330 - Inventory

330-**10** - Overall

330-10-**00** - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

330-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Direct Effects of a Change in Accounting Principle	Amended	Accounting Standards Update No. 2015-11	07/22/2015
Market (2nd def.)	Amended	Accounting Standards Update No. 2014-06	03/14/2014
Net Realizable Value (1st def.)	Superseded	Accounting Standards Update No. 2014-06	03/14/2014
Net Realizable Value (2nd def.)	Added	Accounting Standards Update No. 2014-06	03/14/2014
Public Business Entity	Amended	Maintenance Update 2017-06	04/07/2017
Public Business Entity	Amended	Maintenance Update 2016-11	06/27/2016
Reseller (2nd def.)	Added	Accounting Standards Update No. 2014-09	05/28/2014
Vendor	Added	Accounting Standards Update No. 2014-09	05/28/2014
330-10-30-8	Amended	Accounting Standards Update No. 2014-09	05/28/2014
330-10-30-19	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
330-10-30-20	Added	Accounting Standards Update No. 2014-09	05/28/2014
330-10-30-21	Added	Accounting Standards Update No. 2014-09	05/28/2014
330-10-35-1	Superseded	Accounting Standards Update No. 2015-11	07/22/2015
330-10-35-1A through 35-1C	Added	Accounting Standards Update No. 2015-11	07/22/2015
330-10-35-2	Amended	Accounting	07/22/2015

		Standards Update No. 2015-11	
330-10-35-6	Superseded	Accounting Standards Update No. 2015-11	07/22/2015
330-10-35-7A	Added	Accounting Standards Update No. 2015-11	07/22/2015
330-10-35-8 through 35-11	Amended	Accounting Standards Update No. 2015-11	07/22/2015
330-10-35-21	Amended	Accounting Standards Update No. 2014-09	05/28/2014
330-10-35-22	Amended	Accounting Standards Update No. 2014-09	05/28/2014
330-10-45-2	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
330-10-50-1	Amended	Accounting Standards Update No. 2012-04	10/01/2012
330-10-50-2	Amended	Accounting Standards Update No. 2015-11	07/22/2015
330-10-50-5	Amended	Accounting Standards Update No. 2024-03	11/04/2024
330-10-55-2	Amended	Accounting Standards Update No. 2015-11	07/22/2015
330-10-55-5 through 55-7	Superseded	Accounting Standards Update No. 2017-07	03/10/2017
330-10-55-6A	Added	Accounting Standards Update No. 2017-07	03/10/2017
330-10-65-1	Added	Accounting Standards Update No. 2015-11	07/22/2015

330-10-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

330-10-05-**1** The Inventory Topic addresses the accounting principles and reporting practices applicable to inventory.

330-10-05-**2** An inventory has financial significance because revenues may be obtained from its sale, or from the sale of the goods or services in the production of which it is used. Normally such revenues arise in a continuous repetitive process or cycle of operations in which goods are acquired, created, and sold, and further goods are acquired for additional sales.

330-10-05-**3** Thus, the inventory at any given date is the balance of costs applicable to goods on hand remaining after the matching of absorbed costs with concurrent revenues. This balance is appropriately carried to future periods provided it does not exceed an amount properly chargeable against the revenues expected to be obtained from ultimate disposition of the goods carried forward. In practice, this balance is determined by the process of pricing the articles included in the inventory.

330-10-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

330-10-10-**1** A major objective of accounting for inventories is the proper determination of income through the process of matching appropriate costs against revenues.

330-10-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

330-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for the Inventory Topic.

Entities

330-10-15-**2** The guidance in the Inventory Topic applies to all entities, with the following qualifications.

330-10-15-**3** The guidance in this Topic is not necessarily applicable to the following entities:

a. Not-for-profit entities (NFPs)

b. Regulated utilities.

330-10-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Direct Effects of a Change in Accounting Principle

Those recognized changes in assets or liabilities necessary to effect a change in accounting principle. An example of a direct effect is an adjustment to an inventory balance to effect a change in inventory valuation method. Related changes, such as an effect on deferred income tax assets or liabilities or an impairment adjustment resulting from applying the subsequent measurement guidance in Subtopic 330-10 to the adjusted inventory balance, also are examples of direct effects of a change in accounting principle.

