IPSAS® ACCOUNTING STANDARD

IPSAS 12, *INVENTORIES*

IPSAS®

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Acknowledgment

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History of IPSAS Accounting Standard

This version includes amendments resulting from IPSAS Accounting Standards issued up to January 31, 2026.

IPSAS 12, *Inventories* was issued in July 2001.

In December 2006 the IPSASB issued a revised IPSAS 12.

Since then, IPSAS 12 has been amended by the following IPSAS Accounting Standards:

- IPSAS 51, *Tangible Natural Resources Held for Conservation* (issued January 2026)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (issued November 2025)
- *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* (issued August 2025)
- *Stripping Costs in the Production Phase of a Surface Mine (issued November 2024)*
- *IPSAS 48, Transfer Expenses (issued May 2023)*
- *IPSAS 47, Revenue (issued May 2023)*
- *IPSAS 46, Measurement (issued May 2023)*
- *IPSAS 45, Property, Plant, and Equipment (issued May 2023)*
- *IPSAS 43, Leases (issued January 2022)*
- *COVID-19: Deferral of Effective Dates (issued November 2020)*
- *IPSAS 41, Financial Instruments (issued August 2018)*
- *The Applicability of IPSAS* (issued April 2016)
- *Improvements to IPSAS 2015* (issued April 2016)
- IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)* (issued January 2015)
- *Improvements to IPSAS 2011* (issued October 2011)
- *Improvements to IPSAS* (issued November 2010)
- IPSAS 29, *Financial Instruments: Recognition and Measurement* (issued January 2010)
- IPSAS 27, *Agriculture* (issued December 2009)

Table of Amended Paragraphs in IPSAS 12

Paragraph Affected	How Affected	Affected By
Introduction section	Deleted	*Improvements to IPSAS* October 2011
1	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
2	Amended	IPSAS 27 December 2009 IPSAS 29 January 2010

Paragraph Affected	How Affected	Affected By
		IPSAS 41 August 2018 IPSAS 47 May 2023
4	Amended	*The Applicability of IPSAS* April 2016 IPSAS 51 January 2026
5	Deleted	The Applicability of IPSAS April 2016
9	Amended	IPSAS 47 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
10	Amended	IPSAS 46 May 2023
11	Amended	IPSAS 47 May 2023 IPSAS 48 May 2023
12	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
14A	Amended	*Improvements to IPSAS* April 2016 IPSAS 45 May 2023
15	Amended	*Improvements to IPSAS* November 2010
16	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
17	Amended	IPSAS 48 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
17A	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
20	Amended	IPSAS 43 January 2022
Heading above paragraph 28	Deleted	IPSAS 47 May 2023
28	Deleted	IPSAS 47 May 2023
29	Amended	IPSAS 27 December 2009
31	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
33	Amended	*Improvements to IPSAS* November 2010
39	Amended	IPSAS 47 May 2023
Heading above paragraph 43	Amended	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
43	Amended	IPSAS 48 May 2023

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		Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement August 2025
44	Amended	IPSAS 48 May 2023
47	Amended	IPSAS 46 May 2023
48	Amended	IPSAS 47 May 2023
Heading above paragraph 50A	New	IPSAS 46 May 2023
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50B	New	IPSAS 46 May 2023
50C	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50D	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50E	Amended	IPSAS 46 May 2023 *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
50F	New	IPSAS 46 May 2023
Heading above paragraph 51	Amended	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Subheading above paragraph 51	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
51A	New	IPSAS 27 December 2009
51B	New	IPSAS 33 January 2015
51C	New	*Improvements to IPSAS* April 2016
51D	New	*The Applicability of IPSAS* April 2016
51E	Amended	*COVID-19: Deferral of Effective Dates* November 2020
51F	New	IPSAS 43 January 2022
51G	New	IPSAS 45 May 2023
51H	New	IPSAS 46 May 2023
51I	New	IPSAS 47 May 2023

Paragraph Affected	How Affected	Affected By
51J	New	IPSAS 48 May 2023
Heading above paragraph 51K	Amended	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
51K	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
51L	New	*Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* August 2025
51M	New	IPSAS 51 January 2026
52	Amended	IPSAS 33 January 2015 IPSAS 33 November 2025
Heading above paragraph 52A	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
52A	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
52B	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
52C	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
58	Amended	IPSAS 33 November 2025
Appendix A	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
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A1	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
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A5	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024
Heading above paragraph A6	New	*Stripping Costs in the Production Phase of a Surface Mine* November 2024

Paragraph Affected	How Affected	Affected By
A6	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A7	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Headings above paragraph A8	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A8	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
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A10	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A11	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A12	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A12	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A13	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
Heading above paragraph A14	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A14	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A15	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*
A16	New	*Stripping Costs in the Production Phase of a Surface Mine November 2024*

