Scope of this Section

G13.1 This section sets out the principles for recognising and measuring inventories. Inventories are assets:

a) held for sale in the ordinary course of ~~business~~ operations;

b) held for distribution to service recipients in the ordinary course of operations;

c) in the process of production for such sale or distribution; or

d) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

G13.2 This section applies to all inventories, except:

a) financial instruments (see Section 11 *Financial Instruments*);~~ and~~

b) biological assets related to agricultural activity and agricultural produce at the point of harvest (see Section 34 *Specialised Activities*)~~.~~; and

c) inventories to which an NPO elects to apply a permitted exception to the general recognition requirements (see paragraph G13.5).

G13.3 This section applies to the presentation and disclosure of refund assets held in inventory representing expected product returns. An NPO shall recognise and measure refund assets in accordance with paragraphs ~~23.51–23.57~~ G23.115–G23.121.

G13.4 This section does not apply to the measurement of inventories held by:

a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at fair value less costs to sell through surplus or deficit; or

b) commodity brokers and dealers that measure their inventories at fair value less costs to sell through surplus or deficit.

Recognition of inventories

G13.5 An NPO shall not recognise inventories where it has elected to apply one of the following permitted exceptions in respect of those inventories:

a) low value items donated to the NPO for resale, recognised as an asset and revenue when the items are sold in accordance with paragraph G23.36 a);

b) items (other than non-current assets or high value items) donated to the NPO for distribution to service recipients or for the NPO's own use, recognised as revenue and an expense when the items are distributed or used in accordance with paragraph G23.36 b);

c) work-in-progress that comprises services in-kind donated to the NPO that are not recognised as revenue, an asset or an expense in accordance with paragraph G23.36 c); and

d) work-in-progress that comprises services to be provided for no or nominal consideration and the NPO elects to expense the costs as they are incurred.

Measurement of inventories

G13.6 An NPO shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell, except where paragraph G13.7 and / or paragraph G13.8 applies.

G13.7 Where inventories are acquired through a donation, their cost shall be measured at fair value in accordance with paragraph G23.32.

G13.8 Inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives shall be measured at the lower of cost adjusted, for any loss of service potential and replacement cost.

Cost of inventories

G13.9 An NPO shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

G13.10 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the NPO 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.

G13.11 An NPO may purchase inventories on deferred settlement terms. In some cases, the arrangement effectively contains an unstated financing element, for example, a difference between the purchase price for normal credit terms and the deferred settlement amount. In these cases, the difference is recognised as interest expense over the period of the financing and is not added to the cost of the inventories.

Costs of conversion

G13.12 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 and equipment, 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.

Allocation of production overheads

G13.13 An NPO shall allocate fixed production overheads to the costs of conversion on the basis of the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Joint products and by-products

G13.14 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an NPO shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the NPO shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other costs included in inventories

G13.15 An NPO shall include other costs in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

G13.16 Paragraph 11.67(b) requires that, in some circumstances, the change in the fair value of the hedging instrument in a hedge of fixed interest rate risk or commodity price risk of a commodity held adjusts the carrying amount of the commodity.

Costs excluded from inventories

G13.17 Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

a) abnormal amounts of wasted materials, labour or other production costs;

b) storage costs, unless those costs are necessary during the production process before a further production stage;

c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and

d) selling costs.

Cost of inventories of a service provider

G13.18 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. Labour and other costs relating to sales and general administrative personnel are not included but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or non-attributable overheads that are often factored into prices charged by service providers.

Cost of agricultural produce harvested from biological assets

G13.19 Section 34 requires that inventories comprising agricultural produce that an NPO has harvested from its biological assets shall be measured on initial recognition at their fair value less estimated costs to sell at the point of harvest. This becomes the cost of the inventories at that date for application of this section.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

G13.20 An NPO may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

G13.21 An NPO shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

G13.22 An NPO shall measure the cost of inventories, other than those dealt with in paragraph ~~13.17~~ G13.21, by using the first-in, first-out (FIFO) or weighted average cost formula. An NPO shall use the same cost formula for all inventories having a similar nature and use to the NPO. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted by INPAG.

Impairment of inventories

G13.23 Section 27 requires an NPO to assess at the end of each reporting period whether any inventories are impaired, ie the carrying amount is not fully recoverable (for example, because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the NPO to measure the inventory at its selling price less costs to complete and sell (or, for inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives, the cost adjusted for any loss of service potential or replacement cost) and to recognise an impairment loss. Those paragraphs also require a reversal of a prior impairment in some circumstances.

