Accounting Standards Board (FASB) has issued two proposed updates that are meant to ease the measurement of inventory and eliminate the requirements for extraordinary items

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As part of an initiative towards simplifying accounting standards, the Financial Accounting Standards Board (FASB) has issued two proposed updates that are meant to ease the measurement of inventory and eliminate the requirements for extraordinary items

In a proposed update to Inventory Topic 330, FASB addresses stakeholder concerns about the complexity of current guidance on measuring inventory. Current Generally Accepted Accounting Principles (GAAP) require reporting organizations to measure inventory at the lower of cost or market. Market could be net realizable value, replacement cost, or net realizable value less a normal profit margin when measuring inventory.

The proposed guidance would require inventory to be measured at the lower of cost and net realizable value. Thus, it would eliminate existing requirements to consider the replacement cost of inventory and the net realizable value of inventory less an approximately normal profit margin. The changes would reduce the cost and complexity of the subsequent measurement of inventory and result in greater consistency in the measurement of inventory.

With regard to income statement reporting on extraordinary and unusual items (Subtopic 225-20), FASB's proposal would help to reduce cost and complexity by eliminating the concept of extraordinary items. Current GAAP requires organizations to evaluate whether an event or transaction is an extraordinary item and, if it is deemed so, to separately present and disclose the item. However, the concept of extraordinary items causes uncertainty because it is unclear when an item should be

FASB's board expects that both of the proposed updates would be applied prospectively in annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption would be permitted.