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CONTENTS

International Public Sector Accounting Standard 12, *Inventories*, is set out in paragraphs 1–53. All the paragraphs have equal authority. IPSAS 12 should be read in the context of its objective, the Basis for Conclusions, the *Preface to IPSAS Accounting Standards and IPSASB SRS Standards,* and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*. IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

1. 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 recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value or current operational value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

2. **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all inventories except:**

   (a) **[Deleted]**

   (b) **Financial instruments (see IPSAS 28, *Financial Instruments*: Presentation and IPSAS 41, *Financial Instruments*);**

   (c) **Biological assets related to agricultural activity and agricultural produce at the point of harvest (see IPSAS 27, *Agriculture*); and**

   (d) **Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.**

3. **This Standard 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 net realizable value in accordance with well-established practices in those industries. When such inventories are measured at net realizable value, changes in that value are recognized in surplus or deficit in the period of the change; and**

   (b) **Commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognized in surplus or deficit in the period of the change.**

4. This Standard does not apply to tangible natural resources held for conservation within the scope of IPSAS 51, *Tangible Natural Resources Held for Conservation*.

5. [Deleted]

6. The inventories referred to in paragraph 2(d) are not encompassed by IAS 2, Inventories, and are excluded from the scope of this Standard because they involve specific public sector issues that require further consideration.

7. The inventories referred to in paragraph 3(a) are measured at net realizable value at certain stages of production. This occurs, for example, (a) when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or (b) when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded only from the measurement requirements of this Standard.

8. Broker-traders are those who buy or sell commodities for others or on their own account. The inventories referred to in paragraph 3(b) are principally acquired with the purpose of selling in the near future and generating a surplus from fluctuations in price or broker-traders' margin. When these inventories are measured at fair value less costs to sell, they are excluded only from the measurement requirements of this Standard.

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

<u>Exchange transactions</u> are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

<u>Inventories</u> are assets:

(a) **In the form of materials or supplies to be consumed in the production process;**

(b) **In the form of materials or supplies to be consumed or distributed in the rendering of services;**

(c) **Held for sale or distribution in the ordinary course of operations; or**

(d) **In the process of production for sale or distribution.**

<u>Net realizable value</u> is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

<u>Non-exchange transactions</u> are transactions that are not exchange transactions, where an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

The term <u>current operational value</u> is defined in IPSAS 46, *Measurement*.

Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

Net Realizable Value

10. Net realizable value refers to the net amount that an entity expects to realize from the sale of inventory in the ordinary course of operations. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realizable value for inventories may not equal fair value less costs of disposal.

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge (a transfer expense) or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. Costs incurred to fulfill a binding arrangement that does not give rise to inventories (or assets within the scope of another Standard) are accounted for in accordance with IPSAS 47, *Revenue.*

12. Inventories in the public sector may include:

(a) Military inventories;

(b) Consumable stores;

(c) Maintenance materials;

(d) Spare parts for plant and equipment, other than those dealt with in IPSAS 45, *Property, Plant, and Equipment;*

(e) Strategic stockpiles (for example, energy reserves);

(f) Stocks of unissued currency;

(g) Postal service supplies held for sale (for example, stamps);

(h) Work-in-progress, including:

    (i) Educational/training course materials; and

    (ii) Client services (for example, auditing services), where those services are sold at arm's length prices; and

(i) Land/property held for sale.

13. Where the government controls the rights to create and issue various assets, including postal stamps and currency, these items of inventory are recognized as inventories for the purposes of this Standard. They are not reported at face value, but measured in accordance with paragraph 15, that is, at their printing or minting cost.

14. When a government maintains strategic stockpiles of various reserves, such as energy reserves (for example, oil), for use in emergency or other situations (for example, natural disasters or other civil defense emergencies), these stockpiles are recognized as inventories for the purposes of this Standard and treated accordingly.

14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with IPSAS 45 if they satisfy the criteria to be classified in that standard.

Measurement of Inventories

15. **Inventories shall be measured at the lower of cost and net realizable value, except where paragraph 16 or paragraph 17 applies.**

16. **Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their deemed cost as at the date of acquisition. An entity shall apply IPSAS 46 when measuring the deemed cost of inventories.**

17. **Inventories shall be measured at the lower of cost and current operational value where they are held for:**

(a) **Distribution at no charge (a transfer expense) or for a nominal charge;**

(b) **Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or**

(c) **Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.**

17A. **An entity shall apply IPSAS 46 when measuring the current operational value of inventories measured in accordance with paragraph 17.**

Cost of Inventories

18. **The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.**

Costs of Purchase

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

Costs of Conversion

20. The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly related to the units of production, such as direct labor. 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 (a) the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and (b) 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 labor.