Recognition as an expense

G13.24 When inventories are sold, distributed to service recipients or used by the NPO, the NPO shall recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised.

G13.25 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of INPAG relevant to that type of asset.

Disclosures

G13.26 An NPO shall disclose the following:

a) the accounting policies adopted in measuring inventories, including the cost formula used;

b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the NPO;

c) the amount of inventories recognised as an expense during the period;

d) impairment losses recognised or reversed in surplus or deficit in accordance with Section 27 *Impairment of assets*;

e) a description of any inventories not recognised because they do not meet the recognition criteria due to the NPO being unable to reliably measure the inventories; and

f) the total carrying amount of inventories pledged as security for liabilities.

G13.27 If an NPO elects to use the permitted exceptions in paragraph G13.5, the NPO shall disclose which permitted exception or exceptions have been used and provide an explanation of why the NPO has elected to use the permitted exception(s).

Application Guidance: Section 13 – Inventories

Measurement

Fair value

AG13.1 Guidance in determining fair value is found in Section 12 *Fair Value Measurement [ED3]*.

AG13.2 Section 12 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. An NPO shall apply that hierarchy in determining the fair value of donated inventories

AG13.3 Where an NPO needs to refer to level 3 inputs (that is, unobservable inputs) to determine the fair value of the donated inventories, the NPO may use the cost to the donor (where this is known) as an input used in estimating fair value.

Loss of service potential

AG13.4 Where an NPO decides to recognise inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives, after initial recognition, its measurement must take into account any loss of service potential.

AG13.5 The service potential of the inventories takes into account the current age, functionality, and condition of the inventories held by the NPO.

AG13.6 In order to reflect the current age, functionality, and condition, the following factors are considered:

a) Physical obsolescence - this relates to any loss of service potential due to the physical deterioration of the inventories resulting from physical damage or age.

b) Functional obsolescence - this relates to any loss of service potential resulting from inefficiencies in the inventories that is being valued compared with its modern equivalent.

c) Economic obsolescence – this relates to any loss of utility caused by economic or other factors outside the control of the NPO.

Reliable measurement

AG13.7 Paragraph G2.86 states that for an asset to be recognised, it must be measured. Where an asset cannot be reliably measured, it is not recognised.

AG13.8 There is a rebuttable presumption that donated inventories can be measured reliably. Rarely, there may be some circumstances where an NPO is unable to reliably measure inventories. For example, where an NPO responding to an emergency receives large volumes of donated items, distributes them almost immediately and does not have the systems or resources to keep accurate records without delaying the response to the emergency.

AG13.9 In these circumstances it will not be possible for the NPO to apply a permitted exception (see paragraph G13.5) to those inventories as it will not be possible to reliably measure the revenue and expense that are required to be recognised when the items are used or distributed (see paragraph G23.36 b)). In these circumstances the NPO shall rebut the presumption that donated inventories can be measured reliably and shall not recognise inventories in respect of these donated items. Instead, the NPO shall make the disclosure required by paragraph G13.26 e).

Comparison of Section 13 with the *IFRS for SMEs* Accounting Standard

Section 13 of INPAG has been drawn from Section 13 of the *IFRS for SMEs* Accounting Standard. The main differences between Section 13 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 13 of INPAG are as follows:

- INPAG Section 13 uses different terminology, referring specifically to NPOs rather than entities more generally.
- INPAG Section 13 broadens the scope of the Section to include inventory held for distribution and specifically inventory held for distribution to service recipients in the course of an NPO's ordinary operations. Additional measurement requirements are included for these types of inventory.
- INPAG Section 13 includes a requirement that inventory received for no or nominal cost is to be measured at fair value (subject to permitted exceptions).
- INPAG Section 13 includes permitted exceptions that allows certain types of donated inventory to not be recognised until it is sold or to not be recognised until it has been distributed to service recipients. These permitted exceptions provide pragmatic relief for NPOs in recognising and measuring these kinds of inventories.
- INPAG Section 13 also includes a rebuttable presumption that all inventories can be reliably measured and provides additional guidance and requires additional disclosure if inventories have not been recognised because a reliable measurement cannot be obtained
- Additional application guidance has been developed for Section 13 that further explains the main amendments from Section 13 of the draft Third edition of the *IFRS for SMEs* Accounting Standard as well as providing NPO specific guidance that cost to the donor can be used to approximate fair value for donated inventory.
- INPAG Section 13 requires that use of the permitted exceptions to be disclosure.

