Accounting Standards for Enterprises No.1 – Inventories

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Chapter I General Provisions

Article 1 For the purpose of regulating the recognition, measurement and disclosure of related information, these Standards are formulated in accordance with the Accounting Standards for Enterprises – Basic Standards.

Article 2 The following items shall be governed by other relevant accounting standards:
(1)The consumptive biological assets shall be governed by the Accounting Standards for Enterprises No. 5 – Biological Assets.
(2)The costs of the inventories gathered together through construction contracts shall be governed by the Accounting Standards for Enterprises No. 15 – Construction Contracts.

Chapter II Recognition

Article 3 The term "inventories" refers to finished products or merchandise held by an enterprise for sale in the ordinary course of business, or work in progress or in the process of production for such sale, or in the form of materials and supplies to be consumed in the production process or in the rendering of services.

Article 4 The inventories shall not be recognized unless they satisfy the following conditions simultaneously:
(1)The economic benefits relating 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 at their cost. The cost of inventory comprises purchase costs, processing costs and other costs.

Article 6 The purchase costs of inventories include the purchase price, relevant taxes, transport fees, loading and unloading fees, insurance premiums and other expenses that may be attributed to the costs of acquisition of inventories.

Article 7 The processing costs of inventories include the direct labor and production overheads allocated on the basis of a particular method.

The "production overheads" refers to all indirect expenses incurred by an enterprise for manufacturing products and providing labor services. An enterprise shall, on the basis of the nature of the production overheads, reasonably choose the method for the allocation of production overheads.

If 2 or more products are manufactured in the same production course and if it is unable to directly separate the cost of one from one product from that of another product, the processing costs shall be allocated among the products in a reasonable way.

Article 8 “Other costs of inventories” refers to those costs, other than costs of purchase and costs of conversion, incurred in bringing the inventories to their present location and condition.

Article 9 The following expenses shall be recognized as profits and losses of the current period in which they are incurred, which shall not be recorded in the cost of inventories:
(1)The direct materials, direct labor and production overheads which are abnormally consumed;
(2) The storage expenses (excluding the expenses which are necessary in the production course prior to a further production stage); and
(3)Other expenses that cannot be attributed to those incurred in 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 handled according to the Accounting Standard for Enterprises No. 17 - Borrowing costs.

Article 11 The cost of inventories incurred by an investor shall be determined according to the value as stipulated in the investment contract or agreement, unless it is stipulated in the contract or agreement that the fair value is not applicable.

Article 12 The cost in the harvest of agricultural products, and the cost of inventories obtained in the exchange of non-monetary assets, debt restructuring and merger of enterprises shall be determined according to the Accounting Standards for Enterprises No. 5 - Biological Assets, Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets, Accounting Standard for Enterprises No. 12 - Debt Restructuring and Accounting Standards for Enterprises No. 20 – Merger of Enterprises, respectively.

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

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

The cost of inventories of items with similar nature and purpose shall be determined on the basis the same cost calculation method.

Generally, the cost of non-substitutable inventories, and goods purchased and produced as well as the labor services rendered for specific projects shall be determined through the specific identification method.

With regard to the inventories which have been already sold, their cost of shall be carried forward as the profits and losses of the current period and the corresponding 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 measured according to the cost or the net realizable value, whichever is lower.

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 profits and losses of the current period.

The net realizable value refers, in the ordinary course of business, to 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 determine the net realizable value of inventories on the basis of reliable evidence obtained, taking into consideration the purpose for which the inventories are held and the effects of events occurring after the balance sheet date.

The materials held for use in 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 price of materials indicates that the net realizable value of the finished product 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 a sales contract or labor contract shall be calculated on the basis 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 inventories shall be calculated on the basis of the general sales price.

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

For large numbers of inventories at relatively low unit prices, the provision for loss on decline in value of inventories shall be made on the basis of each category of inventories.

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For the inventories which are related to the series of products manufactured and sold in a 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 them from other items, the provision for loss on decline in value of inventories may be made on a combination basis.

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

Article 20 An enterprise should amortize the carrying amount of low cost and short-lived consumable items and packaging materials and supplies through the one-off write-off method or equal-split amortization method and record it in the cost of the relevant assets or in the profits and losses of the current period.

Article 21 For any damage to the inventories of an enterprise, the enterprise shall record the amount after deducting the carrying amount and relevant taxes from the disposal income in the profits and losses of the current period. The carrying amount of inventories shall be the amount reached 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 profits and losses of the current period.

Chapter IV Disclosure

Article 22 An enterprise shall, in the annotations, disclose the following information relating to inventories:
(1)The carrying amount of all inventories at the beginning and end of the period;
(2)The method to determine the cost of inventories sent out;
(3)The basis for determining the net realizable value of inventories, the method 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 carrying amount of inventories to be used for a guaranty.

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