefore, this aspect needs consideration.

Further, it may be mentioned that IAS 2 does not provide guidance as to what type of costs can be considered as ‘costs necessary to make the sale’ of inventories. Therefore, we request that guidance in this regard may be provided by adding suitable examples.

Our comments are based on the deliberations held at the meeting of the Accounting Standards Board.

With kind regards,

CA. M.P. Vijay Kumar
Chairman
Accounting Standards Board
Institute of Chartered Accountants of India

Think Ahead ACCA

Tentative agenda decisions on inventories and the going concern basis

Tentative agenda decisions issued for comment by the IFRS Interpretations Committee in February 2021

Comments from ACCA
April 2021

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 227,000 members and over 544,000 students in 176 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 110 offices and centres and 7,571 Approved Employers worldwide, who provide high standards of employee learning and development.

Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence. More information is here: http://www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

Richard Martin
Head of Corporate Reporting
richard.martin@accaglobal.com
+44 (0)7802620065

ACCA'S VIEWS

ACCA welcomes the opportunity to provide views in response to the tentative agenda decisions on the net realisable value of inventories and on the preparation of financial statements when the going concern assumption cannot be supported. This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting.

We agree with the tentative decision that no interpretation or standard setting is needed in relation to the costs necessary to sell inventories. The definition of net realisable value in IAS2.6 and the standard's explanation of costs make it clear that all costs are to be included and not just incremental costs.

We agree with the interpretation of IAS1 that financial statements cannot be prepared on a going concern basis if that is not justified at the time of issue. In carrying out the assessment, consideration is required of conditions and events as a minimum of twelve months from the reporting period end. In response to Q1 it is clear that if within that 12 months the going concern basis cannot be used then that must apply to any financial statements issued. There may be, perhaps exceptional, cases when several years of financial statements have not been issued, covering periods when the reporting entity would have been judged a going concern. In such cases restating these financial statements disapplying the going concern basis might be difficult to achieve in practical terms and not provide users with useful information.

In response to Q2 on restating comparative figures in sets of financial statements when the going concern basis can no longer be applied, our view is that this should not be required as it would not provide useful information to the users.

MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

14 April 2021

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions:

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

(b) Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)

We agree with the Interpretations Committee's reasons set out in the respective Tentative Agenda Decisions for not adding these items onto its agenda.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

TAN BEE LENG
Executive Director

April 14, 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Members of IFRS Interpretation Committee,

Re : Tentative Agenda Decisions – Costs Necessary to Sell Inventories

We welcome the opportunity to provide our comments on the Tentative Agenda Decision - "Costs Necessary to Sell Inventories".

1. We agree with the following conclusion in the TAD of the IFRS Interpretation Committee basically as far as we read the current requirements of IAS2.

   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.

2. However we believe that the current requirements of IAS2 for net realisable value is not clear on the following points.
   (a) Objective of net realisable value
   (b) Relationship of accounting unit for net realisable value and estimated costs necessary to make the sale
   (c) Definition of estimated selling price in the ordinary course of business

   We propose that the IFRS Interpretation Committee should develop an IFRIC interpretation for following reasoning.

Objective of Net Realisable Value

3. Paragraph 28 of IAS2 stipulates that "the practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realised from their sale or use". This objective for net realisable value is only the practical view rather than conceptual or theoretical view. Therefore we believe that the objective for net relisable value of IAS2 does not make clear conceptually what should be reflected faithfully by using net realisable value.

4. We propose that the IFRS Interpretation Committee should develop an IFRIC interpretation on that point in accordance with paragraph 5.18 of Due Process Handbook.

Relationship of Accounting Unit for Net Realisable Value and Estimated Costs Necessary to Make the Sale

5. We note paragraph 29 of IAS2 requires judgement to determine the accounting unit for net realisable value by stipulating as follows.

   Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment.

6. In short, according to IAS2, accounting unit for net realisable value is either by item or group similar or related items. We are not convinced whether the selection of accounting unit for net realisable value gives rise to this issue of either including all costs or only incremental cost only by judging from the current requirements of IAS2.

7. However if the entity determine the accounting unit as group similar or related items, we think there might be cases it is not appropriate for including only incremental cost in the light of objective of net realisable value of IAS2. Therefore we propose that the IFRS Interpretation Committee should develop an IFRIC interpretation on that point in accordance with paragraph

5.18 of Due Process Handbook.

Definition of Estimated Selling Price in the Ordinary Course of Business

8. The net realisable value is defined 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" in paragraph 6 of IAS2. However we noted that the estimated selling price are not defined and there are only scarce guidance for the estimated selling price in IAS2.

