

ADM 2342X
2015 SPRING/SUMMER SEMESTER

Inventory
Lower of Cost and Net realizable Value Rule

SOLUTION

Bjornson Limited had the following ending inventory balances for each of the past six years as follows:

	<u>Cost</u>	<u>Net Realizable Value</u>
2008	\$ 0	\$ 0
2009	12,000	14,000
2010	15,000	13,000
2011	18,000	17,000
2012	20,000	16,000
2013	22,000	23,000

Required:

For 2009–2013, calculate the holding loss (gain) under the lower-of-cost or net realizable value (NRV) valuation rule.

Answer:

The holding loss (gain) for each year from 2009 to 2013 can be computed as follows:

<u>Year-end</u>	(a) <i>Allowance to reduce inventory to LC/NRV— Opening balance</i>	(b) <i>Allowance to reduce inventory to LC/NRV— Amount required*</i>	(b) – (a) <i>Holding loss/ (gain)</i>
2009 \$ 0	\$ 0**	\$ 0	
2010 0	2,000	2,000	
2011 2,000	1,000	(1,000)	
2012 1,000	4,000	3,000	
2013 4,000	0**	(4,000)	

* Cost less NRV, if NRV is less than cost.

** NRV is in excess of cost; no allowance is required.