CONCEPT: LOWER OF COST OR MARKET

● The rule of ***conservatism*** tells us to be looser with recording losses than gains.

- ☐ If an asset has lost value, we generally ___________ take an expense/loss in the period of the change in value
- ☐ If an asset has gained value, we generally _____________ take a revenue/gain until it is ___________
- ☐ The Inventory account should be marked to the ***lower of cost or market***
  - ***Cost*** – The historical cost of the inventory (what you paid for it)
  - ***Market*** – the ***net realizable value*** of the inventory or the ***current replacement cost***

$$Net\ realizable\ value = Estimated\ Selling\ Price - Disposal\ Costs$$

- If the Inventory is marked down, we take a ***loss from write-down of inventory***

EXAMPLE: Obsocorp purchased inventory four years ago for $84,000. In the current year, Obsocorp estimated it could sell this inventory for $86,000 while incurring selling expenses of $7,000. In its financial statements, Obsocorp should report this inventory at:

a. $77,000
b. $79,000
c. $84,000
d. $86,000

PRACTICE: Using the following data, determine the value of inventory at the lower of cost or market. Apply lower of cost or market to each inventory item. Assume expenses of $2 per unit are expected to be incurred in selling the inventory.

Item	Inventory Quantity	Cost per Unit	Estimated Selling Price
TR301	10	$39	$42
QT314	7	$110	$100

a. $1,160
b. $1,120
c. $1,086
d. $1,076