9. On the other side, the IASB developed IFRS15 " Revenue from Contracts with Customers" in 2014. IFRS15 defines "customer" and "transaction price" as follows.

   "customer" - *A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration*
   "transaction price" - *The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.*

   And also IFRS15 provides a lot of guidance on the estimation of transaction price.

10. We are concerned the potential possibility that the IAS2 is too old standard for lack of guidance on the estimated selling price. It gives rise to question[1] whether the entity might or should use the guidance on transaction price in IFRS15 when the entity determine the estimated selling price in net realisable value of IAS2. Therefore we propose that the IFRS Interpretation Committee should develop an IFRIC interpretation on that point in accordance with paragraph 5.18 of Due Process Handbook.

We hope our comments will contribute to the forthcoming deliberations in the meeting of IFRS Interpretation Committee. Please feel free to contact us if you have any questions with respect to this letter.

Yours sincerely,

Masahiro Hoshino

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[1] For reference, as similar circumstance or situation, the IFRS Interpretation Committee decided to apply the requirements in IFRS15 with the purpose of responding positively for the issue on how the customer account for the configuration or customisation costs if an intangible asset is not recognized at 2021 March meeting.

Córdoba (SPAIN) April, 14th 2021

Dear members of the International Accounting Standards Board,

We are pleased to respond to your invitation to comment on *Tentative Agenda Decision and comment letters: Costs necessary to Sell Inventories.* We are faculty members of the Department of Financial Economics and Accounting at Universidad Loyola Andalucía (Spain). We have the following specific comments on the tentative agenda decision:

IAS 2.7 points out that *Net realizable value refers to the net amount that an entity expects to be realized from the sale of inventory in the ordinary course of business*. *The estimated costs to be incurred to make the sale* is not defined in the standard itself, but IAS2.28 asserts that *the practice of writing inventories down below cost to net realizable value is consistent with the view that assets should not be carried in excess of amounts expected to be realized from their sale or use*.

The definition of the cost of disposal of an asset, for the same purposes as described in IAS 2.28, but with respect to an operating non-current asset (for instance PPE) is provided by IAS 36.6: *Costs of disposal are **incremental costs** directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense*. IFRS defined terms use similar definition for costs to sell: *The **incremental costs** directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.* IAS 2.7 notes that ***Fair Value less Cost to Sell*** may not be the same concept as ***Net Realizable Value*** because the latter is entity-specific; but the difference does not relate to the components of the costs to sell.

We agree with the Staff's Interpretation that the costs necessary to make the sale should not be limited to incremental costs, but requires clarification of the- reason why for non-current operating assets, only the incremental costs are to be considered, whereas for current operating assets, these costs also include the non-incremental costs. In our view, companies create business structures that allow them to sell their inventories, which is not the case for the sale of their non-current assets. These structural costs are necessary costs to make the sales.

In addition, it would be very useful if the Decision could indicate what kind of costs should be considered or examples of such costs:

- Incremental costs: sales commissions.
- Direct costs: the salary of the sales staff for a product line
- Indirect costs: the annual costs associated with offsetting up the e-commerce site.

We believe that this Tentative Decision will help to harmonize the different interpretations about what types of costs must be deducted from the selling price to obtain the net realizable value.

PhD Horacio Molina-Sánchez PhD Marta de Vicente-Lama Mª del Mar Ortiz-Gómez

Universidad Loyola Andalucía

ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA

Comments on the Tentative Agenda Decision and comment letter on Costs Necessary to Sell Inventories (IAS 2)

The Association of National Accountants of Nigeria (ANAN) has critically reviewed the basis of IFRS Interpretations Committee's decision and welcomes the opportunity to comment on the Tentative Agenda Decision and Comment Letters: Costs Necessary to Sell Inventories (IAS 2).

ANAN agrees with the tentative agenda decisions and conclusion of the IFRS Interpretations Committee that a standard-setting project should not be added to the work plan of IASB. ANAN is sufficiently convinced on the Committee's conclusion that the requirements of IAS 2 have provided adequate basis for an entity to determine whether or not the estimated costs necessary to make the sale include all costs, that are not necessarily limited to incremental costs, when determining the net realizable value of inventories. However, we want to raise the following issues.

