Learning Activities


Review the **key points** to reinforce your understanding of their major requirements.

- The requirements for accounting for and reporting inventories are more principles-based under IFRS. That is, GAAP provides more detailed guidelines in inventory accounting.

- The definitions for inventory are essentially similar under IFRS and GAAP. Both define inventory as assets held-for-sale in the ordinary course of business, in the process of production for sale (work in process), or to be consumed in the production of goods or services (e.g., raw materials).

- Who owns the goods—goods in transit or consigned goods—as well as the costs to include in inventory, are accounted for the same under IFRS and GAAP.

- Both GAAP and IFRS permit specific identification where appropriate. IFRS actually requires that the specific identification method be used where the inventory items are not interchangeable (i.e., can be specifically identified). If the inventory items are not specifically identifiable, a cost flow assumption is used. GAAP does not specify situations in which specific identification must be used.

- A major difference between IFRS and GAAP relates to the LIFO cost flow assumption. GAAP permits the use of LIFO for inventory valuation. IFRS prohibits its use. FIFO and average-cost are the only two acceptable cost flow assumptions permitted under IFRS.

- IFRS requires companies to use the same cost flow assumption for all goods of a similar nature. GAAP has no specific requirement in this area.

- In the lower-of-cost-or-market test for inventory valuation, IFRS defines market as net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated selling expenses. In other words, net realizable value is the best estimate of the net amounts that inventories are expected to realize. GAAP, on the other hand, defines market as essentially replacement cost.