21. The allocation of fixed production overheads to the costs of conversion is based on 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 recognized 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.

22. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

23. 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 conversion of each product are not separately identifiable, they are allocated 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, they are often measured at net realizable value, and this value is deducted 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

24. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

25. Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(a) Abnormal amounts of wasted materials, labor, or other production costs;

(b) Storage costs, unless those costs are necessary in 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.

26. IPSAS 5, *Borrowing Costs*, identifies limited circumstances where borrowing costs are included in the cost of inventories.

27. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.

28. [Deleted]

Cost of Agricultural Produce Harvested from Biological Assets

29. In accordance with IPSAS 27, inventories comprising agricultural produce that an entity has harvested from its biological assets shall be measured on initial recognition at their fair value less costs to sell at the point of harvest. This is the cost of the inventories at that date for application of this Standard.

Techniques for the Measurement of Cost

30. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labor, efficiency, and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is measured in accordance with paragraph 16.

Cost Formulas

32. **The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, shall be assigned by using specific identification of their individual costs.**

33. Specific identification of costs means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the surplus or deficit for the period.

34. **When applying paragraph 33 an entity shall use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified. A difference in geographical location of inventories (and in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.**

35. **The cost of inventories, other than those dealt with in paragraph 32, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.**

36. For example, inventories used in one segment may have a use to the entity different from the same type of inventories used in another segment. However, a difference in geographical location of inventories, by itself, is not sufficient to justify the use of different cost formulas.

37. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net Realizable Value

38. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.

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

40. Estimates of net realizable value also take into consideration the purpose for which the inventory is held. For example, the net realizable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realizable value of the excess is based on general selling prices. Guidance on the treatment of provisions or contingent liabilities, such as those arising from firm sales contracts in excess of inventory quantities held, and on firm purchase contracts can be found in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

41. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged, or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value.

42. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist, or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e., the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value. This occurs, for example, when an item of inventory that is carried at net realizable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Distribution and Consumption of Goods at No Charge or for a Nominal Charge

43. A public sector entity may hold inventories for purposes that are not directly related to their ability to generate net cash inflows. For example, these types of inventories arise when a government has determined to distribute certain goods at no charge (a transfer expense) or for a nominal amount. In these cases, the service potential of the inventory for financial reporting purposes is measured in accordance with paragraph 17. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. **When inventories are sold, exchanged, or distributed, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue (i.e., the transaction gives rise to a transfer expense), the expense is recognized in accordance with IPSAS 48, *Transfer Expenses*. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.**

45. For a service provider, the point when inventories are recognized as expenses normally occurs when services are rendered, or upon billing for chargeable services.

46. 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 recognized as an expense during the useful life of that asset.

Disclosure

47. **The financial statements shall disclose:**

(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 entity;**

(c) **The carrying amount of inventories carried at fair value less costs of disposal;**

(d) **The amount of inventories recognized as an expense during the period;**

(e) **The amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 42;**

(f) **The amount of any reversal of any write-down that is recognized in the statement of financial performance in the period in accordance with paragraph 42;**

(g) **The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and**

(h) **The carrying amount of inventories pledged as security for liabilities.**

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods.

49. The amount of inventories recognized as an expense during the period consists of (a) those costs previously included in the measurement of inventory that has now been sold, exchanged, or distributed, and (b) unallocated production overheads and abnormal amounts of production costs of inventories. The circumstances of the entity may also warrant the inclusion of other costs, such as distribution costs.

50. Some entities adopt a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for (a) raw materials and consumables, (b) labor costs, and (c) other costs, together with the amount of the net change in inventories for the period.

Current Value Measurement

50A. **An entity shall disclose information that helps users of its financial statements assess both of the following:**

(a) **For inventories that are measured at current operational value or fair value in the statement of financial position after initial recognition, the measurement techniques and inputs used to develop those measurements; and**

(b) **For fair value measurements using significant unobservable inputs (Level 3) in the statement of financial position after initial recognition, the effect of the measurements on surplus or deficit or net assets/equity for the period.**

50B. To meet the objectives in paragraph 50A, an entity shall consider all the following:

(a) The level of detail necessary to satisfy the disclosure requirements;

(b) How much emphasis to place on each of the various requirements;

(c) How much aggregation or disaggregation to undertake; and

(d) Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IPSAS and other IPSAS are insufficient to meet the objectives in paragraph 50A, an entity shall disclose additional information necessary to meet those objectives.