Inventory

The aggregate of those items of tangible personal property that have any of the following characteristics:

a. Held for sale in the ordinary course of business

b. In process of production for such sale

c. To be currently consumed in the production of goods or services to be available for sale.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes long-term assets subject to depreciation accounting, or goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item should be classified as part of the inventory. Raw materials and supplies purchased for production may be used or consumed for the construction of long-term assets or other purposes not related to production, but the fact that inventory items representing a small portion of the total may not be absorbed ultimately in the production process does not require separate classification. By trade practice, operating materials and supplies of certain types of entities such as oil producers are usually treated as inventory.

Market

As used in the phrase lower of cost or market, the term market means current replacement cost (by purchase or by reproduction, as the case may be) provided that it meets both of the following conditions:

a. Market shall not exceed the net realizable value

b. Market shall not be less than net realizable value reduced by an allowance for an approximately normal profit margin.

Net Realizable Value

Estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reseller

Any entity that purchases another vendor's products for resale, regardless of whether that entity is a distributor or wholesaler, a retailer, or other type of reseller.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Vendor

A service provider or product seller, such as a manufacturer, distributor, or reseller.

330-10-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Cost Basis

330-10-30-**1** The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. It is understood to mean acquisition and production cost, and its determination involves many considerations.

330-10-30-**2** Although principles for the determination of inventory costs may be easily stated, their application, particularly to such inventory items as work in process and finished goods, is difficult because of the variety of considerations in the allocation of costs and charges.

330-10-30-**3** For example, variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. However, the allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity refers to a range of production levels. Normal capacity is the production expected to be achieved over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. Some variation in production levels from period to period is expected and establishes the range of normal capacity.

330-10-30-**4** The range of normal capacity will vary based on business- and industry-specific factors. Judgment is required to determine when a production level is abnormally low (that is, outside the range of expected variation in production).

330-10-30-**5** Examples of factors that might be anticipated to cause an abnormally low production level include significantly reduced demand, labor and materials shortages, and unplanned facility or equipment downtime.

330-10-30-**6** The actual level of production may be used if it approximates normal capacity. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production shall be decreased so that inventories are not measured above cost. The amount of fixed overhead allocated to each unit of production shall not be increased as a consequence of abnormally low production or idle plant.

330-10-30-**7** Unallocated overheads shall be recognized as an expense in the period in which they are incurred. Other items such as abnormal freight, handling costs, and amounts of wasted materials (spoilage) require treatment as current period charges rather than as a portion of the inventory cost.

330-10-30-**8** Also, under most circumstances, general and administrative expenses shall be included as period charges, except for the portion of such expenses that may be clearly related to production and thus constitute a part of inventory costs (product charges). Selling expenses constitute no part of inventory costs. The exclusion of all overheads from inventory costs does not constitute an accepted accounting procedure. The exercise of judgment in an individual situation involves a consideration of the adequacy of the procedures of the cost accounting system in use, the soundness of the principles thereof, and their consistent application. General and administrative expenses ordinarily shall be charged to expense as incurred.

Determination of Inventory Costs

330-10-30-**9** Cost for inventory purposes may be determined under any one of several assumptions as to the flow of cost factors, such as first-in first-out (FIFO), average, and last-in first-out (LIFO). The major objective in selecting a method should be to choose the one which, under the circumstances, most clearly reflects periodic income.

330-10-30-**10** The cost to be matched against revenue from a sale may not be the identified cost of the specific item which is sold, especially in cases in which similar goods are purchased at different times and at different prices. While in some lines of business specific lots are clearly identified from the time of purchase through the time of sale and are costed on this basis, ordinarily the identity of goods is lost between the time of acquisition and the time of sale.

330-10-30-**11** Accordingly, if the materials purchased in various lots are identical and interchangeable, the use of identified cost of the various lots may not produce the most useful financial statements. This fact has resulted in the general acceptance of several assumptions with respect to the flow of cost factors such as FIFO, average, and LIFO to provide practical bases for the measurement of periodic income.

330-10-30-**12** Standard costs are acceptable if adjusted at reasonable intervals to reflect current conditions so that at the balance-sheet date standard costs reasonably approximate costs computed under one of the recognized bases. In such cases descriptive language shall be used which will express this relationship, as, for instance, "approximate costs determined on the first-in first-out basis," or, if it is desired to mention standard costs, "at standard costs, approximating average costs."

