Inventories — Background Information and Basis for Conclusions

Section 3031

Foreword

The pre-changeover standards in Part V of the CPA Canada Handbook – Accounting, which included this Basis for Conclusions document, have been removed from the Handbook. This Basis for Conclusions was developed to accompany the pre-changeover standard and, since that standard was fully converged with Part II of the Handbook, it remains relevant.

Background Information and Basis for Conclusions documents are primary sources of generally accepted accounting principles, as described in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100. These documents are intended to help readers understand how the AcSB reached its conclusions, but they do not include explanations of requirements or guidance on the application of the relevant Section or Accounting Guideline.

March 2020

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INTRODUCTION

1 This document summarizes considerations that were deemed significant by members of the Accounting Standards Board (AcSB) in reaching the conclusions in INVENTORIES, Section 3031, and related amendments to other Sections. It sets out the reasons the AcSB undertook the project to develop this Section, the approach taken, the process of deliberation and the key decisions made. Individual AcSB members gave greater weight to some factors than to others.

2 Nothing in this document is to be taken as overriding the requirements of the CICA Handbook – Accounting. However, it may help readers understand how the AcSB reached its conclusions in developing the new Section and the AcSB's intent with respect to its interpretation and application.

BACKGROUND

3 In April 2004, the AcSB approved a project to develop a standard to replace Section 3030. Both International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (GAAP) provide more extensive guidance than Section 3030, and have been recently updated as follows:

(a) International Financial Reporting Standard IAS 2, "Inventories," was revised in 2003 by the International Accounting Standards Board (IASB) as part of its project on Improvements to International Accounting Standards. The IASB's main objective in this revision was to reduce the number of alternatives for the measurement of inventories.

(b) In November 2004, the US Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, "Inventory Costs — an amendment of ARB No. 43, Chapter 4" (FAS 151), to eliminate one of the existing differences from IAS 2 by clarifying that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred.

4 In view of the AcSB's longstanding goal of significantly enhancing Canadian GAAP as well as these developments, the AcSB introduced the Canadian equivalent of IAS 2 as Section 3031, for the following reasons:

(a) The standard represents a significant improvement to Canadian GAAP, as it:

(i) provides more extensive guidance on the determination of cost, including allocation of overhead;

(ii) narrows the permitted cost formulas;

(iii) requires impairment testing; and

(iv) expands the disclosure requirements to increase transparency.

(b) The standard is based on sound principles that have recently been reviewed and confirmed by both the IASB and the FASB as part of their short-term convergence project. The AcSB notes that there is no indication that the IASB will change IAS 2 in the foreseeable future or that the FASB will change the corresponding US GAAP requirements.

(c) The standard is consistent with the AcSB's recently adopted Strategic Plan:

(i) The AcSB chose to base the standard on IAS 2 so as to avoid a second round of changes in the proposed transition to IFRSs. In addition, the AcSB feels that IAS 2 clearly specifies the cost of inventories as those directly incurred in bringing the inventories to their present location and condition, and does not view the last-in, first-out (LIFO) method as appropriately measuring the cost of inventories.

(ii) For publicly accountable enterprises, the Strategic Plan calls for the convergence of Canadian GAAP with IFRSs over a transitional period . Introducing the Canadian equivalent of IAS 2 at this time provides the opportunity for publicly accountable enterprises to ensure conformity with this international standard now, rather than at the end of the transitional period. For non-publicly accountable enterprises (NPAEs), the AcSB recognizes that the financial reporting model eventually adopted may affect the timing and applicability of the standard to NPAEs.

DEVELOPMENT OF THE STANDARD

5 The AcSB has been guided in the development of the standard by the following overall objectives:

(a) The content should conform as closely as possible to IAS 2.

(b) Changes should be made only when necessary to make the proposals consistent with other parts of Canadian GAAP, or to include explanatory material from other IFRSs that is necessary to understand the proposals. These changes have been identified in this document.

(c) The contents, style and terminology of IAS 2 was not adopted if it would create a risk that the Section will be applied incorrectly, or make it more difficult to use the Section or the Handbook in general.