50C. To meet the objectives in paragraph 50A, an entity shall disclose, at a minimum, the following information for each class of inventories (see paragraph 50D for information on determining appropriate classes of inventories) measured at current operational value or fair value (including measurements based on fair value within the scope of IPSAS 46*)* in the statement of financial position after initial recognition:

(a) The current operational value or fair value measurement at the end of the reporting period, and for current operational value measurements, the reasons for the measurement;

(b) For fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3). For current operational value measurements, whether the current operational value measurements are estimated using observable or unobservable inputs;

(c) For current operational value or fair value measurements estimated using unobservable inputs, a description of the measurement technique(s) and the inputs used in the current operational value or fair value measurement. If there has been a change in measurement technique (e.g., changing from a market approach to an income approach or the use of an additional measurement technique), the entity shall disclose that change and the reason(s) for making it. For current operational value measurement estimated using significant unobservable inputs, or for fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the current operational value or fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring current operational value or fair value (e.g. when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the current operational value or fair value measurement and are reasonably available to the entity;

(d) For fair value measurements categorized within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

  (i) Total gains or losses for the period recognized in surplus or deficit, and the line item(s) in surplus or deficit in which those gains or losses are recognized;

  (ii) Total gains or losses for the period recognized in net assets/equity, and the line item(s) in net assets/equity in which those gains or losses are recognized; and

  (iii) Purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(e) For fair value measurements categorized within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (d)(i) included in surplus or deficit that is attributable to the change in unrealized gains or losses relating to those inventories held at the end of the reporting period, and the line item(s) in surplus or deficit in which those unrealized gains or losses are recognized;

(f) For fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value estimated using unobservable inputs, a description of the valuation processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period); and

(g) For fair value measurements categorized within Level 3 of the fair value hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (c).

50D. An entity shall determine the appropriate disaggregation of inventories on the basis of the following:

(a) The nature, characteristics and risks of the inventories; and

(b) The level of the fair value hierarchy within which the fair value measurement is categorized or to the extent to which unobservable inputs are used in estimating current operational value.

The disaggregation may need to be greater for current operational value measurements estimated using unobservable inputs or for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining the appropriate disaggregation of inventories for which disclosures about current operational value or fair value measurements should be provided requires judgment. Inventories will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IPSAS specifies the disaggregation for an inventory, an entity may use that disaggregation in providing the disclosures required in this Standard if that disaggregation meets the requirements in this paragraph.

50E. For each class of inventories not measured at current operational value or fair value in the statement of financial position but for which the current operational value or fair value is disclosed, an entity shall disclose the information required by paragraph 50C(b), (c) and (g). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy, or for current operational value measurements estimated using unobservable inputs, required by paragraph 50C(c). For such inventories, an entity does not need to provide the other disclosures required by this Standard.

50F. An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.

Effective Date and Transition

Effective Date

51. **An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008, it shall disclose that fact.**

51A. **IPSAS 27 amended paragraph 29. An entity shall apply that amendment for annual financial statements covering periods beginning on or after April 1, 2011. If an entity applies IPSAS 27 for a period beginning before April 1, 2011, the amendment shall also be applied for that earlier period.**

51B. **Paragraph 52 was amended by IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* (IPSAS) issued in January 2015. An entity shall apply that amendment for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is permitted. If an entity applies IPSAS 33 for a period beginning before January 1, 2017, the amendment shall also be applied for that earlier period.**

51C. **Paragraph 12 was amended and paragraph 14A was added by *Improvements to IPSAS 2015*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2017. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2017, it shall disclose that fact.**

51D. **Paragraphs 4 and 5 were deleted by *The Applicability of IPSAS*, issued in April 2016. An entity shall apply those amendments for annual financial statements covering periods beginning on or after January 1, 2018. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2018, it shall disclose that fact.**

51E. **Paragraph 2 was amended by IPSAS 41, issued in August 2018. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2023. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2023 it shall disclose that fact and apply IPSAS 41 at the same time.**

51F. **Paragraph 20 was amended by IPSAS 43, issued in January 2022. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is permitted. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 43 at the same time.**

51G. **Paragraph 12(d) and 14A were amended by IPSAS 45 issued in May 2023. An *Leases* entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1,**

2025. Earlier application is encouraged. If an entity applies these amendments for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 45 at the same time.

51H. **Paragraphs 10 and 47 were amended, and paragraphs 50A–50F were added by IPSAS 46, *Measurement*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2025. Earlier application is encouraged. If an entity applies the amendment for a period beginning before January 1, 2025, it shall disclose that fact and apply IPSAS 46 at the same time.**

51I. **Paragraphs 2, 9, 11, 39, and 48 were amended, and paragraph 28 was deleted by IPSAS 47, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 47 at the same time.**

51J. **Paragraphs 11, 17, 43 and 44 were amended by IPSAS 48, *Transfer Expenses*, issued in May 2023. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2026. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2026, it shall disclose that fact and apply IPSAS 48 at the same time.**

51K. **Appendix A was added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12) issued in November 2024. An entity shall apply these amendments for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

51L. **Paragraph 17A is added, paragraphs 1, 9, 16, 17, 31, 43, 50A, 50C(a)-50C(g), 50D, and 50E are amended, and heading above paragraph 43 is amended by Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, issued in August 2025. An entity shall apply these amendments prospectively for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.**

51M. **Paragraph 4 was added by IPSAS 51, issued in January 2026. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2028. Earlier application is permitted. If an entity applies the amendments for a period beginning before January 1, 2028, it shall disclose that fact and apply IPSAS 51 at the same time.**

52. When an entity adopts accrual basis IPSAS Standards as defined in IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards* for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSAS Standards.