Basis for Conclusions: Section 13 – Inventories

Consultation Paper – issues identified and approaches

BC13.1 The recognition and initial measurement of purchased or self-produced inventories does not give rise to any NPO-specific issues, and no changes to the *IFRS for SMEs* Accounting Standard requirements were proposed in the Consultation Paper.

BC13.2 The Consultation Paper did identify specific issues in respect of:

- The recognition and initial measurement of donated inventories, particularly those donated for resale or for distribution to service recipients;
- The recognition and initial measurement of work-in-progress of services to be provided for no or nominal consideration to service recipients; and
- The subsequent measurement of inventories held for distribution to service recipients or for use by the NPO in meeting it objectives.

BC13.3 The Consultation Paper also identified issues regarding the recognition of revenue in respect of donated inventories, and proposed exceptions permitting NPOs not to recognise revenue and inventories on receipt of the donated items, but to recognise revenue and either an asset or an expense when the items are sold, distributed to service recipients or used by the NPO.

BC13.4 Respondents to the Consultation Paper supported the proposed permitted exceptions to the recognition and measurement of revenue from donated items, including donated inventories.

BC13.5 Respondents were supportive of the description of the issue. They provided some additional considerations that needed to be considered in developing the guidance. These included:

- Specific issues regarding donated inventory (which have mainly been addressed by Section 23 *Revenue)*; and
- The subsequent measurement of perishable inventories, particularly where these are donated.

BC13.6 Detailed proposals are included in Section 23 *Revenue*. Section 13 reflects the adjustments to the requirements of the *IFRS for SMEs* Accounting Standard required to ensure the accounting for inventories and revenue is consistent. Changes to Section 13 may be required if the proposals in Section 23 are modified as a result of stakeholders' comments.

Recognition and initial measurement

BC13.7 The proposals in Section 23 that allow NPOs to not recognise inventories for many donated items will address most of the concerns about the initial recognition and measurement of donated items. Section 13 states that an NPO taking advantage of these permitted exceptions should not recognise inventories in respect of the donated items.

BC13.8 Some Technical Advisory Group (TAG) members noted that while these exceptions are expected to meet the needs of NPOs, they may not meet the needs of the users of the financial statements. The Secretariat agreed to review the proposals once responses to ED 2 have been received.

BC13.9 Respondents to the Consultation Paper also supported permitting NPOs to expense work-in-progress on services, such as legal casework, that will be provided to service recipients at no or nominal cost. There was concern that some NPOs would not have the systems in place to reliably measure the work-in-progress. Section 13 provides a permitted exception that allows NPOs to expense the work-in-progress as the costs are incurred, rather than to recognise inventories. A requirement for all NPOs to expense work-in-progress on services would support greater comparability. However, a permitted exception rather than a requirement to expense the work-in-progress is proposed as such work-in-progress may be material to some NPOs.

BC13.10 Some respondents emphasised the importance of disclosures if items of inventory were not to be recognised. The Secretariat agreed with these comments, and NPOs that elect to apply any of the permitted exceptions are required to disclose that fact. This will provide users with useful information that will help them understand the NPO's financial statements.

BC13.11 Some respondents noted that additional guidance on determining fair value where an NPO recognises donated items of inventory would be needed. The draft Third edition of the *IFRS for SMEs* Accounting Standard includes a new Section 12 *Fair value measurement* covering this topic. Section 12 of INPAG, based on the *IFRS for SMEs* Accounting Standard, will be included in ED3. At this stage it is anticipated that only terminology and similar changes will be incorporated into Section 12.

BC13.12 Section 12 will include a fair value hierarchy that NPOs will be required to follow in determining the fair value of donated inventories. Additional Application Guidance has been provided in Section 13 that where an NPO needs to refer to level 3 inputs (that is, unobservable inputs) to determine the fair value of the donated inventories, the NPO may use the cost to the donor (where this is known) as an input used in estimating fair value.

BC13.13 In developing Section 12, the Secretariat will consider whether any further guidance or modifications to either Section 12 or Section 13 are required.

