

Lower of Cost or Market Example 2

Item	Units	Cost	Current Replacement Cost	Estimated Selling Price	Estimated Completion & Disposal Cost
1	800	\$ 220.00	\$ 250.00	\$ 280.00	\$ 15.00
2	600	\$ 190.00	\$ 175.00	\$ 240.00	\$ 11.00
3	350	\$ 310.00	\$ 370.00	\$ 390.00	\$ 23.00
4	500	\$ 180.00	\$ 185.00	\$ 185.00	\$ 8.00
5	750	\$ 205.00	\$ 210.00	\$ 320.00	\$ 14.00
6	900	\$ 150.00	\$ 110.00	\$ 170.00	\$ 7.00

For all inventory items, Normal Profit Margin is 30% of cost.

Determine the Market

Item	Units	(A) = (C) - (D) Net Realizable Value	(B) = (A) - (E) NRV - Normal Profit Margin	(C) Estimated Selling Price	(D) Estimated Completion & Disposal Cost	(E) Normal Profit Margin (30% of Cost)
1	800	\$ 265.00	\$ 199.00	\$ 280.00	\$ 15.00	\$ 66.00
2	600	\$ 229.00	\$ 172.00	\$ 240.00	\$ 11.00	\$ 57.00
3	350	\$ 367.00	\$ 274.00	\$ 390.00	\$ 23.00	\$ 93.00
4	500	\$ 177.00	\$ 123.00	\$ 185.00	\$ 8.00	\$ 54.00
5	750	\$ 306.00	\$ 244.50	\$ 320.00	\$ 14.00	\$ 61.50
6	900	\$ 163.00	\$ 118.00	\$ 170.00	\$ 7.00	\$ 45.00

Item	(AA) Current Replacement Cost	(BB) Net Realizable Value	(CC) NRV - Normal Profit Margin	Is (AA) in between (BB) and (CC)?	Is (AA) greater than (BB)?	Is (AA) smaller than (CC)?	
1	\$ 250.00	\$ 265.00	\$ 199.00	Yes			(AA) is Market
2	\$ 175.00	\$ 229.00	\$ 172.00	Yes			(AA) is Market
3	\$ 370.00	\$ 367.00	\$ 274.00		Yes		(BB) is Market
4	\$ 185.00	\$ 177.00	\$ 123.00		Yes		(BB) is Market
5	\$ 210.00	\$ 306.00	\$ 244.50			Yes	(CC) is Market
6	\$ 110.00	\$ 163.00	\$ 118.00			Yes	(CC) is Market

Compare Cost and Market

Item	Units	Cost	Market	Lower of Cost or Market (LCM)	Is Cost lower than Market?	Is Market lower than Cost?	
1	800	\$ 220.00	\$ 250.00	\$ 220.00	Yes		Cost is LCM
2	600	\$ 190.00	\$ 175.00	\$ 175.00		Yes	Market is LCM
3	350	\$ 310.00	\$ 367.00	\$ 310.00	Yes		Cost is LCM
4	500	\$ 180.00	\$ 177.00	\$ 177.00		Yes	Market is LCM
5	750	\$ 205.00	\$ 244.50	\$ 205.00	Yes		Cost is LCM
6	900	\$ 150.00	\$ 118.00	\$ 118.00		Yes	Market is LCM

Inventory valuation at Cost, Market and LCM

Item	Units	Inventory at Cost		Inventory at Market	Inventory at LCM
1	800	\$176,000	<	\$200,000	\$176,000
2	600	\$114,000	>	\$105,000	\$105,000
3	350	\$108,500	<	\$128,450	\$108,500
4	500	\$90,000	>	\$88,500	\$88,500
5	750	\$153,750	<	\$183,375	\$153,750
6	900	\$135,000	>	\$106,200	\$106,200
Total		\$777,250	<	\$811,525	\$737,950

LCM applied to each inventory item --> Inventory at LCM = \$737,950

LCM applied to all inventory as one pool

--> Total inventory at cost < Total inventory at market --> Inventory at LCM = \$777,250

Points

Market = Current Replacement Cost

If Current Replacement Cost > Net Realizable Value (NRV), the NRV is Market.

If Current Replacement Cost < (NRV - Normal Profit Margin), then (NRV - Normal Profit Margin) is Market.

Net Realizable Value (NRV) = Estimated Selling Price - Cost of Completion and Disposal

In this example, normal profit margin = 30% of cost.

Rank the following three values, then the one in the middle is Market.

NRV

Current Replacement Cost

NRV - Normal Profit Margin