Transition

52A. An entity shall apply Appendix A to production stripping costs incurred on or after the beginning of the earliest period presented.

52B. As at the beginning of the earliest period presented, any previously recognized asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated.

Such balances shall be depreciated or amortized over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

52C. If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognized in opening accumulated surplus or deficit at the beginning of the earliest period presented.

Withdrawal of IPSAS 12 (2001)

53. This Standard supersedes IPSAS 12, *Inventories*, issued in 2001.

Appendix A

Stripping Costs in the Production Phase of a Surface Mine

This Appendix is an integral part of IPSAS 12.

Introduction

A1. In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

A2. During the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins.

A3. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

A4. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

A5. This Appendix considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

A6. This Appendix applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

A7. This Appendix addresses the following issues:

(a) Recognition of production stripping costs as an asset;

(b) Initial measurement of the stripping activity asset; and

(c) Subsequent measurement of the stripping activity asset.

Application of IPSAS to Stripping Cost in the Production Phase of a Surface Mine

Recognition of production stripping costs as an asset

A8. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IPSAS 12, *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, if the criteria in paragraph A9 below are met. This Appendix refers to the non-current asset as the 'stripping activity asset'.

A9. An entity shall recognize a stripping activity asset if, and only if, all of the following are met:

(a) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) The entity can identify the component of the ore body for which access has been improved; and

(c) The costs relating to the stripping activity associated with that component can be measured reliably.

A10. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as part of an existing asset.

A11. The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

A12. The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

A13. When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) Cost of inventory produced compared with expected cost;

(b) Volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) Mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

A14. After initial recognition, the stripping activity asset shall be carried, in the same way as the existing asset of which it is a part, at either its:

- Historical cost less any accumulated depreciation or amortization and less any accumulated impairment losses, or
- Its revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation or amortization and less any subsequent accumulated impairment losses.

A15. The stripping activity asset shall be depreciated or amortized on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

A16. The expected useful life of the identified component of the ore body that is used to depreciate or amortize the stripping activity asset will differ from the expected useful life that is used to depreciate or amortize the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix B

Amendments to Other IPSAS

Amendments to IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS)

Paragraphs 62F, 62G, and 154Q are added. The heading above paragraph 62H is added. New text is underlined.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS during the Period of Transition

…

Stripping Costs in the Production Phase of a Surface Mine **(Amendments to IPSAS 12)**

62F. **Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three-year transitional relief period to not recognize assets, it is not required to apply the requirements related to stripping activity assets until the exemption that provided the relief has expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).**

62G. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSAS to recognize assets in accordance with IPSAS 45 or IPSAS 31, whichever applies. During this period, a first-time adopter may need to consider the recognition requirements of this IPSAS at the same time as considering the recognition of exploration and evaluation assets in this IPSAS. Where a first-time adopter takes advantage of the exemption in accordance with IPSAS 45 or IPSAS 31, whichever applies, it is not required to recognize stripping activity assets until the exemptions that provided relief have expired, and/or when the relevant assets are recognized in accordance with the applicable IPSAS (whichever is earlier).

…

Effective Date

…

154Q. **Paragraphs 62H and 62I were added by *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12), issued in November 2024. An entity shall apply this amendment for annual financial statements covering periods beginning on or after January 1, 2027. Earlier application is encouraged. If an entity applies the amendments for a period beginning before January 1, 2027, it shall disclose that fact.**

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, IPSAS 12.

Background

BC1. The IPSASB's IFRS Convergence Program is an important element in the IPSASB's work program. The IPSASB's policy is to converge the accrual basis IPSAS with IFRS issued by the IASB where appropriate for public sector entities.

BC2. Accrual basis IPSAS that are converged with IFRS maintain the requirements, structure, and text of the IFRS, unless there is a public sector-specific reason for a departure. Departure from the equivalent IFRS occurs when requirements or terminology in the IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context. Differences between IPSAS and their equivalent IFRS are identified in the *Comparison with IFRS* included in each IPSAS.

BC3. In May 2002, the IASB issued an exposure draft of proposed amendments to 13 IAS[1] as part of its General Improvements Project. The objectives of the IASB's General Improvements Project were "to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements." The final IAS were issued in December 2003.

