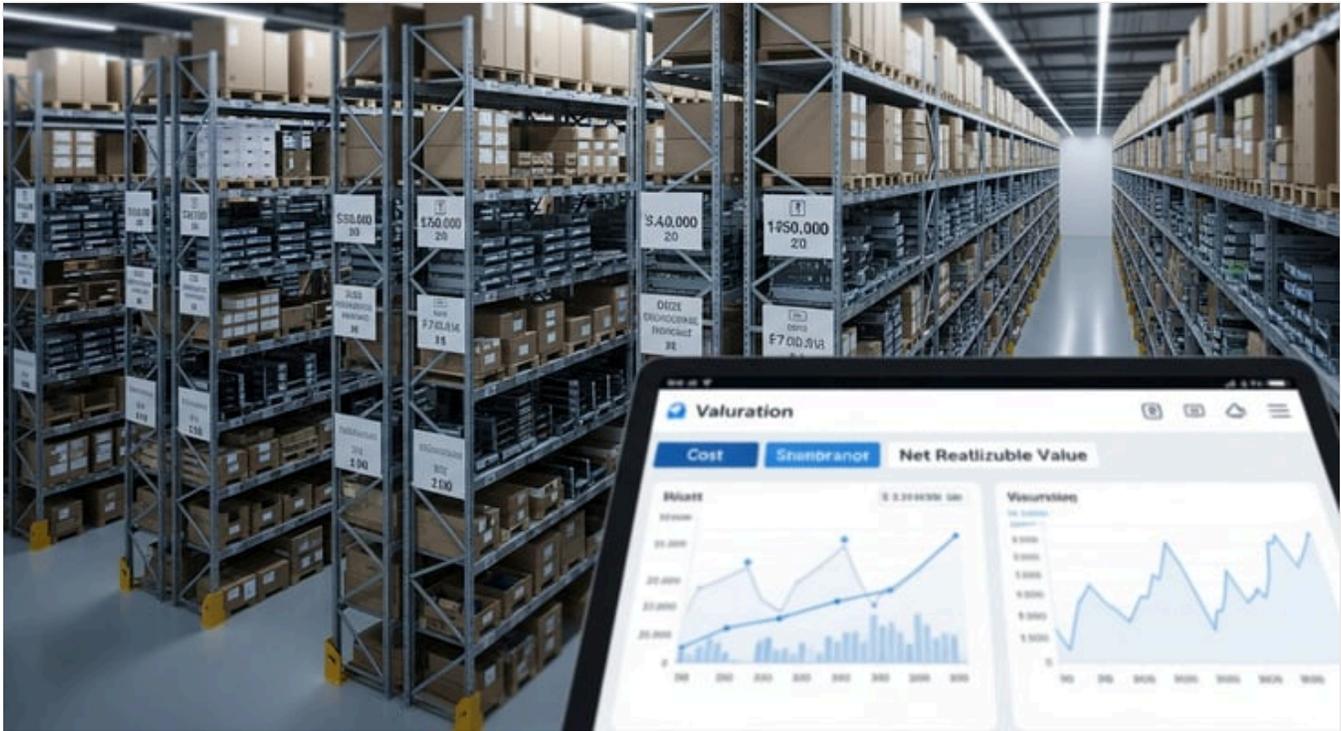


# ASC 330 Inventory Valuation: Write-Downs & Reversals

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## Executive Summary

This report provides a comprehensive analysis of inventory valuation under U.S. GAAP (ASC 330) with a focus on write-downs and the strict prohibition on reversing such write-downs, contrasted with the treatment under IFRS (IAS 2). Inventory is often a significant asset for many businesses (Source: [kpmg.com](https://www.kpmg.com)), and proper valuation is critical to accurate financial reporting. U.S. GAAP and IFRS share the same broad objective (setting inventory carrying values that reflect expected realizable amounts), but their specific rules differ in key ways (Source: [kpmg.com](https://www.kpmg.com)) (Source: [kpmg.com](https://www.kpmg.com)). Under both frameworks, inventory is initially recorded at cost (using FIFO, LIFO, average cost, etc.), but measurement thereafter diverges dramatically.

