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# U.S. GAAP VS. IFRS: INVENTORY AT-A-GLANCE

*Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself about the impact of IFRS on your financial reporting processes and business now. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for inventory. For other comparisons available in this series, refer to our* U.S. GAAP vs. IFRS comparisons at-a-glance series.

*A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. While the SEC has not made any final decisions with respect to use of IFRS by U.S. registrants, its activities are ongoing. For more information, refer to our* IFRS Resource Center.

The guidance related to accounting for inventory in U.S. GAAP is included in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 330, *Inventory*. In IFRS, the guidance related to accounting for inventory is contained in International Accounting Standard (IAS) 2, *Inventories*.

Some similarities exist between U.S. GAAP and IFRS in accounting for inventory. For example, both are based on the principle that cost is the primary basis of accounting and both define inventory in a similar manner. There are, however, some significant differences between U.S. GAAP and IFRS with respect to accounting for inventory, which are summarized in the following table.

| | U.S. GAAP | IFRS |
|---|---|---|
| **Relevant guidance** | ASC 330 | IAS 2 |
| Costing methods | Use of last-in first-out (LIFO) is permitted. | Use of LIFO is prohibited. |
| Subsequent measurement | Inventory is subsequently measured at the lower of cost or market. For this purpose, market is defined as current replacement cost, which is limited to net realizable value. | Inventory is subsequently measured at the lower of cost or net realizable value. |
| Reversal of writedown | When a writedown occurs, a new cost basis is established. Reversals of writedowns are prohibited. | Reversals of writedowns are required (up to the amount of previous writedowns) when the reasons for the writedown cease to exist or when changes in economic circumstances clearly indicate an increase in the net realizable value of the inventory. |

These are the significant differences between U.S. GAAP and IFRS with respect to accounting for inventory. Refer to ASC 330 and IAS 2 for all of the specific requirements applicable to accounting for inventory. Refer to our U.S. GAAP vs. IFRS comparisons at-a-glance series for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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