BC4. IPSAS 12, issued in July 2001, was based on IAS 2 (Revised 1993), *Inventories*, which was reissued in December 2003. In late 2003, the IPSASB's predecessor, the Public Sector Committee (PSC),2 actioned an IPSAS improvements project to converge, where appropriate, IPSAS with the improved IAS issued in December 2003.

BC5. The IPSASB reviewed the improved IAS 2 and generally concurred with the IASB's reasons for revising the IAS and with the amendments made. (The IASB's Bases for Conclusions are not reproduced here. Subscribers to the IASB's *Comprehensive Subscription Service* can view the Bases for Conclusions on the IASB's website at http://www.iasb.org). In those cases where the IPSAS departs from its related IAS, the Basis for Conclusions explains the public sector-specific reasons for the departure.

BC6. IAS 2 has been further amended as a consequence of IFRS issued after December 2003. IPSAS 12 does not include the consequential amendments arising from IFRS issued after December 2003. This is because the IPSASB has not yet reviewed and formed a view on the applicability of the requirements in those IFRS to public sector entities.

Revision of IPSAS 12 as a result of Part III of *Improvements to IPSAS 2015*: issues raised by stakeholders

BC7. Government Finance Statistics (GFS) reporting guidelines use the term "military inventories" to comprise all single-use items, including ammunition. The IPSASB concluded that replacing the IPSAS term "ammunition" with the GFS term "military inventories" and including a description will clarify the types of military assets that are to be classified as inventories, while increasing consistency with GFS reporting guidelines.

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[1] The International Accounting Standards (IAS) were issued by the IASB's predecessor, the International Accounting Standards Committee. The Standards issued by the IASB are entitled International Financial Reporting Standards (IFRS). The IASB has defined IFRS to consist of IFRS, IAS, and Interpretations of the Standards. In some cases, the IASB has amended, rather than replaced, the IAS, in which case the old IAS number remains.

[2] The PSC became the IPSASB when the IFAC Board changed the PSC's mandate to become an independent standard-setting board in November 2004.

Revision of IPSAS 12 as a result of the IPSASB's *The Applicability of IPSAS*, issued in April 2016

BC8. The IPSASB issued *The Applicability of IPSAS* in April 2016. This pronouncement amends references in all IPSAS as follows:

(a) Removes the standard paragraphs about The Applicability of IPSAS to "public sector entities other than GBEs" from the scope section of each Standard;

(b) Replaces the term "GBE" with the term "commercial public sector entities", where appropriate; and

(c) Amends paragraph 10 of the Preface to International Public Sector Accounting Standards by providing a positive description of public sector entities for which IPSAS are designed.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 1.

Revision of IPSAS 12 as a result of IPSAS 46, *Measurement*

BC9. The IPSASB developed IPSAS 46 to ensure that measurement bases are applied consistently to all transactions. This pronouncement amends IPSAS 12 by:

(a) Updating the definition of fair value to clarify its application across IPSAS and align with IFRS; and

(b) Adding fair value disclosure requirements to help users assess the measurement techniques and inputs used to measure inventory at fair value and the effect on surplus or deficit or net assets/equity for the period.

The reasons for these changes are set out in the Basis for Conclusions to IPSAS 46.

BC10. IPSAS 46 also introduced a public sector specific measurement basis applicable to assets held for their operational capacity. As part of its review of all measurement bases in its literature, the IPSASB considered whether current operational value should be added to, or replace, an existing measurement basis in this Standard.

BC11. During the development of ED 77, *Measurement*, the IPSASB had agreed to retain the current measurement bases in this Standard. The IPSASB specifically noted current replacement cost, which shares some characteristics with current operational value, should be retained, and not replaced in this Standard because when ED 77 was issued, the IPSASB was not aware of any issues in practice when applying current replacement cost to inventory. The IPSASB agreed any changes to a specific measurement basis in this Standard should be considered as part of a standalone project related to this IPSAS. This would allow stakeholders to clearly consider the implications of the proposal.

BC12. After approving IPSAS 46 in March 2023, the IPSASB decided to evaluate the applicability of current operational value across existing IPSAS, in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the updated Conceptual Framework: Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

Revision of IPSAS 12 as a result of *Stripping Costs in the Production Phase of a Surface Mine* (Amendments to IPSAS 12)

BC13. This Appendix A clarifies existing guidance on accounting for stripping costs in the production phase of a surface mine and applies to all types of natural resources that are extracted using this process. The IPSASB agreed this guidance is required in accounting for such costs in the public sector.

BC14. The IPSASB did not identify any public sector specific reasons to depart from principles in IFRIC 20 in the development of this revision, except for terminology and other IPSASB-specific formatting and consistency amendments.

