

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**

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

- 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