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FASB ISSUES PROPOSALS TO SIMPLIFY INVENTORY MEASUREMENT AND ELIMINATE REQUIREMENTS FOR EXTRAORDINARY ITEMS

Norwalk, CT, July 15, 2014—As part of its simplification initiative, the Financial Accounting Standards Board (FASB) today issued two proposed Accounting Standards Updates intended to simplify the measurement of inventory and eliminate the requirements for extraordinary items.

Inventory (Topic 330): Simplifying the Measurement of Inventory. The proposed Update 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.

Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The

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proposed Update seeks 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 considered both unusual and infrequent.

The proposed Update would remove the concept of extraordinary items from GAAP. The Board believes that eliminating the concept would save time and reduce costs for preparers who would not assess whether a particular event or transaction event is extraordinary. The proposal also is intended to alleviate uncertainty for preparers, auditors, and regulators because auditors and regulators no longer would evaluate whether a preparer presented an unusual and/or infrequent item appropriately.

The 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.

The objective of the FASB's simplification initiative is to reduce cost and complexity in financial reporting while improving or maintaining the usefulness of the information reported to investors. As part of the ongoing initiative, the Board will add to its agenda a series of narrow-scope projects that stakeholders have identified as opportunities to simplify GAAP in a relatively short time period.

The Exposure Drafts—including instructions on how to submit comments by September 30, 2014—are available at www.fasb.org. Stakeholders also can provide feedback by using the electronic feedback form available on the [FASB website](#).

About the Financial Accounting Standards Board

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are

essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit our website at www.fasb.org.

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