BC15. The IPSASB noted a common change made when the new guidance is aligned with IFRS is to include the principle of 'service potential' with 'economic benefit' when evaluating whether an asset can be recognized. In this case, the IPSASB agreed not to amend the recognition criteria in paragraph A9 of Appendix A, because it is expected that entities conduct these operations for commercial purposes, and not for service delivery reasons.

BC16. The IPSASB agreed to align with IFRIC 20 and the application of the guidance to operations of a commercial nature. Therefore, stripping activity assets are held for their financial capacity (i.e., commercial purpose), to which the fair value measurement basis applies.

BC17. The IPSASB noted that it does not develop separate interpretative pronouncements. Rather, the IPSASB incorporates interpretive guidance as Appendices in the related IPSAS. The IPSASB considered the placement of the interpretive guidance on stripping costs in either IPSAS 12, *Inventories*, IPSAS 31, *Intangible Assets*, or IPSAS 45, *Property, Plant, and Equipment*, and concluded that stripping costs, similar to other costs incurred to produce inventory, ultimately are capitalized, whether directly (e.g., direct labor) or indirectly (e.g., production overheads such as depreciation), in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits through the sale of the mineral inventory. Therefore, due to this relationship between stripping activities and the cost of inventory produced, the IPSASB decided that the guidance aligned with IFRIC 20 be included as Appendix A to IPSAS 12, and not also as an appendix to IPSAS 31 or IPSAS 45, to limit duplication of guidance in IPSAS.

Revision of IPSAS 12 as a result of Part 1 of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement* issued in August 2025.

Reasons for Revising IPSAS 12

BC18. In March 2023, the IPSASB commenced the evaluation of the applicability of current operational value across existing IPSAS, except for IPSAS 45, *Property, Plant, and Equipment* where the IPSASB had already decided current operational value was an applicable current value measurement basis for assets held for their operational capacity when the entity elects the current value model as its accounting policy choice.

BC19. The IPSASB developed current operational value in response to constituents' concerns received on the April 2019 Measurement Consultation Paper that fair value is difficult and inappropriate to apply to assets held for their operational capacity. Therefore, when considering which IPSAS should be in the scope of *Amendments to IPSAS Standards as a Result of the Application of IPSAS 46, Measurement*, the IPSASB identified IPSAS that require measurement of assets at current values or non-historical cost measurement basis.

Scope of the Revisions

BC20. The scope of the revisions to IPSAS 12 was limited to the evaluation of the applicability of current operational value for initial and subsequent measurement basis of inventories, to provide more relevant measurement information for inventories held for:

(a) Distribution at no charge (a transfer expense) or for a nominal charge;

(b) Consumption in the production process of goods to be distributed at no charge (a transfer expense) or for a nominal charge; or

(c) Consumption in the rendering of services at no charge (a transfer expense) or for a nominal charge.

Evaluation of the Applicability of Current Operational Value

Measurement of Inventories

BC21. The IPSASB evaluated whether current operational value should replace current replacement cost in the measurement of inventories at the 'lower of cost and current replacement cost'. Measuring inventories at the lower of cost and current replacement cost is a public sector specific guidance for specific inventories, see paragraph BC20.

BC22. The IPSASB considered that current replacement cost and current operational value are both amounts that the entity would pay for the asset at the measurement date and share key principles - entry values, entity-specific, and reflect the current condition of the existing asset. Therefore, replacing current replacement cost with current operational value is not expected to result in measurement differences, but rather will align IPSAS 12 measurement guidance with the IPSASB's updated measurement guidance in IPSAS 46, *Measurement*.

BC23. The IPSASB agreed that current operational value should replace current replacement cost when measuring inventories at the lower of cost and current replacement cost.

Initial Measurement of Inventories Acquired through a Non-Exchange Transaction

BC24. For inventories acquired through a non-exchange transaction, the IPSASB agreed to align IPSAS 12 initial measurement (i.e., fair value) with IPSAS 46 guidance. The alignment of the guidance results in an entity initially measuring inventories at deemed cost, meaning at current operational value or fair value depending on whether the entity holds the inventories for financial capacity or as described in paragraph BC15. The IPSASB noted that this will prevent a revaluation of inventories to current operational value after initial recognition solely because of differences between current value measurement bases.

Responses to the Initial and Subsequent Measurement of Inventories Proposed in ED 90

BC25. The IPSASB published Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement* in August 2024. The proposals to replace 'current replacement cost' with 'current operational value' in the measurement of inventories at the 'lower of cost and current replacement cost' was strongly supported by constituents. Some respondents raised concerns, such as:

(a) Questioning whether the costs of aligning IPSAS 12 measurement guidance with IPSAS 46 outweigh the benefits;

(b) Requesting additional application guidance to estimate current operational value; or

(c) Noting that jurisdiction or entity-specific reasons will make the estimation of current operational value challenging.