Reliable measurement

BC13.14 Some respondents to the Consultation Paper commented that NPOs may face practical issues in measuring inventories in some circumstances. An example provided was a small NPO responding to an emergency that receives large volumes of donated inventories and distributes them almost immediately. A small NPO may not have the systems or resources to keep accurate records without delaying the response to the emergency. The Secretariat considered that such circumstances would be rare, as many NPOs would be established for those purposes and have the systems and resources to keep accurate records. However, the Secretariat recognised that some smaller NPOs such as local first responders might not.

BC13.15 Consequently, the Secretariat agreed that there should be a rebuttable presumption that donated inventories can be measured reliably. Where the presumption can be rebutted, Application Guidance on reliable measurement is provided that addresses this issue. This Application Guidance requires an NPO to provide a narrative description of inventories that cannot be measured reliably.

BC13.16 The Secretariat noted that NPOs in these circumstances could elect to apply the permitted exception to not recognise inventories. However, this exception would require that a revenue and an expense is recognised when the inventory is distributed. The Secretariat agreed that in this scenario the inability to reliably measure the donations would mean that as well as not recognising inventories, a revenue and expense would also not be recognised. The inclusion of a narrative description is intended to provide transparency of such circumstances.

Subsequent measurement of inventories held for distribution to beneficiaries or for use by the NPO in delivering it is objectives

BC13.17 The *IFRS for SMEs* Accounting Standard requires inventories to be subsequently measured at the lower of cost and estimated selling price less costs to complete and sell,

BC13.18 Measuring inventories by reference to their selling price may not be appropriate for inventories that will not generate future cash flows. The Consultation Paper proposed two alternatives to this treatment in the *IFRS for SMEs* Accounting Standard:

- such inventory would be measured at the lower of cost or current replacement cost; or
- such inventory would be measured at cost, adjusted for any loss of service potential.

BC13.19 There was support for both approaches, although a number of respondents expressed concern that it may not always be possible to identify a replacement cost, particularly for some donated items. Other respondents noted that assessing any loss of service potential could be subjective.

BC13.20 Section 13 requires an NPO to measure inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. This will allow NPOs to reliably measure inventories that may be impaired even if a replacement cost is not available. Additional Application Guidance on assessing a loss of service potential has been provided.

Cost Formulas

BC13.21 The *IFRS for SMEs* Accounting Standard permits the use of two cost formulas, the first in, first out (FIFO) formula or the weighted average cost formula. One respondent to the Consultation Paper suggested that a third formula, first expired, first out (FEFO) would be more appropriate for NPOs who received donations of perishable items such as food or medical supplies.

BC13.22 The Secretariat agreed that for practical purposes, inventories would need to be managed in this manner to maximise the benefits obtained from the donations. However, following discussion with the TAG, the Secretariat did not consider that the introduction of an additional cost formula was appropriate as it would be unlikely to be NPO specific.

BC13.23 The Secretariat consider that the proposed formula, which is intended to address circumstances where donated items may have a significantly shorter expiry period than the equivalent purchased items, can be accommodated using the cost methods permitted by the *IFRS for SMEs* Accounting Standard. Where expiry periods for donated items are significantly less than for purchased items, and this affects the value of the items, the economic nature of the items will be different. This difference means that different classes of inventories could be maintained for items donated close to their expiry date and other (usually purchased) items. Either the FIFO or weighted average cost formula would then be used for each class. Identifying items by class of inventories is expected to be no more complex to implement in stock control systems than the use of a FEFO cost model.

Impairment

BC13.24 Section 27 *Impairment* requires inventories to be impaired when the carrying amount will not be fully recoverable. The *IFRS for SMEs* Accounting Standard requires a comparison between the carrying amount and the selling price less costs to complete and sell when determining whether inventories are impaired.

BC13.25 As discussed in paragraphs **Error! Reference source not found.**–**Error! Reference source not found.**, Section 13 has introduced an alternative measurement for inventories that will not be sold. Consequently, the impairment requirements in Section 13 has been amended so that impairment of inventories held for distribution or use by the NPO in delivering its objectives are assessed by reference to the cost adjusted for any loss of service potential or replacement cost. Section 27 *Impairments* will be updated in ED3.

