Accounting Standards for Business Enterprises No.1 - Inventories

Chapter I General Provisions

Article 1 These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the recognition of the inventories, measurement and disclosure of r elated information.

Article 2 Other relevant accounting standards shall apply to such items as follows:

(1) The Accounting Standard for Business Enterprises No. 5 - Biological Assets shall apply to the consumptive biological assets.

(2) The Accounting Standard for Business Enterprises No. 15 - Construction Contracts shall apply to the costs of the inventories together through construction contracts.

Chapter II Recognition

Article e 3 The term "inventories" refers to finished products or merchandise possessed by an enterprise for sale in the daily of business, o r work in progress in the process of production, or materials and supplies to be consumed in the process of production or offering labor service.

Article 4 The inventories shall not be recognized unless they satisfy such conditions simultaneously as follows:

(1) The economic benefits pertinent to the inventories are likely to flow into the enterprise; and

(2) The cost of the inventories can be measured reliably.

Chapter III Measurement

Article 5 The inventories shall be initially measured in light of their cost. The cost of inventory consists of purchase costs, processing costs and other costs.

Article 6 The purchase costs of inventories consists of the purchase pri ce, relevant taxes, transport fees, loading and unloading fees, insurance premiums and other expenses that may be relegated to the purchase costs of inventories.

Article 7 The processing costs of inventories consist of the direct labor and production overheads allocated according to a particular method.

The "production overheads" refers to all indirect expenses happened in the process of manufacturing products and providing labor services by an enterprise. An enterprise shall, according to the nature of the production overheads, choose the reasonable method for the allocation of production overhead s.

If two or more kinds of products are manufactured in the same production process, and the processing cost for each product is unable to be separated from that of others directly, the processing costs shall be allocate d among the products in a reasonable way.

Article 8 "Other costs of inventories" refers to those costs, other than purchase costs and processing costs, happened in bringing the inventories to their present location and condition.

Article 9 The following expenses shall be recognized as current profits and losses as they are happened, which shall not be included in the cost o f inventories: (1) The direct materials,direct labor and production overheads that are abnormally consumed;

(2) The storage expenses (excluding the expenses which are necessary in the production process for reach the next production stage); and

(3) Other expenses that cannot be included in the costs happened i n bringing the inventories to their present location and condition.

Article 10 The borrowing costs, which shall be included in the cost of inventories, shall be disposed in accordance with the Accounting Standard for Enterprises No. 17 - Borrowing costs.

Article 11 The cost of inventories invested by an investor shall be ascertained in accordance with the value as stipulated in the investment contract or agreement, unless it is not stipulated fair in the contract or agreement.

Article 12 The cost of agricultural products in the harvest, and the cost o f inventories obtained by the exchange of non-monetary assets, recombination of liabilities and merger of enterprises shall be ascertained in accordance with the Accounting Standard for Business Enterprises No. 5 - Biological Assets, Accounting Standard for Business Enterprises No. 7 - Exchange o f Non-monetary Assets, Accounting Standard for Business Enterprises No. 12 - Debt Restructurings and Accounting Standard for Business Enterprises No. 20 -Business Combinations, respectively.

Article 13 Where an enterprise provides labor service, the direct labor expenses, other direct expenses as well as the indirect expenses included thereto shall be included in the cost of inventories.

Article 14 An enterprise shall confirm the actual cost of sending out inventories by employing the first-in-first-out method, the weighted average method or the specific identification method.

The cost of sending out inventories of items with similar nature and purpose shall be confirmed by employing the same cost calculation method.

Generally, the cost of non-substitutable inventories, and goods purchased and produced as well as the labor services offered for specific projects, the cost of sending out shall be confirmed by employing the specific identification method.

As to the inventories, which have been already sold, their costs shall be carried forward as the current profits and losses and the relevant provision for the loss on decline in value of inventories shall also be carried forward.

Article 15 On the date of balance sheet, the inventories shall be measure d whichever is lower in accordance with the cost and the net realizable value.

If the cost of inventories is higher than the net realizable value, the provision for the loss on decline in value of inventories shall be made and be included in the current profits and losses.

The net realizable value refers to in the daily business activity the amount after deducting the estimated cost of completion, estimated sale expense and relevant taxes from the estimated sale price of inventories.

Article 16 An enterprise shall confirm the net realizable value of inventories on the ground of reliable evidence obtained, taking into consideration of the purpose for holding inventories and the effects of events occurring after the date of the balance sheet.

The materials held for production shall be measured at cost if the net realizable value of the finished products is higher than the cost. If a decline of the value of materials shows that the net realizable value o f the finished products is lower than the cost, the materials shall be measured at the net realizable value.

Article 17 The net realizable value of inventories held for the execution of sales contracts or labor contracts shall be calculated on the ground of the contract price.

If an enterprise holds more inventories than the quantities subscribed in the sales contract, the net realizable value of the excessive p art of the inventories shall be calculated on the ground of the general sales price.

Article 18 Ordinarily an enterprise shall make provision for loss on decline in value of inventories on the ground of each item of inventories.

For inventories with large quantity and relatively low unit prices, the provision for loss on decline in value of inventories shall be made on the ground of the categories of inventories.

For the inventories related to the series of products manufactured and sold in the same area, and of which the final use or purpose is identical or similar thereto, and if it is difficult to measure them by separating t hem from other items, the provision for loss on decline in value of inventories shall be made on a combination basis.

Article 19 An enterprise shall confirm the net realizable value of inventories on the balance sheet date. If the factors causing any write-down o f the inventories have disappeared, the amount of write-down shall be resumed and be reversed from the provision for the loss on decline in value of inventories t hat has been made. The reversed amount shall be included in the current profits and losses.

Article 20 An enterprise shall amortize the easily consumed products of low value and packing articles and supplies by employing the one-off write-off method or equal-split amortization method and bring it in the cost of the relevant assets or in the current profits and losses.

Article 21 For any damage to the inventories of an enterprise, the enterprise shall include the amount after deducting the book value and relevant taxes from the disposal income in the current profits and losses. The book value of inventories shall refer to the amount after deducting the accumulative provision for loss on decline in value of inventories from the cost of inventories.

The loss of inventories shall be included in the current profits and losses.

Chapter IV Disclosure

Article 22 An enterprise shall, in the notes, disclose the information concerning to inventories as follows:

(1) The book value of all inventories at the beginning and end of the period;

(2) The methods to confirm the cost of sending out inventories;

(3) The basis for confirming the net realizable value of inventories, the methods to make provision for the loss on decline in value of inventories, the amount of the provision for loss on decline in value of inventories to be reversed in the current period, as well as the relevant information about the making and reversion of the provision for loss on decline in value of inventories.

(4) The book value of inventories