330-10-30-**13** In some situations a reversed mark-up procedure of inventory pricing, such as the retail inventory method, may be both practical and appropriate. The business operations in some cases may be such as to make it desirable to apply one of the acceptable methods of determining cost to one portion of the inventory or components thereof and another of the acceptable methods to other portions of the inventory.

330-10-30-**14** Although selection of the method should be made on the basis of the individual circumstances, financial statements will be more useful if uniform methods of inventory pricing are adopted by all entities within a given industry.

Consistency Required

330-10-30-**15** While the basis of stating inventories does not affect the overall gain or loss on the ultimate disposition of inventory items, any inconsistency in the selection or employment of a basis may improperly affect the periodic amounts of income or loss. Because of the common use and importance of periodic statements, a procedure adopted for the treatment of inventory items shall be consistently applied in order that the results reported may be fairly allocated between years.

Purchases and Sales of Inventory with the Same Counterparty

330-10-30-**16** For a discussion of the initial measurement of inventory purchased from an entity to which it also sells inventory in the same line of business, see paragraphs 845-10-55-10 through 55-26.

Costs Resulting from Share-Based Payment Transactions

330-10-30-**17** See paragraph 718-10-25-2 for a discussion of share-based payment capitalized as a part of inventory.

Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed

330-10-30-**18** See Sections 985-20-25 and 985-20-35 and paragraphs 985-20-55-2 through 55-3 for a discussion of accounting for the costs of producing and acquiring computer software, including software that is marketed as part of a product or process.

330-10-30-**19** Paragraph superseded by Accounting Standards Update No. 2014-09.

Costs to Fulfill a Contract with a Customer

330-10-30-**20** See paragraphs 340-40-25-5 through 25-8 and paragraphs 340-40-35-1 through 35-6 for the accounting for the costs to fulfill a contract with a customer if those costs are not in the scope of another Topic.

Indirect Contract Costs by Government Contractors

330-10-30-**21** See paragraph 912-20-25-1 for the accounting for indirect contract costs by government contractors.

330-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

330-10-35-**1** Paragraph superseded by Accounting Standards Update No. 2015-11.

330-10-35-**1A** The subsequent measurement of inventory depends on the cost method and is different for the following:

a. Inventory measured using any method other than last-in, first-out (LIFO) or the retail inventory method (see paragraph 330-10-35-1B)

b. Inventory measured using LIFO or the retail inventory method (see paragraphs 330-10-35-1C through 35-7).

Paragraphs 330-10-35-7A through 35-11 apply to all inventory.

Inventory Measured Using Any Method Other Than LIFO or the Retail Inventory Method

330-10-35-**1B** Inventory measured using any method other than LIFO or the retail inventory method (for example, inventory measured using first-in, first-out (FIFO) or average cost) shall be measured at the lower of cost and net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings in the period in which it occurs. That loss may be required, for example, due to damage, physical deterioration, obsolescence, changes in price levels, or other causes.

Inventory Measured Using LIFO or the Retail Inventory Method

330-10-35-**1C** A departure from the cost basis of pricing inventory measured using LIFO or the retail inventory method is required when the utility of the goods is no longer as great as their cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to damage, physical deterioration, obsolescence, changes in price levels, or other causes, the difference shall be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market.

330-10-35-**2** The cost basis of recording inventory ordinarily achieves the objective of a proper matching of costs and revenues. However, under certain circumstances cost may not be the amount properly chargeable against the revenues of future periods. A departure from cost is required in these circumstances because cost is satisfactory only if the utility of the goods has not diminished since their acquisition; a loss of utility shall be reflected as a charge against the revenues of the period in which it occurs. Thus, in accounting for inventories, a loss shall be recognized whenever the utility of goods is impaired by damage, deterioration, obsolescence, changes in price levels, or other causes. The measurement of such losses for inventory measured using LIFO or the retail inventory method shall be accomplished by applying the rule of pricing inventories at the lower of cost or market. This provides a practical means of measuring utility and thereby determining the amount of the loss to be recognized and accounted for in the current period.

