

INVENTORY COSTING: A COMPREHENSIVE CASE STUDY

Peter Harris, New York Institute of Technology
Umapathy Ananthanarayanan, New York Institute of Technology

ABSTRACT

Under Accounting Standards Update (ASU) 330, Inventory requires an entity to measure inventory at lower of cost or market. Market value can be determined in three methods: replacement cost, net realizable value or net realizable value less profit margin. The Federal Accounting Standards Board (FASB) received comments from users that the current guidance on the measurement of inventory is unnecessarily complex because there are three potential outcomes to determine market. In response to these concerns, FASB issued ASU 2015-11 to simplify the measurement of inventory as part of the FASB's Simplification initiative. In this paper, we outline the new mechanism proposed by FASB for measuring inventory and how it would impact entity's financial statements. We provide a series of comprehensive questions relating to Lower of Cost and Net Realizable Value, and Lower of Cost or Market at the end of the paper. This case study is best suited for the Intermediate Accounting 1 course.

JEL: M48, M49

KEYWORDS: ASU 2015-11, ASC 330, Lower of Cost or Market, Lower of Cost or Net Realizable Value, Net Realizable Value, FIFO, LIFO, Replacement Cost, Inventory Floor

INTRODUCTION

The (FASB) issued final guidance that simplifies the subsequent measurement of inventory requiring inventory to be measured at the lower of cost or net realizable value (NRV). Entities will continue to apply existing impairment models to inventories that are using Last In First Out (LIFO) and Retail Inventory Method (RIM).

Currently Generally Accepted Accounting Principles (GAAP) rules require reporting organizations to measure inventory at the lower of cost or market. Market is generally the replacement or reproduction cost of the inventory; however, market cannot exceed net realizable value, which is the selling price less the cost to complete, dispose, and transport the inventory item (referred to as the "ceiling") and cannot be lower than net realizable value less a normal profit margin (referred to as the "floor").

Proposed guidance would require inventory to be measured at the lower of cost or net realizable value. Thus, under the proposed ASU "market" would be replaced with "net realizable value". GAAP defines this concept as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." Once implemented, with the exception of LIFO and retail Inventory methods, one will no longer have to consider replacement cost or net realizable value less a normal profit margin when measuring inventory.

This paper will first discuss the key considerations and changes per ASU 2015-11. We will next discuss the application of the lower of cost or net realizable value per the new standard. The tax rules for lower of cost or market is addressed next. A set comprehensive examples of the lower of cost or net realizable

method is addressed next with a flavor of IFS accounting introduced in these examples. This case study is suitable for an intermediate accounting class and can be part of an individual as well as a group case study project.

KEY CONSIDERATIONS

For inventory covered within the guidance of ASU 2015-11, organizations would be required to compare the cost of ending inventory with only one measure (i.e. the net realizable value), and not the three measures required by today's guidance. When evidence exists that the net realizable value of inventory is less than the cost due to damage, deterioration, changes in price, obsolescence, etc., entities will recognize the difference as a loss in earnings in the period in which it occurs.

For raw materials and work in progress, companies will still need to perform an extra step as they do today. Manufacturer's using First In First Out (FIFO) or Average cost method to value their inventory will face challenges while applying the ASU because the computation foundation is the lower of cost or net realizable value. Performing the test is done in total for the entire inventory, either by segment or in total. Performing a lower of costs and net realizable value on an individual item basis is not possible if there are raw materials.

The prime reason is because replacement cost is no longer used in computation. Thus, an entity must compute net realizable value. To determine the net realizable value for these inventories, entities will need to consider the costs to complete and sell finished goods, including direct selling costs such as transportation costs and sales commissions.

Given the operational difficulty in measuring the net realizable value for raw materials, the larger question is whether a manufacturer can ignore the test of lower of cost or net realizable value on raw materials if those materials are immaterial? At the outset, it is essential to understand that test of raw materials of cost or net realizable value may not be required when those materials will be ultimately part of finished goods inventory. Going further, there are two possible scenarios which could be envisaged here:

- (a) Materials cost is not significant in comparison to the total inventory as a whole; or
- (b) Materials cost is significant in comparison to the total inventory as a whole.

