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# **CHAPTER 9**

## **INVENTORIES: ADDITIONAL VALUATION ISSUES**

**Sommers – ACCT 3311**

# LCM Approach

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Lower-of-cost-or-market approach to valuing inventory

GAAP generally require the use of historical cost to value assets, but a departure from cost is necessary when the utility of an asset is no longer as great as its cost. The utility or benefits from inventory result from the ultimate sale of the goods. This utility could be reduced below cost due to deterioration, obsolescence, or changes in price levels. To avoid reporting inventory at an amount greater than the benefits it can provide, the lower-of-cost-or-market approach to valuing inventory was developed. This approach results in the recognition of losses when the value of inventory declines below its cost, rather than in the period in which the goods are ultimately sold.

# Discussion Question

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Q9-2 Explain the rationale for the ceiling and floor in the lower-of-cost-or-market method of valuing inventories.