330-10-35-**3** The rule of lower of cost or market is intended to provide a means of measuring the residual usefulness of an inventory expenditure. The term market is therefore to be interpreted as indicating utility on the inventory date and may be thought of in terms of the equivalent expenditure which would have to be made in the ordinary course at that date to procure corresponding utility.

330-10-35-**4** As a general guide, utility is indicated primarily by the current cost of replacement of the goods as they would be obtained by purchase or reproduction. In applying the rule, however, judgment must always be exercised and no loss shall be recognized unless the evidence indicates clearly that a loss has been sustained. There are therefore exceptions to such a standard. Replacement or reproduction prices would not be appropriate as a measure of utility when the estimated sales value, reduced by the costs of completion and disposal, is lower, in which case the realizable value so determined more appropriately measures utility.

330-10-35-**5** Furthermore, when the evidence indicates that cost will be recovered with an approximately normal profit upon sale in the ordinary course of business, no loss shall be recognized even though replacement or reproduction costs are lower. This might be true, for example, in the case of production under firm sales contracts at fixed prices, or when a reasonable volume of future orders is assured at stable selling prices.

330-10-35-**6** Paragraph superseded by Accounting Standards Update No. 2015-11.

330-10-35-**7** Because of the many variations of circumstances encountered in inventory pricing, the definition of market is intended as a guide rather than a literal rule. It shall be applied realistically in light of the objectives expressed in this Subtopic and with due regard to the form, content, and composition of the inventory. For example, the retail inventory method, if adequate markdowns are currently taken, accomplishes the objectives described herein. It is also recognized that, if a business is expected to lose money for a sustained period, the inventory shall not be written down to offset a loss inherent in the subsequent operations.

Subsequent Measurement Guidance Applicable to All Inventory

330-10-35-**7A** If inventory has been the hedged item in a fair value hedge, the inventory's cost basis for purposes of subsequent measurement shall reflect the effect of the adjustments of its carrying amount made pursuant to paragraph 815-25-35-1(b).

330-10-35-**8** Depending on the character and composition of the inventory, the guidance in paragraphs 330-10-35-1A through 35-7 that is applicable to the inventory being measured may properly be applied either directly to each item or to the total of the inventory (or, in some cases, to the total of the components of each major category). The method shall be that which most clearly reflects periodic income.

330-10-35-**9** The purpose of reducing the carrying amount of inventory is to reflect fairly the income of the period. The most common practice is to apply the applicable subsequent measurement guidance separately to each item of the inventory. However, if there is only one end-product category, the application of the applicable subsequent measurement guidance to inventory in its entirety may have the greatest significance for accounting purposes. Accordingly, the remeasurement of individual items may not always lead to the most useful result if the market value (for inventory measured using LIFO or the retail inventory method) or net realizable value (for all other inventory) of the total inventory is not below its cost. This might be the case, for example, if selling prices are not affected by temporary or small fluctuations in current costs of purchase or manufacture.

330-10-35-**10** Similarly, where more than one major product or operational category exists, the application of the applicable subsequent measurement guidance to the total of the items included in such major categories may result in the most useful determination of income. When no loss of income is expected to take place as a result of a reduction of cost prices of certain goods because others forming components of the same general categories of finished products have a market value (for inventory measured using LIFO or the retail inventory method) or net realizable value (for all other inventory) equally in excess of cost, such components need not be adjusted to the extent that they are in balanced quantities. Thus, in such cases, the guidance on subsequent measurement may be applied directly to the totals of the entire inventory, rather than to the individual inventory items, if they enter into the same category of finished product and if they are in balanced quantities, provided the procedure is applied consistently from year to year.

330-10-35-**11** To the extent, however, that the stocks of particular materials or components are excessive in relation to others, the more widely recognized procedure of applying the guidance on subsequent measurement to the individual items constituting the excess shall be followed. This would also apply in cases in which the items enter into the production of unrelated products or products having a material variation in the rate of turnover. Unless an effective method of classifying categories is practicable, the rule shall be applied to each item in the inventory.

330-10-35-**12** See paragraphs 330-10-30-9 through 30-14 for guidance on inventory pricing methods.

Loss Due to Sales Incentive

330-10-35-**13** The offer of a sales incentive that will result in a loss on the sale of a product may indicate an impairment of existing inventory under this Subtopic.