First, we agree with the general consensus of the Committee that costs should not be limited to only incremental costs (a term used in the US-GAAP) when determining the Net Realizable Value (NRV) of inventories. We equally share the concerns raised by member of the IFRS Interpretations Committee (hereafter referred to as Committee) in their meeting of 2nd February, 2021, that the concept of "all costs" may contradict the predominant practice. We believe that there is a need for guidance by way of an interpretation to clarify that "all costs" as used in the standard refers to "all relevant costs necessary to make the sale". The term "relevance" will clarify the fact that judgment is required in determining such costs. In addition, the use of the term "relevance" in this context is in tandem with its meaning in the conceptual framework and its meaning in cost and management accounting.

Second, the suggestion by some groups and individuals for specific examples of "costs that are needed to make the sale" of inventories is unwarranted since IFRS standards are principles-based and not rule-based. The standard requires preparers to use their judgement which should be guided by some considerations such as the reliable evidence available at the time of the estimates, nature of the inventories, the purpose for which the inventories are held and most importantly, the specific facts and circumstances involved. Thus going forward, rare specific circumstances that may appear to create difficulty in the application of the standard (IAS 2) should be merely clarified by the committee. Such circumstances will, no doubt, continue to arise in the future.

Finally, we agree with the concern expressed by some committee numbers that the term "all costs" does not in real sense mean "all costs needed to make the sale" as implied in the standard. Nevertheless, an agenda decision is not an appropriate medium for dealing with such ambiguity. We believe that a proper guidance through interpretation should suffice.

For any further information or clarification, please contact the undersigned.

Dr. Nuruddeen Abba Abdullahi, mni, FCNA
Chief Executive Officer
Association of National Accountants of Nigeria
abdullahi@anan.org.ng

Grupo Latinoamericano de Emisores de Normas de Información Financiera
Group of Latin American Accounting Standard Setters

Buenos Aires, Argentina, April 12, 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

REF: IFRS IC Tentative Agenda Decisions made in the February 2, 2021 meeting

Dear Board Members,

The "Group of Latin American Standards Setters"[1] (GLASS) appreciates the opportunity to comment on the Tentative Agenda Decisions (TAD) adopted by the IFRS IC during its meeting on February 2, 2021, which included the following topic:

- Costs necessary to sell inventories (IAS 2)

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process
The discussions regarding the Tentative Agenda Decisions of IFRS IC were held within a specified Permanent Technical Commission (PTC) created in December 2020. All GLASS country-members had the opportunity to appoint at least one member to participate in this PTC. Each standard setter represented in GLASS has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for GLASS discussion process.

GLASS discussed the different points of view included in the summary through emails exchange between its members. In those emails GLASS developed a final document on the basis of the consensual responses and the technical points of view of its members. Finally, the document was submitted to and approved by the GLASS Board.

Comments:

Costs necessary to sell inventories (IAS 2)

GLASS agrees that it is not necessary for the issue to be included as an agenda item for the IASB and that a response through the agenda decision (AD) procedure regarding the application of the items to be deducted to determine the Net Realizable Value (NRV) of inventories in accordance with the applicable standards is sufficient.

GLASS also believes that the inclusion as an AD is necessary since there is diversity in practice regarding which items should be considered for the purpose of determining the NRV of inventories, since many entities believe that the costs to be deducted for NRV measurement purposes are exclusively the incremental costs derived from the decision to sell an inventory item, thereby generating diversity in the application of the respective concepts.

GLASS agrees with the opinion of the IASB staff that the costs to be deducted in the NRV measurement process are all costs associated with the activity of selling inventories, including an appropriate allocation of indirect costs to each item of inventory.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Chairman), Bolivia, Brazil (Board), Chile (Board), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Vice Chairman), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

GLASS recommends that, in addition to clarifying the concept in the AD, as provided in the procedures applied by the IFRS IC, an application example be included that clarifies the manner in which the attribution of total costs to inventory items could be made to determine the unit NRV of each item of inventory.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

Jorge José Gil
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

PO Box 1411
Beenleigh QLD 4207
14 April 2021

Ms Sue Lloyd
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: https://www.ifrs.org/projects/work-plan/costs-necessary-to-sell-inventories-ias-2/

Dear Sue

Tentative agenda decision - Costs Necessary to Sell Inventories (IAS 2)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to Costs Necessary to Sell Inventories (IAS 2).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I do not agree with issuing an agenda decision, as I have not seen evidence of diversity in practice that is contrary to the standard. IAS 2 has been applied for almost 50 years without an apparent problem.

My experience is that many entities use an incremental or direct cost approach that I believe complies with the standard. The current drafting indicates many companies will have to change their approach – without the TAD answering what they will need to change their approach to. This uncertainty is likely to cause significant confusion and costs.