In scenario (a) above, a company should be able to test lower of cost of net realizable value for finished goods and work in process inventory only and exclude any raw material inventory in that test. The assumption here is that if raw materials are not significant, any possible write down would not be significant.

In scenario (b) above, wherein the value of raw material is significant - a company would need to apply the test to raw materials of cost or net realizable value except an evidence exists that the finished goods and work-in-process inventory has no write-down when tested. The reason here is that if an entity first tests work in process and finished goods inventory for lower of cost or net realizable value and there is no write-down that would suggest that a component of that inventory (raw materials) should have no impairment as well.

FASB has excluded inventories accounted for using LIFO and RIM from the scope of this guidance because it could result in significant transition costs, produce outcomes that are not intended, would not increase comparability improvements, and provide limited benefits due to the complexity inherent in these methods. Interestingly, the guidance does not amend the measurement of cost of inventory and

hence, the companies may continue to apply LIFO, FIFO or average cost to determine the cost of inventory.

From a tax perspective, there are specific requirements with respect to the valuation of inventory. Generally, normal goods may be value at lower of cost or market, with market determined based on reproduction or replacement cost or actual offering price in some cases. Subnormal goods are measured at genuine selling prices less cost of disposition in a manner similar to the concept of GAAP net realizable value. Despite similarity of the tax rules, for normal goods with the current GAAP rule and the tax rules for subnormal goods to the proposed GAAP rule, there are further qualifications within the GAAP and tax rules. These qualifications generally prevent a tax payer from following the GAAP market valuation for those goods for tax purposes. As such, any change in inventory valuation for GAAP purposes will likely impact only the determination of book tax differences and deferred taxes.

Application of Lower of Cost and Net Realizable Value

Under the new US GAAP rules, the lower of cost and net realizable value can be calculated, and presented by the following three valuation calculations:

- 1-By the lower of cost and net realizable value on a Total Inventory basis
- 2-Directly to each individual inventory unit, and
- 3-To the total of the components of each major inventory category; i.e. groupings of inventory by homogeneous factors.

Of the three approaches, the total inventory lower of cost and net realizable value method will present the highest inventory amount, while the unit per unit approach will present the lowest inventory amount. Under US GAAP, when a loss / write-down occurs due to a lower inventory net realizable value, this new value becomes the new cost of the inventory purposes. Further, under Staff Accounting Bulletin (SAB) 5.BB-Inventory Valuation Allowance (ASC 330.10-S99-2), specifically states that there cannot be a reversal of this loss, regardless as to whether the net realizable value increases in a subsequent period. IFRS however, allows for a reversal of such losses; up to the amount of the inventory's original cost. The journal entry to record the Lower of Cost and Net Realizable Value Loss will be:

Dr. Cost of Goods Sold (inventory-write-down)
Cr. Allowance for inventory write-down

If reversed, under IFRS only, the journal entry is:

Dr. Allowance for inventory write-down (limited to the amount of the original cost)
Cr. Cost of Goods Sold-inventory write-down

Tax treatment of Lower of Cost or Market

IRC Regulation 1.471-4 permits but does not require an entity to use the lower of cost or market to value its inventory. Lower of cost or market however is not allowed for the LIFO inventory method. Further, if an entity chooses to use the Lower of Cost or Market (LCM) for tax purposes, the IRC requires that a unit per unit inventory application of LCM be applied. The IRC defines market differently than US GAAP and IFRS. Under the IRC 471.4, market is defined as the aggregate of the current bid prices prevailing at the date of the inventory valuation.

US GAAP and IFRS use the Lower of Cost and Net realizable Value in its reporting basis. Net realizable Value defines as the sales price of the inventory item less the cost of completion, disposal, and

transportation. Thus, the difference in the lower of cost vs. a market-based matrix differs between the tax code and accounting regimes, which may result in a tax timing difference on the balance sheet. Finally, if a company uses LIFO for tax purposes, under the mandatory tax compliance rule, it is also required to use LIFO for financial reporting purposes.

