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Audit Alert: New ASU – simplifying the measurement of inventory

FASB

All decisions reached at Board meetings are tentative and may be changed at future meetings. Decisions are included in an Exposure Draft only after a formal written ballot. Decisions reflected in Exposure Drafts are often changed in redeliberations by the Board based on information received in comment letters, at public roundtable discussions, and from other sources. Board decisions become final after a formal written ballot to issue a final Accounting Standards Update.

On July 22, the FASB issued ASU 2015-11, ***Simplifying the Measurement of Inventory***, which requires entities to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

The ASU will simplify the subsequent measurement of inventory, as current guidance requires an entity to measure inventory at the lower of cost or market. Under current guidance, market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. In addition, the updates to inventory measurement in this ASU more closely align U.S. GAAP with IFRS.

The new guidance does not apply to inventory measured using last-in, first-out (LIFO) or the retail inventory method; therefore, subsequent measurement is unchanged for inventory measured using either of these two methods. The guidance is effective for public entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. All other entities must apply the amendments in fiscal years beginning after December 15, 2016 and in interim periods within fiscal years beginning after December 15, 2017.

Entities should apply the amendments prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period.

Source: Grant Thornton, *On The Horizon*, July 30, 2015

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Contact us
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