

HASBRO, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — (Continued)
(Thousands of Dollars and Shares Except Per Share Data)

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) Financial Instruments - Credit Losses (Topic 326) - *Measurement of Credit Losses on Financial Instruments*. The amendments in this update provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The standard update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public companies, this standard became effective for annual reporting periods beginning after December 15, 2019, and early adoption was permitted. The Company adopted the standard in the first quarter of 2020 and the adoption of the standard did not have a material impact on its consolidated financial statements.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or net realizable value. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling price and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its estimated net realizable value. At both December 27, 2020 and December 29, 2019, substantially all inventory is comprised of finished goods.

Equity Method Investment

For the Company's equity method investments, only the Company's investment in and amounts due to and from the equity method investment are included in the consolidated balance sheets and only the Company's share of the equity method investment's earnings (losses) is included in other (income) expense, net in the consolidated statements of operations. Dividends, cash distributions, loans or other cash received from the equity method investment, additional cash investments, loan repayments or other cash paid to the investee are included in the consolidated statements of cash flows.

The Company reviews its equity method investments for impairment on a periodic basis. If it has been determined that the fair value of the equity investment is less than its related carrying value and that this decline is other-than-temporary, the carrying value of the investment is adjusted downward to reflect these declines in value. The Company has one significant equity method investment, its 40% interest in a joint venture with Discovery Communications, Inc. ("Discovery").

The Company and Discovery are party to an option agreement with respect to this joint venture. The Company has recorded a liability for this option agreement at fair value which is included in other liabilities in the consolidated balance sheets. Unrealized gains and losses on this option are recognized in the consolidated statements of operations as they occur.

See notes 7 and 14 for additional information.