EFFECTIVE DATE, TRANSITION AND DISCLOSURE

The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The new guidance must be applied prospectively after the date of adoption. An entity that has recorded a lower of cost or market adjustment in a previous period will use the adjusted amount as the new cost basis of that inventory when it adopts the new guidance. An entity that adopts the new guidance in an interim period will not be able to reverse interim adjustments during the same fiscal year as otherwise allowed under ASC 270-10-45-6.5 Therefore, any net realizable value test applied in subsequent periods would compare the lower of cost or market adjusted amount to net realizable value. The only new disclosures required at transition are the nature of and reason for the change in accounting principle.

WHAT NEXT?

While doubts still exist as to whether the ASU actually simplifies the measurement of inventory, there are a few inherent positives such as elimination of the lower of cost or market approach, avoiding the determination of floor based on a normal profit margin and the new model simplifies the test for the non-manufacturers who now can easily compute net realizable value instead of replacement cost and normal profit.

On the other hand, the ASU results in creation of two different approaches for measuring inventory (one for LIFO and RIM), while another one for FIFO and average cost. The split approach also is inconsistent with the international standards which apply the net realizable value approach to all inventories. The FASB defends this two-tier approach on the basis that application of the Lower of Cost and Net Realizable Value Method for companies utilizing LIFO and the Retail Inventory Methods would be too costly to conform, as well as the overwhelming complexities involved in estimating the write-downs. Additionally, the FASB has stated that such a move would not help comparability in any meaningful way.

As a practical matter, except in very few rare cases, one would expect that the Net Realizable Value will exceed the LIFO inventory costing methods, making the application of the Lower of Cost and Net Realizable method impractical for LIFO. Further, as previously discussed, LIFO is not an allowable method under IFRS. The new model relies on selling price which is subject to internal manipulation and subjectivity, especially for items sold in inactive markets. This can be the focus of a recommended future paper concerning the Lower of Cost and Net Realizable value rule.

COMPREHENSIVE QUESTIONS

Tables 1 through 6 Present three comprehensive questions which are recommended for class use. The solutions presented are recommended, and there may be other, acceptable solutions to the questions.

Table 1: Comprehensive Question 1

Panel A: Question Information	
Corp. X started selling widgets (one product only) on January 1, 2017. They are unsure which inventory method it will choose to report their financial reporting; however, they will use the periodic method to account for its inventory. During 2017 it made purchases of inventory as follows:	
January 2,2017	1000 units at \$5 per unit
June 19,2017	2,000 units at \$5.05 per unit
December 1,2017	500 units at \$5.10 per unit
At year end, an inventory count reveals that there are 800 units of inventory left. Additionally, the replacement cost of inventory is \$4.95 per unit. The company can sell the units at \$6.00 per unit and expects a 5 percent cost of selling/dispersing each item. The normal gross profit margin on each unit sold is 10 percent.	
Panel B: Required for Question 1	
1	Calculate the following per inventory unit: A) Net Realizable Value, B) Replacement Cost, C) Floor Value=NRV Less normal profit margin.
2	Assume that Corp. X adopts the Lower of FIFO and Net Realizable value method to account for its inventory costing, what is the December 31, 2017 inventory value for financial reporting purposes?
3	Prepare the journal entry to record the loss-if any.
4	Assume that Corp. X adopts the Lower of LIFO or Market Value to account for its inventory costing, what is the December 31, 2017 inventory value for financial reporting purposes?
5	Prepare the journal entry to record the loss-if any.
6	Which method would you recommend Corp to choose? What factors should be taken into account?
7	Assume that in year 2, the inventory value increases above its original cost. What is the IFRS versus US GAAP position treating this reversal? Prepare journal entries, if required

