

# Simplifying the Subsequent Measurement of Inventory — FASB Tentatively Decides to Issue ASU

**May 14, 2015** — At its meeting yesterday, the FASB discussed the results of additional outreach and redeliberated the scope of its proposed Accounting Standards Update (ASU) *Simplifying the Measurement of Inventory*. The Board tentatively decided to issue final guidance that is generally consistent with the proposed ASU;<sup>1</sup> however, the ASU will not apply to entities that measure inventory by using either the last-in, first-out (LIFO) inventory measurement method or the retail inventory method (RIM) given the unique challenges presented by those approaches. (See the [meeting handout](#) for more information.)

**Editor's Note:** Other alternatives considered by the Board included making the guidance applicable to all entities (as originally proposed) or removing the project altogether. The Board chose to modify the scope of the proposed guidance because the vast majority of commenters supported the proposal, and only entities using the LIFO method or RIM would be significantly affected by the new requirements. The FASB noted that the new scope provisions should not affect comparability because investors typically do not compare entities with different inventory methods. Further, as a result of the new guidance, a vast majority of entities will use a single inventory measurement model.

The FASB will submit a survey to the Financial Accounting Standards Advisory Council to determine whether the use of fewer inventory methods will benefit financial statement users and will also consider conducting preagenda research on more holistic improvements. Enhanced inventory disclosures may also be considered as part of the FASB's disclosure framework project.

The FASB tentatively decided that the ASU would apply prospectively in annual periods beginning after December 15, 2016, and interim periods **therein** for public business entities and **thereafter** for entities that are not public business entities, with early adoption permitted. The FASB also tentatively reaffirmed the transition requirement for entities to disclose the nature and reason for the accounting change.

## Next Steps

The FASB expects to issue the final ASU by the third quarter of 2015.

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<sup>1</sup> See Deloitte's July 22, 2014, [journal entry](#) for more information.