(d) Guidance should be provided for any unique circumstances of not-for-profit organizations, as IFRSs do not address the special requirements of these organizations.

PROCESS

6 In developing Section 3031, the AcSB investigated which industries currently measure their inventories on a basis other than cost (and other than as a result of a write-down). The AcSB found that some agricultural inventories are currently measured at fair market value or a related measure such as net realizable value. This finding confirmed the need to retain the scope exemption in IAS 2 pertaining to the measurement of inventories held by producers of agricultural and forest products, and agricultural produce after harvest.

7 The AcSB was informed that the mining industry in Canada now measures minerals and mineral products at cost, instead of the once-common market-based measurements. The AcSB nonetheless retained a scope exemption for the measurement of inventories held by producers of minerals and mineral products in order to converge with IAS 2. In doing so, the AcSB noted that the scope exemption applies only when the measurement basis used is in accordance with well-established practices in that industry.

8 The AcSB is participating in an IASB project that addresses recognition, measurement and disclosure issues for extractive industries. A standard resulting from that project may affect the scope exemption from the measurement requirements pertaining to minerals and mineral products in the future.

9 The AcSB consulted with its Not-for-Profit Organizations Advisory Committee and Differential Reporting Advisory Committee, as discussed in paragraphs 35-39 and 41, respectively.

10 The AcSB also consulted with its User Advisory Council on a proposed set of disclosure requirements aligned with IAS 2. The Council strongly supported the IAS 2 disclosures, viewing them as providing information that would be valuable to users and increasing transparency. The Council also suggested certain additional disclosures to provide details of inventory components (for example, direct costs, overhead allocation, foreign exchange and any non-recurring items). The AcSB decided that the IAS 2 disclosures provide an appropriate minimum level of disclosure.

11 The AcSB approved an Exposure Draft that was published in June 2006 for comment by September 15, 2006. The AcSB received 20 letters of comment on its Exposure Draft proposals from a representative cross-section of interested parties. This document will address the more significant issues raised by respondents and the conclusions of the AcSB on these issues.

12 In the case of Handbook Sections written to converge with an existing IFRS, the IASB has already deliberated and decided upon the fundamental principles and requirements following its due process. Therefore, the opportunities for respondents to influence the final standard are limited. Accordingly:

(a) respondents were asked to restrict their comments to areas in which they believe the requirements of the IFRS would lead to inappropriate results if applied in Canada; and

(b) the AcSB considered changes to its proposals for, and this document discusses, comments of this nature only.

The responses to the Exposure Draft did not result in the AcSB making any fundamental changes to the proposals, although several improvements were made.

OBJECTIVE

13 Section 3031 provides more guidance on the measurement and disclosure requirements for inventories than Section 3030. Specifically, it requires inventories to be measured at the lower of cost and net realizable value, and provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The standard also provides guidance on the cost formulas used to assign costs to inventories.

SCOPE

14 Initially, the AcSB observed that the scope exemption in paragraph 2(c) of IAS 2 for inventories of "biological assets related to agricultural activity and agricultural produce at the point of harvest" exists because International Financial Reporting Standard IAS 41, "Agriculture," addresses the accounting for these inventories. The primary sources of Canadian GAAP do not contain guidance equivalent to IAS 41, and including this scope exemption in the proposals would have resulted in the absence of any requirements for such inventories. The AcSB concluded that it was necessary to exclude these inventories from the scope of the measurement provisions. However, the AcSB viewed the disclosure requirements to be as important for these inventories as for other inventories. The Exposure Draft therefore replaced the IAS 2 scope exemption with a scope exemption from the measurement provisions only, and also included several definitions from IAS 41 to help in understanding which inventories this scope exemption applied to. However, some respondents felt that the scope exemption for agricultural inventories was unduly complex and not clear. Consequently, the AcSB replaced this exemption with the exemption in paragraph 3031.03(b1). In order to make this exemption clearer and easier to understand, the inventories included in this exemption are defined more broadly than in IAS 2. The AcSB recognizes that the addition of paragraph 3031.03(b1) creates a potential overlap in the types of agricultural inventories described in paragraph 3031.03(a). However, the AcSB concluded that this potential duplication was necessary to avoid any ambiguities by ensuring that all agricultural inventories were included in the measurement scope exemption.