Table 2: Recommended Answers for Comprehensive Question 1

1	A) Net realizable value=Selling price less costs to sell/disperse=\$6-5 percent cost to sell/disperse= 6-0.30=\$5.70 B) Replacement cost =given at \$4.95 C) Floor=NRV-normal profit margin=5.70 less 10 percent of sales price=5.7-0.60=\$5.10.
2	Lower of cost and net realizable value under FIFO; FIFO cost= 800 units; comprised of 500 units at5.10 plus 300 units at 5.05 (per unit). This will equal 500 times 5.1 plus 300 times 5.05=\$4065. NRV=800 times \$5.70 per unit-per 1A above=\$4560. Thus, Lower of cost and net realizable value=\$4065==cost. No inventory loss/write-down.
3	No entry as there is no loss
4	LCM for LIFO=market value will equal the floor value of \$5.10 per unit. Cost under LIFO will be 800 units at \$5 per unit. Thus, cost under LIFO is \$4,000 and market value is 5.10 times 800=4080. LCM thus equals cost of \$4,000. Thus, no loss
4	No entry as there is no loss/write-down.
6	In this case LIFO is preferable as the ending inventory is lower resulting in a lower taxable income amount; thus saving Corp. X income tax payments. The difference in income before tax will be FIFO vs. LIFO ending inventory=4065-4000=65.This lower income will have to also be reflected in the financial statements of Corp. X by virtue of the LIFO tax compliance rule. If the tax rate is low, or the company will generate a Net Operating Loss, the tax savings may be immaterial; thereby reducing any advantage of LIFO use.
7	Since there is no write-down/loss in year 1, the fact that inventory value increase in year 2 will have no effect on financial reporting in year 2. In year 2, Cop X has to still utilize a lower of cost or market/NRV value. Given the facts, in year 2 , coat will continue to be the presented inventory value.

Table 3: Comprehensive Question 2

Panel A: Question Information	
Corp. X started selling widgets (one product only) on January 1, 2017. They are unsure which inventory method it will choose to report their financial reporting; however, they will use the periodic method to account for its inventory. During 2017 it made purchases of inventory as follows:	
January 2, 2017	1000 units at \$5 per unit
June 19, 2017	2,000 units at \$5.05 per unit
December 1, 2017	500 units at \$5.10 per unit
At year end, an inventory count reveals that there are 800 units of inventory left. Additionally, the replacement cost of inventory is \$4.95 per unit. The company can sell the units at \$6.00 per unit and expects a 5 percent cost of selling/disposing each item. The normal gross profit margin on each unit sold is 15 percent.	
Panel B: Required for Question 2	
1	Calculate the following per inventory unit: A) Net Realizable Value, B) Replacement Cost, C) Floor Value=NRV Less normal profit margin.
2	Assume that Corp. X adopts the Lower of FIFO and Net Realizable value method to account for its inventory costing, what is the December 31, 2017 inventory value for financial reporting purposes?
3	Prepare the journal entry to record the loss-if any.
4	Assume that Corp. X adopts the Lower of LIFO or Market Value to account for its inventory costing, what is the December 31, 2017 inventory value for financial reporting purposes?
5	Prepare the journal entry to record the loss-if any.
6	Which method would you recommend Corp to choose? What factors should be taken into account?
7	Assume that in year 2, the inventory value increases above its original cost. What is the IFRS versus US GAAP position treating this reversal? Prepare journal entries, if required