BC26. The IPSASB considered the issues raised by these respondents and decided to proceed with ED 90 proposals because:

(a) As noted by other respondents, current replacement cost and current operational value shared key principles, and the values are expected to be similar; as such, costs of implementation are not expected to outweigh its benefits; and

(b) Consistent with its objective, IPSAS 46 contains guidance to help entities estimate the measurement bases in its scope, such as the current operational value.

Measuring Biological Assets (IPSAS 27) at the Lower of Cost and Current Operational Value

BC27. Paragraph 29 requires the cost of inventories comprising agricultural produce that an entity has harvested from its biological assets to be fair value less cost to sell at the point of harvest in accordance with IPSAS 27, *Agriculture*. Measuring inventories comprising agricultural produce that an entity has harvested from its biological assets at the lower of cost and current operational value could result in a revaluation when current operational value is lower than cost (i.e., fair value less cost to sell when the agricultural produce becomes inventory).

BC28. The IPSASB agreed that the introduction of current operational value for the measurement of specific inventories, see paragraph BC15, is consistent with existing measurement guidance to measure inventory at the lower of cost and current replacement cost because:

(a) The IPSASB noted that the practice of writing inventories down below cost, in this case to current operational value, is consistent with the view that assets are not to be carried in excess of the service potential expected to be realized from their distribution, or consumption; and

(b) The expectation that current replacement cost and current operational value will yield a similar, if not the same, value.

Current Value Measurement Disclosures

BC29. During the development of Exposure Draft (ED) 90, *Amendments to IPSAS as a Result of the Application of IPSAS 46, Measurement*, the IPSASB decided to remove the terms 'recurring' and 'non-recurring' to enhance the consistency of current value measurement disclosure terminology across IPSAS. The IPSASB noted that whether a current value measurement basis is applied on a recurring or non-recurring basis after initial recognition is specified in the relevant IPSAS. Therefore, having these terms can lead to inconsistent application of the current value measurement disclosure principles.

BC30. The IPSASB published ED 90 in August 2024. The ED proposed enhancing current value measurement disclosures by removing the terms 'recurring and non-recurring' and adding current operational value disclosures in IPSAS 12. The current value measurement disclosures added were on a non-recurring basis because the measurement of inventories at current operational value at subsequent measurement take place on a non-recurring basis (i.e., when an inventory in the scope of paragraph 17 is written down to current operational value because this is lower than its cost).

BC31. A respondent to ED 90 sought clarification for:

(a) Current value measurement disclosures requirements at subsequent measurement for inventories at current operational value; however, the same disclosures are not required for inventories subsequently measured at net realizable value; and

(b) The reason why IPSAS 46 did not include similar current value measurement disclosures for current replacement cost, as those proposed in ED 90 for subsequent measurement at current operational value.

BC32. The IPSASB noted that current value measurement disclosures were added across IPSAS Standards to enhance the disclosures of measurement bases in the scope of IPSAS 46. Disclosures are required only for assets subsequently measured under a measurement basis available in the current value model. Measurement bases for assets available in the current value model are current operational value and fair value. Therefore, current value measurement disclosures are not required when inventories are subsequently measured at net realizable value.

BC33. The IPSASB noted respondents' support for enhancing current value measurement disclosures as proposed in ED 90. Therefore, it decided to proceed with removing 'recurring and non-recurring' from current value measurement disclosures in IPSAS 12. The IPSASB does not consider the respondent comments, documented in BC26, to challenge the proposal to remove the term 'recurring and non-recurring'.

COMPARISON WITH IAS 2

IPSAS 12, *Inventories* is drawn primarily from IAS 2, *Inventories* (Revised 2003). The main differences between IPSAS 12 and IAS 2 are as follows:

- IPSAS 12 uses a different definition from IAS 2; the difference recognizes that in the public sector some inventories are distributed at no charge or for a nominal charge.
- IPSAS 12 clarifies that work-in-progress of services that are to be distributed for no or nominal consideration directly in return from the recipients are excluded from the scope of the Standard.
- IPSAS 12 requires that where inventories are acquired through a non-exchange transaction, their cost is their deemed cost as at the date of acquisition.
- IPSAS 12 requires that certain inventories to be valued at the lower of cost and current operational value.
- Principles from IFRIC 20 have been included as an authoritative appendix to IPSAS 12 with relevant public sector terminology changes. The IASB issues IFRIC interpretations as separate pronouncements.
- IPSAS 12 uses different terminology, in certain instances, from IAS 2. The most significant example is the use of the terms “statement of financial performance” in IPSAS 12. The equivalent term in IAS 2 is “income statement.”
- IPSAS 12 does not use the term “income,” which in IAS 2 has a broader meaning than the term “revenue.”

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