New Cost Basis

330-10-35-**14** In the case of goods which have been written down below cost at the close of a fiscal year, such reduced amount is to be considered the cost for subsequent accounting purposes. Paragraph 270-10-45-6 provides guidance for preparing interim financial statements.

Stating Inventories Above Cost

330-10-35-**15** Only in exceptional cases may inventories properly be stated above cost. For example, precious metals having a fixed monetary value with no substantial cost of marketing may be stated at such monetary value; any other exceptions must be justifiable by inability to determine appropriate approximate costs, immediate marketability at quoted market price, and the characteristic of unit interchangeability.

330-10-35-**16** It is generally recognized that income accrues only at the time of sale, and that gains may not be anticipated by reflecting assets at their current sales prices. However, exceptions for reflecting assets at selling prices are permissible for both of the following:

a. Inventories of gold and silver, when there is an effective government-controlled market at a fixed monetary value

b. Inventories representing agricultural, mineral, and other products, with all of the following criteria:

    1. Units of which are interchangeable

    2. Units of which have an immediate marketability at quoted prices

    3. Units for which appropriate costs may be difficult to obtain.

Where such inventories are stated at sales prices, they shall be reduced by expenditures to be incurred in disposal.

Purchase Commitments

330-10-35-**17** A net loss on firm purchase commitments for goods for inventory, measured in the same way as are inventory losses, shall be recognized in the accounts. The recognition in a current period of losses arising from the decline in the utility of cost expenditures is equally applicable to similar losses which are expected to arise from firm, uncancelable, and unhedged commitments for the future purchase of inventory items.

330-10-35-**18** The utility of such commitments is not impaired, and hence there is no loss, when the amounts to be realized from the disposition of the future inventory items are adequately protected by firm sales contracts or when there are other circumstances that reasonably assure continuing sales without price decline.

Accounting Changes

330-10-35-**19** Paragraph 250-10-55-1 explains that a change in composition of the elements of cost included in inventory is an accounting change and provides related guidance.

330-10-35-**20** The definition of direct effects of a change in accounting principle includes a change in inventory valuation methods as an accounting change.

Accounting for Consideration Payable to a Customer

330-10-35-**21** See paragraphs 606-10-32-25 through 32-27 for a discussion of consideration given by an entity to a customer.

Accounting for Consideration Received from a Vendor

330-10-35-**22** See Subtopic 705-20 on costs of sales and services for a discussion of accounting by an entity, that is, a customer (including a reseller) for, for consideration received from a vendor.

Interim Financial Reporting

330-10-35-**23** See paragraph 270-10-45-6 for a discussion of practices used in determining costs of inventory on an interim basis.

330-10-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Change in Composition Is Accounting Change

330-10-45-**1** See paragraph 330-10-35-19 for guidance on dealing with the effects of an accounting change resulting from a change in elements of cost included in inventory.

330-10-45-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

330-10-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Basis for Stating Inventories

330-10-50-**1** The basis of stating inventories shall be consistently applied and shall be disclosed in the financial statements; whenever a significant change is made therein, there shall be disclosure of the nature of the change and, if material, the effect on income. A change of such basis may have an important effect upon the interpretation of the financial statements both before and after that change, and hence, in the event of a change, a full disclosure of its nature and of its effect, if material, upon income shall be made. See paragraph 210-10-50-1.

Losses from the Subsequent Measurement of Inventory

330-10-50-**2** Substantial and unusual losses that result from the subsequent measurement of inventory (see paragraphs 330-10-35-1A through 35-11) should be disclosed in the financial statements.

Goods Stated Above Cost

330-10-50-**3** Where goods are stated above cost this fact shall be fully disclosed.

Stating Inventories at Sales Prices

330-10-50-**4** Where such inventories are stated at sales prices, the use of such basis shall be fully disclosed in the financial statements.

Losses on Firm Purchase Commitments

330-10-50-**5** The amounts of net losses on firm purchase commitments accrued under paragraph 330-10-35-17 shall be disclosed separately in the income statement.