Researching the issue more, it appears that the TAD was intending to use the term incremental in a very narrow sense. The submission referred to “incremental to the sale of that particular portion of the inventory” - which could be referred to as the IFRS 15 approach i.e. costs that would not have been incurred if the sale had not been obtained. This can be distinguished from incremental costs involved in a broader process of attempting to sell the inventory that may or may not be successful in a sale.

The nuances of the narrower application of the term incremental in the TAD were initially lost on me, and I suspect by many other readers, particularly those that have not researched the issue.

If IFRIC proceeds to issue the TAD, then it needs to be far clearer in explaining that the application of the term incremental (used in various places in the TAD) is limited to that narrower definition in the submission, and not the broader incremental or direct costs used in practice. Further, the TAD should be clarified so that the current approach of using incremental costs that includes those costs involved in a broader process of attempting to sell the inventory that may or may not be successful in a sale, is acceptable – if they meet the definition of "costs necessary to make the sale".

I am surprised that auditors have signed off financial statements using the narrow / IFRS 15 approach (i.e. only "commission" type costs that may be nil in many cases).

Yours sincerely,

David Hardidge
https://www.linkedin.com/in/davidhardidge/

Deloitte.

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14 April 2021

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

Tentative agenda decision – Costs Necessary to Sell Inventories (IAS 2)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the February 2021 Update of the tentative decision not to take onto the Committee's agenda the request for clarification about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories.

We do not agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda as we do not agree with the conclusion that has been reached in the agenda decision, both on technical and practical grounds.

From a technical perspective, we believe that it is reasonable to assert that the costs necessary to sell inventories should only include incremental costs. The Basis for Conclusions on IAS 36 sets out the rationale for only including incremental selling costs in the 'net selling price'. In particular, IAS 36:BCZ31-36 explain that this is consistent with the purpose of the impairment test which is to 'determine the net amount that an enterprise could recover from the sale of an asset'. We believe that the arguments presented in these paragraphs are equally relevant to the assessment of the net realisable value of inventories in IAS 2. Additionally, IAS 36:BCZ37-39 highlight the potential differences between the definition of net realisable value in IAS 2 and net selling price in IAS 36. The definition of costs to sell is not identified as a potential difference. In fact, IAS 36:BCZ39 explicitly states that in most cases net selling price and net realisable value will be similar.

From a practical perspective, in our view, the implementation of the approach presented in the agenda decision will likely be complex. In our experience, in general, entities use an incremental cost approach in estimating net realisable value. As such, systems may not be in place to apply an approach that requires an allocation of all costs necessary to make the sale. Potentially, a broad range of overhead costs would need to be considered as part of this allocation. If the IFRIC Committee maintains its conclusion, additional guidance would be required to understand which costs should be considered.

We believe that the estimated costs necessary to make the sale when determining the net realisable value of inventories **should be** limited to incremental costs. Therefore, in our view, an IFRIC Interpretation is required before what we believe to be a valid reading of the IFRS requirements is ruled out.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

SOUTH AFRICAN INSTITUTE OF PROFESSIONAL ACCOUNTANTS™

YOUR WEALTH

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

To whom it may concern

Re: Tentative Agenda Decision and comment letters: Costs Necessary to Sell Inventories (IAS2)

On behalf of the South African Institute of Professional Accountants (SAIPA) we would like to comment on the Tentative Agenda Decision and comment letters: Costs Necessary to Sell Inventories (IAS2) published by the International Accounting Standards Board for comments submitted by 14 April 2021. We appreciate the opportunity to comment on this Tentative Agenda Decision.

Published on www.ifrs.org/projects/open-for-comment

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.

SAIPA Response

In general, we support the conclusions reached in the tentative agenda decision. The objective of writing inventories down to their net realisable value is to avoid inventories being carried in excess of amounts expected to be realised from their sale. When determining the net realisable value of inventories, IAS 2 requires an entity to estimate the costs necessary to make the sale. These costs should not be limited to incremental cost but all costs that are necessary to make the sale, taking into account the specific business and the nature of the inventory.

However, the term 'incremental costs' is not defined which may lead to different interpretations and inconsistent accounting treatment of the cost of inventories. We recommend that the committee clarify its conclusion in providing some examples of incremental cost or further define incremental cost.

We also feel its important to note on the conclusion that the judgement an entity uses to determine which costs are necessary to make the sale, considering its specific facts and circumstances, including the nature of the inventories might be a significant judgement and should be considered and disclosed in terms of IAS 1 Presentation of Financial Statements

Should you wish to discuss the contents of this letter with us, please contact Faith Ngwenya or Leana van der Merwe or Rashied Small on +27 (0)11 207 7840

Yours faithfully

South African Institute of Professional Accountants