Table 4: Recommended Answers for Comprehensive Question 2

1	A) Net realizable value=Selling price less costs to sell/dispose=\$6-5 percent cost to sell/dispose= 6-0.30=\$5.70 B) Replacement cost =given at \$4.95 C) Floor=NRV-normal profit margin=5.70 less 15 percent of sales price=5.7-.60=\$4.80.						
2	Lower of cost and net realizable value under FIFO; FIFO cost= 800 units; comprised of 500 units at 5.10 plus 300 units at 5.05 (per unit). This will equal 500 times 5.1 plus 300 times 5.05=\$4065. NRV=800 times \$5.70 per unit-per 1A above=\$4560. Thus, Lower of cost and net realizable value=\$4065=cost. No inventory loss/write-down.						
3	No entry as there is no loss						
4	LCM for LIFO = market value will equal the replacement value of \$4.95 per unit. Cost under LIFO will be 800 units at \$5 per unit. Thus, cost under LIFO is \$4,000 and market value is 4.95 times 800 = -\$3960. LCM thus equals market value of \$3,960. Thus, there is a loss of \$40, resulting in the following journal entry: <table style="margin-left: 40px;"> <tr> <td>Dr. Cost of Goods Sold</td> <td>40</td> <td></td> </tr> <tr> <td>Cr. Inventory</td> <td></td> <td>40</td> </tr> </table>	Dr. Cost of Goods Sold	40		Cr. Inventory		40
Dr. Cost of Goods Sold	40						
Cr. Inventory		40					
5	No entry as there is no loss/write-down.						
6	In this case LIFO is preferable as the ending inventory is lower resulting in a lower taxable income amount; thus saving Corp. X income tax payments. The difference in income before tax will be FIFO vs. LIFO ending inventory = 4065-3960=105. This lower income will have to also be reflected in the financial statements of Corp. X by virtue of the LIFO tax compliance rule. If the tax rate is low, or the company will generate a Net Operating Loss, the tax savings may be immaterial; thereby reducing any advantage of LIFO use.						
7	Since there is no write-down/loss in year 1, under FIFO use, the fact that inventory value increase in year 2 will have no effect on financial reporting in year 2. However, this will affect LIFO use as LIFO has presented its inventory valuation under the LCM rule. Under US GAAP, such losses are never reversed; as such this increase in market value will not affect inventory reporting in year 2 under US GAAP. Under IFRS, this loss of \$105 can be reversed (up to the amount of the write-down) in a subsequent period. As such, in year 2 under IFRS Corp. X can reverse this loss in by the following journal entry: <table style="margin-left: 40px;"> <tr> <td>Dr. Inventory</td> <td>105</td> <td></td> </tr> <tr> <td>Cr. Cost of Goods Sold</td> <td>105</td> <td>105</td> </tr> </table>	Dr. Inventory	105		Cr. Cost of Goods Sold	105	105
Dr. Inventory	105						
Cr. Cost of Goods Sold	105	105					
Note that Inventory under IFRS (with few industry exceptions) can never be recorded above cost.							

Table 5: Comprehensive Question 3

Panel A: Question Information	
<p>Corp. X started selling widgets and electric outlets (two different products on January 1, 2017; thus, two major inventory categories). They are unsure which inventory method it will choose to report their financial reporting; however, they will use the periodic method to account for its inventory. During 2017 it made purchases of inventory as follows: Product number 1-Widgets</p>	
January 2,2017	1000 units at \$5 per unit
June 19,2017	2,000 units at \$5.05 per unit
December 1,2017	500 units at \$5.10 per unit
<p>Product Number 2-electric outlets</p>	
January 2,2017	1000 units at \$10 per unit
June 19,2017	2,000 units at \$10.05 per unit
December 1,2017	500 units at \$10.10 per unit
<p>At year end, a periodic inventory count reveals that there are 600 units of widgets, and 800 units of electric outlets. Additionally, the replacement cost of inventory component number 1-widgets is \$4.95 per unit. The company can sell these units at \$6.00 per unit and expects a 5 percent cost of selling/disposing each item. The normal gross profit margin on each unit sold is 15 percent.</p> <p>The replacement cost of inventory component number 2-electric outlets is \$9 per unit. The company can sell each electric outlet unit for \$11, before incurring a 5 percent selling/disposal cost. The normal gross margin on each unit sold is 10 percent.</p>	
Panel B: Required for Question 3	
1	Calculate the following –per inventory component number 1- widgets and number 2-electrical outlets: A) Net Realizable Value, B) Replacement Cost, C) Floor Value=NRV Less normal profit margin.
2	Assume that Corp. X adopts the Lower of FIFO and Net Realizable value method to account for its inventory costing. What is the December 31, 2017 inventory value for financial reporting purposes? Assume that this is applied on: A) To the total inventory approach, and B) to the total of the components of each major category approach (i.e. two major -1-widgets, and 2-electrical outlets).
3	Prepare the journal entry to record the loss-if any under case A, and under case B above.
4	Assume that Corp. X adopts the Lower of LIFO or Market Value to account for its inventory costing. What is the December 31, 2017 inventory value for financial reporting purposes? Assume that this is applied on: A) To the total inventory approach, and B) to the total of the components of each major category approach (i.e. two major -1-widgets, and 2-electrical outlets).
5	Prepare the journal entry to record the loss-if any, under case A, and under case B above.
6	Which inventory accounting method would you recommend Corp to choose? What factors should be taken into account?
7	Assume that in year 2, the inventory value increases above its original cost. What is the IFRS versus US GAAP position treating this reversal? Prepare journal entries, if required.

