

# Fast topics research paper

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Adjustments to Lower of Cost or Market 330-10-35-1 A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as their cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost The inventory has a financial importance as it is purchased and recorded at its historical cost or original cost.

With respect to a perpetual inventory system, inventory accounts are continually controlled as goods are purchased and placed directly into the inventory account and then later taken out when sold. Therefore the inventory is properly recognized within the period it is sold. Furthermore valuing the inventory with FIFO correctly reports the ending inventory at its market value. When ending inventory is reported at market value, before making proper year adjustments unexpected changes occur in the ordinary course of business causing the market to be lower than the cost basis of the inventory.

This departure from the cost basis of pricing the inventory requires the utility of inventory is no longer as great as its original cost. The ASC allows assets to be valued with Lower of Cost or Market when evidence is proving the future utility of the inventory drops below its historical cost. The determination of the businesses cost basis for their current inventory and determination of the market calls for ruling the LCM with the conservatism principal to resolve the issue between these two divergent amounts (original cost of inventory and the market).

Justification for applying Lower of Cost Or Market is the recognition of the holding loss resulting from the market being less than the company's current

inventory. Which requires a decision between reporting the inventory at its actual cost or its replacement cost. The conservatism principle applies with LCM by reporting the inventory on the balance sheet at replacement cost in the period it occurred also recognizing the loss in the income statement during that same period.

Therefore the inventory is reported at its net realizable value on the balance sheet, and the reduction (holding loss) is properly recorded on the income statement. Question 2. Your company has acquired land that is not undergoing activities necessary to get it ready for its intended use. You have been told to capitalize interest costs (the lesser of the actual or avoidable interest costs) associated with the acquisition of the land. Should you capitalize any interest costs? FASB ASC CITATION: Capitalization of Interest 35-20-25-3 The capitalization period shall begin when the following three conditions are present: a. Expenditures for the asset have been made. ? b. Activities that are necessary to get the asset ready for its intended use are in progress. ? c. Interest cost is being incurred. ? Interest capitalization shall continue as long as those three conditions are present. We recognize the general facts stated; the land for the businesses investment is purchased, and with respect to the land, activities have not been started yet to prepare it for the intended use deeming it as an asset or investment.

In order for the land to be considered expenditure, it would to prove it meets ASC's three requirements of capitalization of interest. The land generally speaking the land must be capitalized to provide evidence capitalization rates will be applied, which furthermore qualifies the land to have payments of cash, transfer of other assets, or accruing the liability of recognized

interest. Only if the activities of the land are in preparation for its intended use then capitalization of interest is added to the construction of the long-term asset.

From a current stand point of the land, expenditures for the land have not been made yet, the activity required for its intended use is not undergoing, and therefore interest cost incurred can not be capitalized but rather expensed on the current periods of the income statement. With respect to the facts stated on the lands current progress the interest incurred can not be capitalized. Question 3: You are to allocate an asset retirement cost (initiated by an asset retirement obligation). What guidance is given over the manner in which the asset retirement cost should be allocated to expense? FASB ASC CITATION: 410-20-35-2 An entity shall subsequently allocate that asset retirement cost to expense using a systematic and rational method over its useful life. Asset retirement obligation requires properly allocating the asset retirement cost over the assets life of the asset. The allocation of asset retirement cost that is initiated by the asset retirement obligation includes items that that fall under FASB's issued Statement of Financial Accounting Concepts also known as SFAC No. 6 " Elements of Financial Statements.

The proper manner of allocating requires the retirement cost to be properly measured, recognized, and recorded when involving elements in the financial statements. The measurement of the asset must be measured properly at its historical cost. During the ordinary process a business has outflows or using up of its assets in which the expenses are then recognized under the SFAC No. 6 as Expense Recognition Principle. During the period

the assets are used up from operational procedures (delivery, and production). The expense accounts recognize accumulated depreciated cost of the asset over its useful life until it fully depreciated.

The combination of the assets cost minus its accumulated depreciation results the asset to its net realizable value, when fully depreciated the net amount will have a zero value. The retired asset must then be properly reported in the balance sheet. When a company decides to retire an asset it must reflect the cost properly in the financial statements. When circumstances arise and its liability of the retirement obligation incur over more reporting periods, the incurring liabilities must be considered as an additional liability over the original liability of allocating the retirement costs.

Thus stated the business must recognize and measure as an additional liability (layer) at its fair value. Furthermore guidance to allocate the retirement cost must be expensed in the required systematic way over its useful life. Applying the allocation method doesn't enable the business from capitalizing any amounts of retirement costs and allocating the same amount to the expense account in the same period. Question 4: A warehouse located in Central Iowa was destroyed by an earthquake, the first earthquake ever reported in Central Iowa.

You are questioned why you reported it as an extraordinary item, net of tax, rather than a "normal" loss related to the business operations. FASB ASC CITATION: EXTRAORDINARY and UNUSAL ITEMS 225-20-45-2 Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. When reporting

extraordinary and unusual items in the income statement some requirements must be met upon reporting the items.

The extraordinary items are events and transactions that are 1. Unusual in nature meaning that underlying event or transaction has a high degree of abnormality that it is unrelated to and 2. Infrequent in occurrence meaning its underlying event or transitions is not reasonably expected to recur in the future. The ASC requires that both of the criteria stated above must be met in order to report any items as extraordinary or unusual.

Reporting extraordinary items in the income statement will be reported by its gross amount and then at net after deducting the income tax expense or saving associated with the item. With respect to Iowa, reporting the warehouse as an extraordinary item from the result of an infrequent earthquake that was unusual in nature since this was the first occurring earthquake ever reported and infrequent because it is a natural disaster and therefore cannot be considered part of normal business operations. Furthermore deeming the warehouse as an extraordinary item.