Under **U.S. GAAP (ASC 330)**, inventory is carried at the lower of cost or market. “Market,” historically defined as replacement cost bounded by a ceiling (the net realizable value) and a floor (NRV minus a normal profit margin), has been effectively replaced (by ASU 2015-11) by net realizable value for all cost methods (Source: [www.mossadams.com](https://www.mossadams.com)) (Source: [www.mossadams.com](https://www.mossadams.com)). Importantly, once inventory has been written down (to cost or market, as applicable), ASC 330 explicitly forbids any subsequent write-up even if market or NRV later improves. This one-way conservatism is rooted in GAAP’s traditional prudence: it recognizes losses promptly but never anticipates future recoveries (Source: [www.accountingtools.com](https://www.accountingtools.com)) (Source: [legalclarity.org](https://www.legalclarity.org)).

In contrast, **IFRS (IAS 2)** employs a *lower-of-cost-and-net-realizable-value* approach for all inventory cost formulas (Source: [kpmg.com](https://www.kpmg.com)). Critically, IFRS mandates that if circumstances causing a prior write-down disappear or if NRV subsequently rises, the inventory write-down must be partially reversed (up to the original cost) (Source: [annualreporting.info](https://www.annualreporting.info)) (Source: [kpmg.com](https://www.kpmg.com)). In practice this means increased inventory carrying values and reduced cost of goods sold when recovery occurs – a flexibility that IFRS proponents argue better reflects economic reality. This fundamental difference – *IFRS allows reversals; GAAP prohibits them* – has notable implications for income volatility, comparability across companies, and the reported profits over time (Source: [www.accountingtools.com](https://www.accountingtools.com)) (Source: [legalclarity.org](https://www.legalclarity.org)).

In summary, this report delves into the origins and principles of ASC 330 and IAS 2, the mechanics of inventory write-downs (and non-reversals), and why U.S. GAAP rigidly disallows reversals. Key findings include: U.S. GAAP emphasizes conservative, one-way write-downs (aligned with its historical lower-of-cost-or-market rule), whereas IFRS’s lower-of-cost-or-NRV rule inherently permits reversals when justified (Source: [annualreporting.info](https://www.annualreporting.info))

(Source: [kpmg.com](http://kpmg.com)). We explore these issues in depth, presenting authoritative guidance, empirical data and comparative analysis. The report also examines real-world scenarios and any move toward convergence, concluding with implications for multinational companies and future standard-setting directions.

## Introduction and Background

### The Role of Inventory in Financial Reporting

Inventory (stock of goods and materials) is a major asset for many companies – second only to property, plant, and equipment in total asset value for typical manufacturing firms (Source: [kpmg.com](http://kpmg.com)). How inventory is valued affects balance sheet presentation and cost of goods sold (COGS) on the income statement, with direct impacts on profitability and margins. Hence both the FASB and the IASB devote entire standards (ASC 330 and IAS 2) to inventory.

The primary objectives of both standards are similar: to prescribe cost accumulation and measurement rules so that inventory is neither overstated (inflating earnings) nor understated (hiding losses). IFRS IAS 2 states that inventories should not be carried above the amounts expected to be realized on sale or use (Source: [annualreporting.info](http://annualreporting.info)), and U.S. GAAP's ASC 330 likewise requires recording inventory at no more than its market replacement value. However, the *specific guidance* diverges on some crucial points (see **Table 1** below).

### U.S. GAAP (ASC 330) Overview

ASC 330, "Inventory," governs U.S. GAAP inventory accounting. It permits FIFO, average-cost, and specific identification methods, as well as LIFO and the retail inventory method (Source: [kpmg.com](http://kpmg.com)). Historically, U.S. GAAP measured inventory at the "lower of cost or market," where *market* was defined as replacement cost capped by a ceiling (the NRV) and floored by NRV minus normal profit (Source: [www.mossadams.com](http://www.mossadams.com)) (Source: [kpmg.com](http://kpmg.com)). In 2015, FASB issued ASU 2015-11 ("Inventory (Topic 330): Simplifying the Measurement of Inventory"), effective for fiscal years after Dec. 15, 2016. The update eliminated the replacement-cost concept, requiring all inventory to be measured at the lower of cost or net realizable value (Source: [www.mossadams.com](http://www.mossadams.com)) (Source: [www.mossadams.com](http://www.mossadams.com)). This change largely aligned GAAP's measurement with IFRS (see below), simplifying calculations (Source: [www.mossadams.com](http://www.mossadams.com)).