Table 6: Recommended Answers for Comprehensive Question 3

1 **Unit 1-Widgets**

A) Net realizable value=Selling price less costs to sell/dispose
 =\$6-5 percent cost to sell/dispose= 6-0.30=\$5.70

B) Replacement cost =given at \$4.95

C) Floor=NRV-normal profit margin=5.70 less 10 percent of sales price=5.7-0.60=\$5.10.

Unit 2: Electrical outlets

A) Net realizable value=Selling price less costs to sell/dispose
 =\$11-5 percent cost to sell/dispose= 11-.55=\$10.45

B) Replacement cost =given at \$9.00

C) Floor=NRV-normal profit margin=10.45 less 10 percent of sales price=10.45-1.1=\$9.35.

2 Lower of cost and net realizable value under FIFO;

To the total Inventory approach:

FIFO Ending Inventory Cost for Inventory 1-widgets plus Inventory 2-electrical outlets =

FIFO cost inventory 1-widgets = 600 units; comprised of 500 units at \$5.10 plus 100 units at \$5.05 (per unit). =500 @5.10 plus 100 @5.05=\$3,055.

FIFO Ending inventory cost For Inventory 2-electrical outlets =800 units; comprised of 500 units at \$10.10 plus 300 units at \$10.05 , which equals 8065.

As such, FIFO ending inventory-cost is 3050 plus 8065= \$11,115. NRV=800 ending inventory of widgets times \$5.70 (NRV per widget unit) =\$4560 plus 800 units of ending inventory of electrical outlets times 10.45 (NRV per electrical outlet unit) =8,360= The total net realizable value of the total inventory is \$12,920 (4560+8360).

LCM total inventory is cost of 11,115 vs market value of 12,920=Cost of 11,115. Thus-No loss. LCM per the total of the components of each major category is 3050=cost of widgets plus 8065 –cost of electrical outlets=\$11,115=Cost. Thus, No Loss.

3 No entry as there is no loss

4 LCM for LIFO=market value. This will equal the floor value of \$5.10 per unit-for inventory group 1-widgets. For Inventory group 2-electrical outlets, the market value is the floor value of \$9.35. Cost under LIFO will be 600 units at \$5 per unit for inventory 1-widgets , and 800 units at \$8 per unit for inventory 2-electrical outlets .Thus we have the following:

A: LCM Total Inventory

Inventory Category	Cost	Market
1-widgets	600 times \$ 5 per unit= \$3,000	600 times \$5.10 per unit = \$3,060
2-outlets	800 times \$10 per unit = \$8,000	800 times \$9.35 per unit= \$7,480
Total	\$11,000	\$10,540

The write -down is as follows:

Inventory at cost	\$11,000
Inventory at Market –Total Inventory Basis	\$10,540
Write-down	\$ 460

LCM= \$10,540; resulting in a Loss of \$460.

