



SAS Quadra 05. Bloco J. CFC  
Brasília, Distrito Federal – Brazil  
[www.cpc.org.br](http://www.cpc.org.br)

February 20, 2014

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International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Outreach Request – IAS 2 / IAS 16 “Core inventories”**

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)<sup>1</sup> welcomes the opportunity to respond to the Outreach Request - IAS 2 / IAS 16 – Core inventories.

**Background of the issue**

The submitter pointed out that a divergence exists in respect of classification and measurement of ‘core inventories’ owned by an entity and stored in its own facilities. The question arises of whether the ‘core inventories’ are considered inventories in accordance with IAS 2 or property, plant and equipment in accordance with IAS 16.

The submitter provides the following common characteristics of ‘core inventories’:

- Amount: a minimum amount of material must be present to start the production process and subsequently at all times during the production,
- Physical separation: physically commingled with ordinary inventories on an ongoing basis and/ or cannot physically be separated from other inventories,
- Time of removal: can only be removed when the production facilities are finally decommissioned or overhauled or during the production process at a considerable financial expense,
- Industries: non-ferrous metal industry, petrochemicals and gas extraction.

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<sup>1</sup> The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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The submitter also provides specific examples of 'core inventories': cushion gas in a cavern, minimum quantity oil in a pipeline, minimum level of certain materials in a non-ferrous metal refinery.

The submitter explains that it is unclear which unit of account should be used as the basis of classification of 'core inventories' and identifies two possible views on accounting for 'core inventories':

#### View 1– Classification under IAS 2 Inventories

- Unit of account: the smallest unit of the materials concerned (ultimately individual atoms), which are constantly turned over during the production process.
- Arguments of the proponents: 'core inventories', being physically commingled with the other inventories, are consumed in the production process and are used for less than one period.

View 2 – Classification under IAS 16 Property, Plant & Equipment  
o Unit of account: the entire amount of the materials that must be present and that remains constant over time.

- Arguments of the proponents: 'core inventories' are neither held for sale nor consumed, instead these inventories are needed to bring another item of PP&E to the condition necessary for it to be capable of operating.

#### Questions

**Q1. Are you aware of any difficulties or challenges in your jurisdiction in accounting for 'core inventories' stored in facilities owned by the entity itself?**

No. The core inventories of oil & gas and mining industry in Brazil are classified under IAS 2. We have no seem any entity which classify core inventories under IAS 16.



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**Q2. If you answered ‘Yes’ to Q1, what is the prevalent interpretation or recommended treatment on whether ‘core inventories’ should be accounted as inventories or as PP&E? In addition, if possible, could you please briefly describe the rationale for that prevalent interpretation/ treatment?**

**I would very much appreciate if you could please provide me with:**

- (a) qualitative and/or quantitative information on what the prevalent approach in your jurisdiction is for classifying and measuring core inventories; and**
- (b) examples of core inventories that are typical in your jurisdiction.**

N/A.

**Q3. If you answered ‘Yes’ to Q1, to what extent do you observe diversity in practice in respect of the issue above?**

N/A.

**If you have any other information that you think would be useful in analysing this issue, or any general comments to make on this topic, please include them in your response.**

The arguments of some entities is that core inventories in their cases can be:

- Core inventories are constantly turned over during the production process for less than one year;
- In many cases the core inventory can be sold or consumed before the pipeline is finally decommissioned;

If you have any questions about our comments, please contact us at [operacoes@cpc.org.br](mailto:operacoes@cpc.org.br).

Yours sincerely,

Idésio da Silva Coelho Júnior  
Chair of International Affairs  
Comitê de Pronunciamentos Contábeis (CPC)