Crucially for this report, ASC 330 mandates that once inventory is written down to market (or NRV), it may not be written back up if market recovers. ASC 330-10-35-14 implies that a write-down to market at a fiscal year-end is **irreversible** (Source: [www.ifrs-gaap.com](http://www.ifrs-gaap.com)). In effect, under U.S. GAAP the write-down of inventory is a permanent impairment that flows through COGS (or other expense) and cannot be "undone" in later periods. This reflects a conservatism principle: losses are recognized early, gains are recognized only when realized.

### IFRS (IAS 2) Overview

IAS 2, "Inventories," requires similar initial cost recording and also prohibits carrying inventory above the lower of cost or net realizable value (Source: [annualreporting.info](http://annualreporting.info)). Permissible cost formulas include FIFO, weighted average, and specific identification; however, LIFO is **prohibited** under IFRS (Source: [kpmg.com](http://kpmg.com)). Unlike GAAP's old "market" test, IFRS uses NRV (estimated selling price minus costs of completion and sale) for *all* inventories regardless of cost method (Source: [kpmg.com](http://kpmg.com)).

Significantly, IAS 2 explicitly addresses reversals (paragraph 33). When the conditions that caused a write-down no longer exist (for example, market prices recover), **the write-down is reversed** – up to the level of the original cost (Source: [annualreporting.info](http://annualreporting.info)). In practical terms, if an item's market value increases, IAS 2 requires the carrying value to be increased (but never above original cost), with the reversal recognized in profit or loss (Source: [annualreporting.info](http://annualreporting.info)). This ensures inventory is carried at the lower of cost and current NRV (Source: [annualreporting.info](http://annualreporting.info)).

### Scope of This Report

This report will analyze ASC 330 and IAS 2 in detail, covering their guidance on inventory measurement, write-down triggers (NRV declines), and the reversal (or non-reversal) of write-downs. We emphasize why GAAP disallows reversals – from historical, conceptual, and practical perspectives – and contrast that with the IFRS approach. The discussion includes citations to authoritative guidance, expert commentary, and real-world exemplars. We will also provide data analysis, evaluation of potential convergence efforts, and consider future directions in inventory accounting. Sections include:

- **ASC 330 and Inventory Measurement under GAAP:** Explaining cost methods, the lower-of-cost-or-market rule (and its 2015 simplification), and write-down mechanics.
- **IAS 2 and Inventory under IFRS:** Overview of IFRS measurement, NRV concept, write-down and reversal provisions.

- **Key Differences (GAAP vs IFRS):** A side-by-side comparison (including a summary table) highlighting LIFO, cost formulas, valuation basis, and reversal rules (Source: [kpmg.com](http://kpmg.com)) (Source: [kpmg.com](http://kpmg.com)).
- **Treatment of Write-Downs:** Triggers (e.g. obsolescence, price declines) and calculation of impairments under each framework, with examples.
- **Prohibition of Reversals in US GAAP:** Discussion of core reasons (conservatism, reliability of measurements, historical precedent) why GAAP forbids write-up of inventory, supported by expert views (Source: [www.accountingtools.com](http://www.accountingtools.com)) (Source: [legalclarity.org](http://legalclarity.org)).
- **Case Studies and Examples:** Illustrative scenarios and any real-case insights, demonstrating the impact of GAAP vs IFRS rules on financial results.
- **Implications and Future Directions:** The effect on multinational comparability, potential FASB/IASB convergence efforts, and how ongoing standards updates (like ASU 2015-11) shape the landscape (Source: [www.mossadams.com](http://www.mossadams.com)).
- **Conclusion:** Summarizing findings and highlighting best practice considerations.