> **PENDING CONTENT**

Transition Date: (P) December 16, 2026; (N) December 16, 2026 **- Transition Guidance :** 220-40-65-1

The amounts of net losses on firm purchase commitments accrued under paragraph 330-10-35-17 shall be disclosed separately in the income statement. See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

Disclosure of Significant Estimates

330-10-50-**6** See Example 1 (paragraph 330-10-55-8) for an illustration of the disclosure of significant estimates applicable to inventories as required by Section 275-10-50.

330-10-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

330-10-55-**1** This Section, which is an integral part of the requirements of this Topic, provides general guidance to be used in accounting for inventory. Certain assumptions have been made to simplify the computations and focus on the issue at hand in each illustration.

Implementation Guidance

Market Decline in Interim Period

330-10-55-**2** If near-term price recovery is uncertain, a decline in the market value (for inventory measured using LIFO or the retail inventory method) or net realizable value (for all other inventory) of inventory below cost during an interim period shall be accounted for consistent with annual periods, except as described in paragraph 270-10-45-6.

a. Subparagraph superseded by Accounting Standards Update No. 2015-11.

b. Subparagraph superseded by Accounting Standards Update No. 2015-11.

Costs Capitalized to Inventory for Tax Purposes

330-10-55-**3** The following provides guidance as to whether the types of costs that are required to be allocated to inventories for tax purposes under the Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986 would be capitalizable under generally accepted accounting principles (GAAP) and, if so, whether the costing method required for tax purposes is a preferable method for purposes of justifying a change in accounting principle.

330-10-55-**4** The fact that a cost is capitalizable for tax purposes does not, in itself, indicate that it is preferable, or even appropriate, to capitalize that cost for financial reporting purposes. Certain of the additional costs that are required to be capitalized for tax purposes may also be capitalizable for financial reporting purposes, depending on factors such as the nature of the entity's operation and industry practice. That determination, however, can only be made after an analysis of the individual facts and circumstances.

330-10-55-**5** Paragraph superseded by Accounting Standards Update No. 2017-07.

330-10-55-**6** Paragraph superseded by Accounting Standards Update No. 2017-07.

Capitalizing into Inventory the Service Cost Component of Pension and Other Postretirement Benefit Costs

330-10-55-**6A** The service cost component of net periodic pension cost and net periodic postretirement benefit cost is the only component directly arising from employees' services provided in the current period. Therefore, when it is appropriate to capitalize employee compensation in connection with the construction or production of an asset, the service cost component applicable to the pertinent employees for the period is the relevant amount to be considered for capitalization.

330-10-55-**7** Paragraph superseded by Accounting Standards Update No. 2017-07.

Illustrations

Example 1: Disclosure of Significant Estimates

330-10-55-**8** This Example illustrates the guidance in paragraph 330-10-50-6 regarding the disclosure of significant estimates related to inventory. Entity A manufactures high technology stereo equipment. In June 19X7, one of Entity A's competitors introduced a new model stereo system with the same features as Entity A's Model A. The competitor's version sells for significantly less than Entity A's suggested retail price for Model A. The introduction of this product resulted in a sharp decrease in the sales volume of Model A. As of December 31, 19X7, Entity A has accumulated significant inventory quantities beyond its normal short-term needs of its Model A system. Inventory for Model A ($6 million) represents approximately 20 percent of Entity A's inventory at that date. The remaining 80 percent of Entity A's inventory consists of products experiencing only normal competitive pressures. Entity A has established provisions for obsolescence for this latter group of products in the normal course of business.

330-10-55-**9** Management has developed a program to provide substantial dealer incentives on purchases of the Model A, which it expects will result in the sale of this inventory in the near term. Because of the existing high profit margin on its stereo systems, Entity A would continue to earn a marginal profit on sales of the Model A under the new program. It is also reasonably possible, however, that the program will not be wholly successful, and, accordingly, a material loss could ultimately result on the disposal of the inventory.

330-10-55-**10** The entity would disclose the following.

> As of December 31, 19X7, some portion of $6 million of inventory of one of the entity's products is in excess of Entity A's current requirements based on the recent level of sales. Management has developed a program to reduce this inventory to desired levels over the near term and believes no loss will be incurred on its disposition. No estimate can be made of a range of amounts of loss that are reasonably possible should the program not be successful.