B: LCM per the total of the components in each major inventory category:

Inventory Major Category number 1-widgets	= \$3,000 (cost)
Inventory Major category number 2	= \$7,480 (market)
Total LCM-Components of each Major Inventory Category Classification	= \$10,480

The write down is as follows:

Inventory at cost	\$11,000
Inventory at Market-total of the components of each major category	\$10,540
Write-down	\$ 520

LCM= \$10,480; resulting in a loss of \$520

5 Journal Entry:

A: Total Inventory Method -LCM

Dr.	Cost of goods sold -inventory write-down	460	
Cr.	Allowance for inventory mark-down		460

B: Components of Major Category Method-LCM

Dr.	Cost of goods sold-inventory mark-down	520	
Cr.	Allowance for inventory mark-down		520

- 6 In this case, LIFO, is preferable, when compared to FIFO, as the ending inventory is lower resulting in a lower taxable income amount; thus saving Corp. X income tax payments. For tax purposes, LCM cannot be adopted if LIFO is the chosen inventory method under IRC 471. As such, inventory will have to be valued under LIFO cost. Other inventory methods such as FIFO may utilize the lower of cost or market method for tax purposes; in which case the LCM has to be applied on an inventory unit by inventory unit basis. utilize the lower of cost or market method, for tax purposes.

In this situation, LIFO cost is \$11,000. The difference in income before tax will equal the FIFO vs. LIFO ending inventory amounts:= \$11,115 -11,000= \$115

On the Income Statement, the Lower of Cost or Market will need to be utilized. This will reflect a LIFO LCM inventory valuation of \$10,540 (Part A) or \$10,480(Part B); creating an income before income tax loss when compared to FIFO by \$575, and \$635 respectively

The difference in taxable income and accounting income under LIFO use in the amounts of \$460 (part A), and \$520 (part B) will create a timing tax difference in the balance sheet. This will result in a Deferred Tax Asset-Current Balance Sheet Account.

The question remains whether LIFO should be adopted? Generally, if the LIFO would be chosen if we expect an inflationary pattern of inventory pricing-i.e. commodities; and non-LIFO methods (in order to obtain the LCM tax benefit) for deteriorating in value and use inventory items, i.e. food, flowers.

- 7 Since there is no write-down/loss in year 1 under FIFO, the fact that inventory value increases in year 2 will have no effect on financial reporting in year 2. In year 2, Corp X has to still utilize a lower of cost or market/NRV value. Given this fact, cost will continue to be the presented inventory value in year 2.

Regardless of whether there is a loss/write-down of inventory value below cost, US GAAP does not allow for a reversal of such write-downs in subsequent periods. However, IFRS does allow for a reversal up to the amount of the original inventory cost. In no case (absent some specific industry cases) may inventory be reflected above cost. Finally, in this case, IFRS reversals for LIFO inventory amounts do not apply as IFRS prohibits the use of LIFO.

For information purposes, the journal entry to reflect a reversal of an inventory loss/ write-down under IFRS, in a subsequent period will be:

Dr.	Allowance for inventory write-down
Cr.	Cost of goods sold-inventory write-down.

This aspect of IFRS can lead to income management and potentially manipulate the timing of income (losses). US GAAP prohibits any reversal of inventory write-downs.

CONCLUSION

This paper gave an overview of the new inventory reporting valuation reporting standards per ASU 2015-11. The result is the simplification of the lower of cost or net realizable reporting amounts for all acceptable inventory methods with the exception of LIFO. This new standard is now consistent with current IFRS requirements. The paper then introduces a number of comprehensive problems to help illustrate the new reporting requirements, which are recommended for classroom student assignments. Going forward, the question as to whether LIFO will continue as an acceptable US accounting method remains a controversial issue and may potentially add another layer of change to inventory reporting in the future.

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BIOGRAPHY

Peter Harris is a Professor of Accounting at the New York Institute of Technology. He can be contacted at: School of Management, 26, 61st West Street, School of Management Building, Manhattan, New York, 10023.

Dr. Umopathy Ananthanarayanan is an Assistant Professor of Accounting at the New York Institute of Technology. He can be contacted at: School of Management, 26, 61st West Street, School of Management Building, Manhattan, New York, 10023.