

# U.S. GAAP vs. IFRS: Inventory

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February 2020

## Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for inventory.

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

## Comparison

The significant differences between U.S. GAAP and IFRS with respect to accounting for inventory are summarized in the following table.

	U.S. GAAP	IFRS
<b>Relevant guidance</b>	ASC 330	IAS 2
<b>Costing methods</b>	Use of last-in first-out (LIFO) is permitted.	Use of LIFO is prohibited.
<b>Cost formula</b>	The same cost formula is not required to be applied to all inventories that have a similar nature and use to the entity.	The same cost formula is required to be applied to all inventories that have a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.
<b>Reversal of writedowns</b>	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. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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*U.S. GAAP vs. IFRS: Inventory* resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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