330-10-55-**11** This situation meets the criteria for disclosure under paragraph 275-10-50-8 because circumstances that existed at the date of the financial statements, including the decreasing sales volume and excessive quantities of inventory of Model A, make it at least reasonably possible that management's plan to liquidate its excess inventory without a loss will be less than fully successful and that such an outcome would have a near-term material effect on the entity's financial statements.

330-10-55-**12** In this Example, Entity A discloses the existence of potentially excess quantities of inventory at the date of the financial statements and indicates that the uncertainty is expected to be resolved in the near term. The disclosure is intended to provide users with insight into management's assessment of recoverability of the cost of inventories existing at the date of the financial statements. Although disclosure of the $6 million carrying amount of the inventory of Model A is not required because, based on the facts presented, $6 million does not constitute a reasonable estimate of loss on the disposal of the inventory or the maximum amount in an estimated range of loss, disclosure of this amount is not misleading and may provide useful information.

330-10-55-**13** Discussion of Entity A's provision for obsolescence for the remaining 80 percent of its inventory is not required because it is not considered reasonably possible that additional material losses on this inventory will occur.

330-10-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

330-10-65-**1** Paragraph superseded on 06/20/2018 after the end of the transition period stated in Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory.

330-10-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

330-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
330-10-S35-2	Amended	Accounting Standards Update No. 2009-07	09/15/2009
330-10-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012
330-10-S99-2	Amended	Accounting Standards Update No. 2012-03	08/27/2012

330-10-**S35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Restoration of Previously Written-Down Inventory Value

330-10-S35-**1** See paragraph 330-10-S99-2, SAB Topic 5.BB, for SEC Staff views on restoration of inventory value following a previous write-down to lower of cost or market.

Classification of Inventory Markdowns and Other Costs Associated with a Restructuring

330-10-S35-**2** See paragraph 420-10-S99-3, SEC Observer Comment: Classification of Inventory Markdowns and Other Costs Associated with Restructuring, for SEC Staff views on income statement classification of inventory markdowns associated with a restructuring.

330-10-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Separate Presentation of Classes of Inventory

330-10-S45-**1** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.6, for requirements for inventory presentation on the balance sheet.

330-10-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Inventory Disclosure Requirements

330-10-S50-**1** See paragraph 210-10-S99-1, Regulation S-X Rules 5-02.6(b) through (d), for inventory disclosure requirements.

LIFO Liquidations

330-10-S50-**2** See paragraph 330-10-S99-3, SAB Topic 11.F, for SEC Staff views on disclosure of income realized as a result of a last-in, first-out (LIFO) liquidation.

330-10-**S55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

LIFO Inventory Practices

330-10-S55-**1** See paragraph 330-10-S99-1, SAB Topic 5.L, for SEC Staff views on appropriate last-in, first-out (LIFO) accounting practices.

330-10-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.L, LIFO Inventory Practices

330-10-S99-**1** The following is the text of SAB Topic 5.L, LIFO Inventory Practices.

Facts: On November 30, 1984, AcSEC and its Task Force on LIFO Inventory Problems (task force) issued a paper, "Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories." This paper identifies and discusses certain financial accounting and reporting issues related to the last-in, first-out (LIFO) inventory method for which authoritative accounting literature presently provides no definitive guidance. For some issues, the task force's advisory conclusions recommend changes in current practice to narrow the diversity which the task force believes exists. For other issues, the task force's advisory conclusions recommend that current practice should be continued for financial reporting purposes and that additional accounting guidance is unnecessary. Except as otherwise noted in the paper, AcSEC generally supports the task force's advisory conclusions. As stated in the issues paper, "Issues papers of the AICPA's accounting standards division are developed primarily to identify financial accounting and reporting issues the division believes need to be addressed or clarified by the Financial Accounting Standards Board." On February 6, 1985, the FASB decided not to add to its agenda a narrow project on the subject of LIFO inventory practices.

Question 1: What is the SEC staff's position on the issues paper?

Interpretive Response: In the absence of existing authoritative literature on LIFO accounting, the staff believes that registrants and their independent accountants should look to the paper for guidance in determining what constitutes acceptable LIFO accounting practice. FN11 In this connection, the staff considers the paper to be an accumulation of existing acceptable LIFO accounting practices which does not establish any new standards and does not diverge from GAAP.