15 The Exposure Draft proposed exempting from the standard work in progress arising under construction contracts, including directly related service contracts, consistent with IAS 2. Respondents were unclear how to interpret the term "directly related". International Financial Reporting Standard IAS 11, "Construction Contracts," provides some guidance on this but there is no equivalent in Canadian GAAP. Respondents also found the material in the Exposure Draft relating to service contracts confusing. Some noted that Emerging Issues Committee Abstract EIC-65, "Law Firms — Revenue Recognition" prescribes use of the percentage of completion method. The AcSB decided to address these concerns by replacing the proposed scope exemption for construction contracts with a scope exemption for contracts accounted for using the percentage of completion method as described in REVENUE, Section 3400. This removes from the scope of the standard construction contracts accounted for using the percentage of completion method and service contracts using that method. Any inventories resulting from, or associated with construction or

service contracts not accounted for using that method would fall within the scope of the standard. As a consequence, all references to service contracts have been excluded from the standard.

16 Paragraph 37 discusses the scope exemption in paragraph 3031.02(c1) that pertains to contributions not recognized by not-for-profit organizations.

17 Paragraph 8 of International Financial Reporting Standard IAS 16, "Property, Plant and Equipment," states that "spare parts and servicing equipment are usually carried as inventory." It also identifies circumstances in which such items should be accounted for as property, plant and equipment. A consequential amendment has been made to PROPERTY, PLANT AND EQUIPMENT, Section 3061, to be consistent with IAS 16 and US GAAP.

DEFINITION OF FAIR VALUE

18 The AcSB replaced the IAS 2 definition of fair value with the definition used in other Sections of the Handbook. The AcSB believes that there is no substantive difference between the definition of fair value in IAS 2 and that in Section 3031, and that differences in the wording of the definition should not lead to a difference in practice between companies applying IFRSs and those applying Canadian GAAP.

19 The IASB plans to issue an exposure draft on fair value measurements in early 2008, based on Statement of Financial Accounting Standards No. 57, "Fair Value Measurements" (FAS 157). The AcSB intends to undertake its own project in parallel with the IASB project with a view to amending the definition of fair value throughout Canadian GAAP to be consistent with the definition adopted by the IASB.

MEASUREMENT OF INVENTORIES

Measurement at lower of cost and net realizable value

20 Section 3031 generally requires measurement of inventories at the lower of cost and net realizable value, consistent with the approach in IAS 2. Section 3030 did not require such measurement and thus, for some entities in Canada, the requirement in Section 3031 may result in a significant change in practice. However, the AcSB understands that most Canadian public companies have used a "lower of cost and market" approach, although market was not always defined as net realizable value. Some companies in Canada have used replacement cost to value some or all of their inventories.

21 The AcSB could see no reason to differ from the IAS 2 measurement approach. The AcSB considered, but rejected, a measurement approach aligned with US GAAP. The US GAAP approach is broadly consistent with IAS 2, in that the lower of cost and market value is used to value inventories. However, US GAAP defines market value as current replacement cost subject to an upper limit of net realizable value and a lower limit of net realizable value less a normal profit margin. When replacement cost does not equal net realizable value, a US-IFRS GAAP difference arises.

22 Certain inventories of not-for-profit organizations are measured at fair value and some are measured at the lower of cost and current replacement cost, as explained in paragraphs 35-39.

Cost of inventories

23 Section 3031 provides extensive guidance on the allocation of fixed and variable production overheads, including guidance on the allocation of fixed production overheads based on normal capacity of the production facilities. Some entities will encounter significant changes in the determination of the cost of their inventories, including the allocation of their overheads, as a result of the guidance in Section 3031.

24 The AcSB considered, but rejected, adopting the FASB's recent amendments to Chapter 4 of Accounting Research Bulletin No. 43, "Restatement and Revision of Accounting Research Bulletins — Inventory Pricing" (ARB 43), to clarify the term "normal capacity". The AcSB did not see a need for clarification. It noted that financial statement preparers must exercise their professional judgment in applying GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100).

