

10. INVENTORIES

10.1 Description

IAS 2 describes inventories as assets that are held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in rendering services.

Normally, the NPOs' inventory comprised material or supplies to be consumed in the process of rendering services. Some NPOs may manufacture goods for the purpose of distributing these to the beneficiaries.

IAS 2, which prescribes that inventories be valued at a lower cost or net realizable value, shall guide NPOs with regards to the issues raised. Based on the framework, all the resources should be recognized as assets if they meet the definition of assets and the recognition criteria. However, there are two specific situations where an NPO holds an inventory: if an NPO has inventories held for distribution and if inventories are held for production.

10.2 Inventories Held for Distribution

In many instances, NPOs purchase goods or receive donated goods that are intended for distribution to beneficiaries. However, at balance sheet date, some of the items may still be in the possession of the NPO because, for one reason or another, these may have to be released after the balance sheet date. ***The remaining inventory should be valued based on historical cost.***

Illustrative Entries:

On December 10, 2005, OPN Foundation purchased clothes and canned goods to be given to the victims of floods and typhoons amounting to 100,000.

Dec 10	Relief goods	100,000	
	Cash in bank		100,000

*To record purchase of clothes and canned goods
for victims of floods and typhoons*

Assuming that there may be a decrease in fair value in the succeeding period, such that the investment is valued at 105,000 only on December 31, the unrealized loss from investment should be recognized.

Unrealized gain(loss) from investment	5,000	
Investment in _____		5,000

To record unrealized loss from investment based on its fair value on Dec 31.

The unrealized gain(loss) should be presented at the net amount for the entire period. In the above example, the unrealized gain is 5,000 (10,000 less 5,000)

Income

Periodically, income from investments is recorded in the books of the NPO based on the declaration by the issuer of the investment instrument, e.g. dividend income.

Entry:

Cash		
(or other form of asset as the case may be)	2,000	
Income from investment		2,000

To record _____ income from investment in _____.

Important Note: The overall income and gain (net of losses) should be credited to the intended project fund or operations as defined by either the specific donor or the governing board.