FN11 In ASR 293 (July 2, 1981) see Financial Reporting Codification 205, the Commission expressed its concerns about the inappropriate use of Internal Revenue Service (IRS) LIFO practices for financial statement preparation. Because the IRS amended its regulations concerning the LIFO conformity rule on January 13, 1981, allowing companies to apply LIFO differently for financial reporting purposes than for tax purposes, the Commission strongly encouraged registrants and their independent accountants to examine their financial reporting LIFO practices. In that release, the Commission acknowledged the "task force which has been established by AcSEC to accumulate information about [LIFO] application problems" and noted that "This type of effort, in addition to self-examination [of LIFO practices] by individual registrants, is appropriate..."

The staff also believes that the advisory conclusions recommended in the issues paper are generally consistent with conclusions previously expressed by the Commission, such as:

1. Pooling-paragraph 4-6 of the paper discusses LIFO inventory pooling and concludes "establishing separate pools with the principal objective of facilitating inventory liquidations is unacceptable." In Accounting and Auditing Enforcement Release 35, August 13, 1984, the Commission stated that it believes that the Company improperly realigned its LIFO pools in such a way as to maximize the likelihood and magnitude of LIFO liquidations and thus, overstated net income.

2. New Items-paragraph 4-27 of the paper discusses determination of the cost of new items and concludes "if the double extension or an index technique is used, the objective of LIFO is achieved by reconstructing the base year cost of new items added to existing pools." In ASR 293, the Commission stated that when the effects of inflation on the cost of new products are measured by making a comparison with current cost as the base-year cost, rather than a reconstructed base-year cost, income is improperly increased.

Question 2: If a registrant utilizes a LIFO practice other than one recommended by an advisory conclusion in the issues paper, must the registrant change its practice to one specified in the paper?

Interpretive Response: Now that the issues paper is available, the staff believes that a registrant and its independent accountants should re-examine previously adopted LIFO practices and compare them to the recommendations in the paper. In the event that the registrant and its independent accountants conclude that the registrant's LIFO practices are preferable in the circumstances, they should be prepared to justify their position in the event that a question is raised by the staff.

Question 3: If a registrant elects to change its LIFO practices to be consistent with the guidance in the issues paper and discloses such changes in accordance with FASB ASC Topic 250, Accounting Changes and Error Corrections, will the registrant be requested by the staff to explain its past practices and its justification for those practices?

Interpretive Response: The staff does not expect to routinely raise questions about changes in LIFO practices which are made to make a company's accounting consistent with the recommendations in the issues paper.

SAB Topic 5.BB, Inventory Valuation Allowance

330-10-S99-**2** The following is the text of SAB Topic 5.BB, Inventory Valuation Allowance.

Facts: FASB ASC paragraph 330-10-35-1 (Inventory Topic), specifies that: "[a] departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to physical deterioration, obsolescence, changes in price levels, or other causes, the difference shall be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market."

FASB ASC paragraph 330-10-35-14 indicates that "[i]n the case of goods which have been written down below cost at the close of a fiscal year, such reduced amount is to be considered the cost for subsequent accounting purposes."

Lastly, the FASB ASC Master Glossary provides "inventory obsolescence" as one of the items subject to a change in accounting estimate.

Question: Does the write-down of inventory to the lower of cost or market, as required by FASB ASC Topic 330, create a new cost basis for the inventory or may a subsequent change in facts and circumstances allow for restoration of inventory value, not to exceed original historical cost?

Interpretive Response: Based on FASB ASC paragraph 330-10-35-14, the staff believes that a write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently cannot be marked up based on changes in underlying facts and circumstances. FN59

FN59 See also disclosure requirement for inventory balances in Rule 5-02(6) of Regulation S-X.

SAB Topic 11.F, LIFO Liquidations

330-10-S99-**3** The following is the text of SAB Topic 11.F, LIFO Liquidations.

Facts: Registrant on LIFO basis of accounting liquidates a substantial portion of its LIFO inventory and as a result includes a material amount of income in its income statement which would not have been recorded had the inventory liquidation not taken place.

Question: Is disclosure required of the amount of income realized as a result of the inventory liquidation?

Interpretive Response: Yes. Such disclosure would be required in order to make the financial statements not misleading. Disclosure may be made either in a footnote or parenthetically on the face of the income statement.