Elimination of LIFO cost formula

25 The use of the last-in, first-out (LIFO) formula to measure the cost of inventories is not acceptable under Section 3031. The AcSB is aware that some companies in Canada have used LIFO to measure the cost of some of their inventories. However, the AcSB could see no reason to differ from IAS 2 on this issue. The IASB eliminated LIFO as an alternative cost formula as part of its project on Improvements to International Accounting Standards. The AcSB agrees with the IASB's reasons for eliminating LIFO, as explained in the Basis for Conclusions document for IAS 2 and summarized below:

(a) The LIFO method treats the newest items of inventory as being sold first, and consequently the items remaining in inventory are recognized as if they were the oldest. This is generally not a reliable representation of actual inventory flows.

(b) The use of LIFO results in inventories being recognized in the balance sheet at amounts that bear little relationship to recent cost levels of inventories. LIFO can distort reported net income, especially when "preserved" older "layers" of inventory are presumed to have been used when inventories are substantially reduced.

(c) Paragraph BC14 of the IASB's Basis for Conclusions states: "Some respondents argued that the use of LIFO has merit in certain circumstances because it partially adjusts profit or loss for the effects of price changes. The

Board concluded that it is not appropriate to allow an approach that results in a measurement of profit or loss for the period that is inconsistent with the measurement of inventories for balance sheet purposes."

Borrowing costs

26 Paragraph 17 of IAS 2 discusses the inclusion of borrowing costs in the cost of inventories and provides a cross-reference to International Financial Reporting Standard IAS 23, "Borrowing Costs." Primary sources of Canadian GAAP do not include guidance equivalent to IAS 23 although INTEREST CAPITALIZED — DISCLOSURE CONSIDERATIONS, Section 3850, acknowledges that a number of enterprises have an accounting policy of capitalizing interest. Therefore, paragraph 3031.17A permits an entity to capitalize interest costs when the costs are directly attributable to the acquisition or production of inventory that requires a substantial period of time to get it ready for its intended use or sale and the entity's accounting policy is to capitalize interest costs.

Contingencies

27 Paragraph 3031.31 notes that provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. IAS 2 includes a cross-reference to International Financial Reporting Standard IAS 37, "Provisions, Contingent Liabilities and Contingent Assets." Section 3031 does not contain an equivalent cross-reference due to the absence of a Canadian standard similar to IAS 37.

RECOGNITION AS AN EXPENSE

Matching principle

28 Paragraph 3030.09 stated: "The method selected for determining cost should be one which results in the fairest matching of costs against revenues regardless of whether or not the method corresponds to the physical flow of goods." Consistent with IAS 2, Section 3031 does not contain a corresponding requirement.

29 The AcSB agrees with the IASB's views on the interrelationship between recognition of assets and income statement matching. Paragraph 95 of the IASB's "Framework for the Preparation and Presentation of Financial Statements" states: "Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income. This process, commonly referred to as the matching of costs with revenues, involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transactions or other events. For example, the various components of expense making up the cost of goods sold are recognized at the same time as the income derived from the sale of the goods. However, the application of the matching concept does not allow the recognition of items in the balance sheet which do not meet the definition of assets or liabilities."

Reversal of write-downs

30 Section 3031 requires that an increase in net realizable value be recognized to the extent that it is a reversal of a previous inventory write-down. The AcSB acknowledges that requiring such a reversal is inconsistent with current Canadian GAAP impairment provisions for other assets, although noting that the IASB has provided for reversals of write-downs in all of its standards that address the issue of asset impairment.

31 In paragraph 50 of the Background Information and Basis for Conclusions document for INTERIM FINANCIAL STATEMENTS, Section 1751, the AcSB discusses:

> "... the question of whether a write-down of inventories in one period may, or must, be reversed in a subsequent period when the circumstances that gave rise to the write-down have changed, such that the original cost amount would no longer be considered impaired. ... Section 3030 does not address the issue and Canadian practice varies, although predominant practice is believed to be not to reverse write-downs."

32 Reversal of write-downs of inventories also conflicts with US GAAP as Chapter 4 of ARB 43 prohibits reversal of a write-down on the grounds that a write-down creates a new cost basis.

