VALUING INVENTORY AT THE LOWER OF COST AND NRV

- Inventory (that we still own) must be *properly valued* before we report on financial statements.
- While we own it, the *value of inventory* sometimes *decreases*.
- When this happens, we need to have an *exception* to stop following the *cost basis of accounting.*
- When the value of inventory is lower than its cost, the inventory is written down to its *net realizable value* at the ***end of the period.***
- This is called the *lower of cost and net realizable value (LCNRV) rule.*
- This follows GAAP's *Principle of Conservatism.*
- Accountants should follow the method that results in the lower or more *conservative* amount of net income or asset valuation.
- The *journal entry*, to adjust inventory from cost to net realizable value would be the following:

April 30	Cost of Goods Sold	3500	
	Merchandise Inventory		3500
	To record a decline in inventory value from original cost of $47,000 to net realizable value of $43,500.		

- Reversals
  - When there is clear evidence of an *increase in net realizable value* (increased demand, change of economics, etc), the amount of any writedown is reversed.
  - If the item of inventory that had been previously written down has been sold, there is no need to record a reversal.
  - The write-up can never be larger than the original writedown…. The lower of cost or net realizable value rule still applies to the inventory.

Lesson
Before you go on on page 275 - discuss
Ssq 6 8 10 11 (10 and 11 tricky…. 11 asking for ending inventory, not cogs
Q 10 16
Be 6 – 13, 14,
Ex 6- 10.