

IAS 2 Inventories (November 2015)

Inventories—Prepayments in long-term supply contracts

The Interpretations Committee received a request seeking clarification on the accounting for long-term supply contracts for inventories when the purchaser agrees to make significant prepayments to the supplier. The question considered is whether the purchaser should accrete interest on long-term prepayments by recognising interest income, resulting in an increase in the cost of inventories and, ultimately, the cost of sales.

The Interpretations Committee discussed this issue and noted that paragraph 18 of IAS 2 Inventories requires that when an entity purchases inventories on deferred settlement terms, and the arrangement contains a financing element, the difference between the purchase price on normal credit terms and the amount paid is recognised separately as interest expense over the period of the financing. It also noted that IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets include similar requirements when payment for an asset is deferred. IFRS 15 Revenue from Contracts with Customers, issued in May 2014, additionally includes the requirement that the financing component of a transaction should be recognised separately in circumstances of both prepayment and deferral of payment. The Interpretations Committee conducted outreach on this issue, but the outreach returned very limited results. The Interpretations Committee concluded that this issue did not meet its agenda criteria and therefore it decided to remove this issue from its agenda.