Illustrative Examples: Section 13 – Inventories

Classes of inventories

Example 1 – donated perishable inventories

NPO A operates a medical clinic. Its inventories include flu vaccines. Some vaccines are purchased and have a typical shelf life of one year. Other vaccines are donated by health providers when these providers are unable to use the vaccines prior to their expiry date. These vaccines have a typical shelf life of two weeks.

NPO A has chosen not to apply the permitted exception in respect of donated items for distribution, and therefore recognises inventories for both the purchased and donated vaccines.

NPO A concludes that, because of their short-term use requirements, the nature of the donated vaccines is different to that of the purchased vaccines. Consequently, it identifies two classes of inventories – purchased flu vaccines and donated flu vaccines.

The purchased vaccines are initially recognised at cost. The donated vaccines are initially recognised at fair value. The fair value of the vaccines reflects their expiry date and is significantly lower than the cost of the purchased vaccines. An analysis of market prices for the vaccine indicate that once a vaccine has a shelf life of 16 weeks or less, the price the market is willing to pay decreases to zero on a straight line basis, reflecting the increasing likelihood that the vaccine will be unused. The fair value of a vaccine with a two-week shelf life would therefore be 12.5% (2/16 weeks) of the price for a vaccine with a one-year shelf life. NPO A has stock control processes in place to ensure that short-dated vaccines are used first.

The purchase price of the vaccines is volatile. NPO A applies the weighted average cost model in accounting for the purchased inventories as it considers this provides the most representative information on the value of its purchased vaccines.

NPO A applies the first in, first out cost model in accounting for the donated inventories. This reflects the short-term nature of the vaccines and therefore provides the most representative information on the value of its donated vaccines.

Assessing loss of service potential

Example 2 – loss of service potential due to physical obsolescence

NPO B operates a food bank. NPO B purchases items of food to be included in food parcels, and also receives donations of food from supermarkets and individuals. Because the donations it receives are unpredictable, it can have a surplus of certain food items.

These food items may become limited in their use and so suffer a loss of service potential due to their age as they approach their expiry date. If NPO B has more items than are required for the food parcels, NPO B may have to either sell the items at a discount or dispose of them once the expiry date has passed.

At the reporting date, NPO B will assess whether any inventories that it has purchased have suffered a loss of service potential. This will not include the food that was donated as NPO B elected not to recognise these donations. For those inventories that have been recognised, NPO B estimates the amount of the inventories that it will not be able to use in the food parcels, and adjusts the carrying amount of the inventories by this amount, adjusted for any expected sales proceeds, and recognises a corresponding expense.

Example 3 – loss of service potential due to functional obsolescence

NPO C operates a medical clinic. Its inventories include a stock of a drug that is used to treat a respiratory disease. A number of doses of the drug are required to successfully treat the disease.

A new drug is developed that will successfully treat the disease with a single dose. The inventories of the drug held by NPO C may suffer a loss of service potential due to functional obsolescence. This will be the case if the cost of treating patients with the new drug is less than the cost of treating patients with the existing drug.

At the reporting date, NPO C will assess whether any inventories have suffered a loss of service potential. NPO C estimates the amount it would cost to replace its inventories of the existing drug with the amount of the new drug required to treat the same number of patients. If this is less than the carrying amount of the inventories of the existing drug, NPO C adjusts the carrying amount of the inventories downward to the estimated cost of the amount of the new drug required to treat the same number of patients, and recognises a corresponding expense.

Example 4 – loss of service potential due to economic obsolescence

NPO D, that has the objective of helping long-term unemployed people find work runs courses on interview preparation. NPO D has prepared course materials that are provided to all participants, and has sufficient stock for the expected life of the current course.

The courses are subsidised by the government, and as a result the NPO is able to offer the courses for no charge.

As a result of a change of government policy, the courses are no longer subsidised by the government. NPO D has insufficient resources to cover all the costs itself, and introduces a small charge for the courses to cover the cost of hiring the venue and providing lunch.

Because of the introduction of the small charge, the number of participants reduces, and NPO D runs the courses less frequently. As a result, it is likely that NPO D may not be able to use all of the course materials.

At the reporting date, NPO D will assess whether any inventories have suffered a loss of service potential. NPO D estimates the amount of the course materials that it will not be able to use before the course needs to be redeveloped. NPO D adjusts the carrying amount of the inventories of course materials in proportion to the amount it estimates will be unused, and recognises a corresponding expense.