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Measurement of Inventory - Is FASB Making it Simple?

AUDIT, MANUFACTURING

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In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, Simplifying the Measurement of Inventory. As the guidance currently stands, inventory is measured at the lower of cost or market. This new guidance replaces “market” with net realizable value, which is defined as “the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.” It should be noted, however, that for tax purposes, inventory must generally be valued at cost or the lower of cost or market. Absent changes to the tax rules for inventory accounting, additional book-to-tax differences may be required as a result of this guidance.

This new guidance is not applicable to inventory currently being measured using the last-in, first-out (LIFO) or the retail inventory methods. All other inventory, including inventory that is measured using first-in, first-out (FIFO) or average cost methods, is subject to this new guidance.

For public entities, this guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, this guidance is effective for fiscal years beginning after December 31, 2016, and interim periods within fiscal years beginning after December 31, 2017. The guidance should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period.

Contact us with questions regarding how the new ASU will impact your FIFO or average cost methods while measuring inventory and visit the Schneider Downs Our Thoughts On blog for other manufacturing articles.

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