33 In this case, the AcSB decided not to diverge from the requirements of IAS 2 and, accordingly, to require the reversal of write-downs of inventories, even though a conflict arises with US GAAP and other Canadian GAAP standards on impairment. Disclosure is required of such reversals (see paragraph 3031.36(f)).

DISCLOSURE

34 Section 3031 differs from IAS 2 in terms of disclosure requirements in one significant respect — for completeness in disclosing the carrying amounts of inventories exempted from the measurement requirements, Section 3031 requires disclosure of all inventories outside the scope of the measurement requirements in accordance with paragraph 3031.03. IAS 2 requires disclosure of inventories carried at fair value less cost to sell in accordance with the scope exemption in paragraph 3031.03(b). The AcSB viewed as equally important the disclosure of the carrying amount of all inventories scoped out of the measurement provisions of the standard by virtue of paragraph 3031.03 and therefore included a requirement in paragraph 3031.36 to also disclose the carrying amount of the inventories referred to in paragraphs 3031.03(a) and (b1). The AcSB noted that paragraph 73 of International Financial Reporting Standard IAS 1, "Presentation of Financial Statements," states: "The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items." The disclosure requirement in paragraph 3031.36 accomplishes a similar purpose.

NOT-FOR-PROFIT ORGANIZATIONS

35 Section 3031 has been reviewed by the Not-for-Profit Organizations Advisory Committee. The Committee believes that IAS 2 is generally appropriate for not-for-profit organizations, but does not address certain circumstances commonly encountered by these organizations that are unique to them. The AcSB adopted the Committee's suggestion to provide guidance specific to those circumstances.

36 In particular, Section 3031 provides guidance for not-for-profit organizations with inventories held for distribution at no charge or for a nominal charge, or held for consumption in the production of goods to be distributed at no charge or for a nominal charge. For example, a not-for-profit organization may provide food in a shelter for homeless individuals. This food is held for distribution and not held for sale. Measurement of such food at the lower of cost and net realizable value would likely produce a zero value. These types of inventories are measured at the lower of cost and current replacement cost instead of at the lower of cost and net realizable value. Replacement cost better reflects the future economic benefits or service potential of such inventory to the not-for-profit organization than net realizable value.

37 The AcSB also agreed with the Committee's concern that CONTRIBUTIONS — REVENUE RECOGNITION, paragraph 4410.16, which permits not-for-profit organizations to choose whether to recognize contributions of materials and services, would be in potential conflict with Section 3031 unless certain guidance was provided. As a result, the AcSB included guidance for not-for-profit organizations (see paragraphs 3031.39B-.39C) to ensure that accounting for contributions of materials and services recognized as inventories by these organizations would be consistent with contributions accounting in accordance with Section 4410. In addition, the choice in paragraph 4410.16 for not-for-profit organizations to recognize or not recognize contributions of materials and services made it necessary for the AcSB to provide a scope exemption in Section 3031 for not-for-profit organizations that choose not to recognize such contributions (see paragraph 3031.02(c1)).

38 When adding guidance about contributions of materials and services, the AcSB considered the issue of whether estimated selling costs associated with items held for sale should be deducted from fair value so as to remove the possibility of a "day 2" loss. The definition of fair value does not provide for the deduction of estimated selling costs, but net realizable value takes these costs into account by definition. In particular, the AcSB considered whether a not-for-profit organization that recognizes contributions of materials and services would incur a loss since those contributions are recognized at fair value at the date of contribution, in accordance with paragraph 4410.19, and then subsequently measured in accordance with Section 3031 at the lower of cost and net realizable value.

39 The AcSB, in consultation with the Committee, believes that measurement at initial recognition at the date of contribution (fair value) and measurement subsequent to initial recognition (net realizable value) would likely result in the same amount in practice. Estimated selling costs would likely be negligible — selling activities often do not involve out-of-pocket costs as they are performed by volunteers.

ILLUSTRATIVE EXAMPLE

40 The AcSB provided an example to illustrate the requirement in paragraph 3031.36(d),to disclose the amount of inventories recognized as an expense during the period. The example applies when an entity adopts a format for the income statement that presents an analysis of expenses using a classification based on the nature of expenses (as provided in paragraph 3031.39). The example illustrates an issue dealt with in IAS 1.

DIFFERENTIAL REPORTING

41 Section 3031 was reviewed by the Differential Reporting Advisory Committee. The Committee did not recommend any differential reporting options be incorporated into the Section.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

42 Section 3031 applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. This date allows an entity adequate time from the date the Section is published to implement the new requirements, which the AcSB believes to be important. The transitional provisions give an entity the option to either apply this Section retrospectively and restate prior periods in accordance with ACCOUNTING CHANGES, Section 1506, or to adjust opening retained earnings and not restate. The AcSB provided these options because it recognized the difficulty that many entities would have if they were required to restate prior periods. However, the AcSB did not want to preclude any entity from restating prior periods.

CONSEQUENTIAL AMENDMENTS

43 As a consequence of issuing Section 3031, amendments have been made to certain other parts of the Handbook to remove or replace material that is inconsistent with the new standard.

44 Although significant consequential amendments have been made to INTERIM FINANCIAL STATEMENTS, Section 1751, to remove references to the LIFO method , they do not include an amendment to the accounting for manufacturing cost variances (see paragraph 1751.26). The deferral of such variances in interim periods provided for by Section 1751 remains a difference from annual reporting requirements under Canadian GAAP.

45 INTERIM FINANCIAL STATEMENTS, Section 1751, currently aligns with the approach taken in US Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," for accounting for manufacturing cost variances. This approach does not align with International Financial Reporting Standard IAS 34, "Interim Financial Reporting," which

precludes the deferral of such variances. (See paragraphs 46-47 of the Background Information and Basis for Conclusions document for Section 1751, dated September 2000, for further discussion.)

46 Having considered this difference between Canadian GAAP and IFRSs, the AcSB notes that it was decided on as part of the development of INTERIM FINANCIAL STATEMENTS, Section 1751, in accordance with the AcSB's former strategy of harmonizing with US GAAP. The changes to inventory accounting as reflected by Section 3031 do not affect that decision. The AcSB concluded that any amendment to Section 1751 to align with IAS 34 would go beyond the scope of the project to replace Section 3030.

47 The consequential amendment to GOODWILL AND OTHER INTANGIBLE ASSETS, Section 3062, exempts from that standard intangible assets that are within the scope of Section 3031. Section 3062 is harmonized with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (FAS 142). Since the US GAAP inventory standard, Chapter 4 of ARB 43, defines inventory as tangible personal property, all intangible assets fall under FAS 142. Section 3062 uses the same definition of intangible assets as FAS 142 and, as a result, without the amendment to Section 3062, intangible inventory items would continue to fall within its scope.

48 Paragraph 3(a) of International Financial Reporting Standard IAS 38, "Intangible Assets," excludes intangible assets held by an entity for sale in the ordinary course of business from its scope. IAS 38 refers readers to IAS 2 and IAS 11.

49 The AcSB did not see a reason to differ from IFRSs on this issue. It decided to exclude intangible inventory items from the scope of GOODWILL AND OTHER INTANGIBLE ASSETS, Section 3062, even though it creates a US-Canadian GAAP difference. The AcSB reasoned that the issue is quite narrow, with a limited range of items potentially subject to both Sections 3031 and 3062, (for example, internet domain names held for sale). It noted that an approach aligned with IFRSs is consistent with its convergence strategy. Accordingly, it amended the scope of Section 3062 to ensure that intangible inventory items are not subject to both Sections 3031 and 3062.

CONSISTENCY WITH US REQUIREMENTS

50 The AcSB believes that Section 3031 takes an approach to accounting for inventories similar to the approach in US GAAP, but acknowledges that some differences do exist that could have significant effects in practice. For example:

(a) the use of the LIFO method of cost determination will no longer be acceptable in Canada but is permitted under US GAAP;

(b) US GAAP requires inventories to be carried at the lower of cost and market where the definition of "market" is not the same as "net realizable value"; and

(c) the requirement to reverse previous write-downs when the value of inventories subsequently increases is prohibited in US GAAP.