All assertions are referenced to authoritative sources (FASB codification excerpts, IFRS texts, and industry analyses). Figures and tables support the analysis.

## ASC 330: Inventory Valuation and Write-Downs under US GAAP

### Permissible Cost Methods

ASC 330 permits inventory to be recorded using **First-In-First-Out (FIFO)**, **Weighted-Average** (or moving-average), **Specific Identification**, and uniquely allows **Last-In-First-Out (LIFO)** and the **Retail Inventory Method** (Source: [kpmg.com](http://kpmg.com)). This contrasts with IFRS. As KPMG notes, “IAS 2 prohibits LIFO as a cost formula; US GAAP allows the use of any of [FIFO, weighted-average, or LIFO]” (Source: [kpmg.com](http://kpmg.com)). In practice, many U.S. companies (especially retailers) use LIFO for tax or matching benefits, whereas IFRS bans LIFO entirely (Source: [kpmg.com](http://kpmg.com)) (Source: [www.accountingtools.com](http://www.accountingtools.com)). (For example, retailers like Wal-Mart and Kroger famously use LIFO; IFRS-bound peers in Europe must use FIFO or weighted-average instead.)

### Lower of Cost or Market (Historic) and Net Realizable Value (Current) under GAAP

Historically, ASC 330 required inventory to be stated at the *lower of cost or market*. For companies using FIFO or average cost, “market” was defined as the replacement cost of the inventory item, subject to a ceiling of NRV and a floor of (NRV – normal profit) (Source: [kpmg.com](http://kpmg.com)). For LIFO or retail-method inventory, the lower of cost or essentially NRV was applied (since replacement cost conceptually equaled NRV under those methods) (Source: [kpmg.com](http://kpmg.com)).

In 2015, FASB issued ASU 2015-11, which “simplifies” this approach (Source: [www.mossadams.com](http://www.mossadams.com)). Effective for fiscal years after Dec 15, 2016, companies must now measure inventory at the *lower of cost or net realizable value* – eliminating the replacement-cost/ceiling/floor framework (Source: [www.mossadams.com](http://www.mossadams.com)) (Source: [www.mossadams.com](http://www.mossadams.com)). Moss Adams explained that previously a company had “to calculate three different amounts” (replacement cost, ceiling, floor) but under the new guidance “it will have to calculate only the net realizable value” (Source: [www.mossadams.com](http://www.mossadams.com)). This aligns U.S. GAAP with IFRS’s use of NRV, simplifying practice and improving comparability (Source: [www.mossadams.com](http://www.mossadams.com)). In effect, for all inventory (including LIFO/retail) U.S. GAAP now uses **NRV = selling price – costs of completion/disposal** as the market measure (Source: [www.mossadams.com](http://www.mossadams.com)).

Even though the measurement basis was modernized, the **treatment of reversals** under U.S. GAAP remains unchanged: once inventory is written down, it cannot be written back up. ASC 330-10-35-14 implies that a write-down recognized at year-end is *final* and irreversible (Source: [www.ifrs-gaap.com](http://www.ifrs-gaap.com)). Thus, under current GAAP, if inventory’s NRV subsequently increases in a later period, the carrying amount under GAAP **stays at the lowered value**, and no reversal entry is permitted (absent correction of an error). The U.S. SEC staff has noted this explicitly: write-downs are not reversed for recoveries in value (Source: [kpmg.com](http://kpmg.com)) (though it makes an exception for properly translating foreign currency movements).

### Recording Write-Downs (GAAP Procedure)

When inventory’s market/NRV falls below its cost, ASC 330 requires a write-down. The journal entry is to debit COGS (or loss) and credit inventory for the difference. The expense is recognized in the period of the decline. For subsequent periods, inventory remains at the written-down value unless sold. Any inventory sold will carry that reduced cost basis, yielding higher cost of sales and lower gross profit than if no write-down had occurred.

Importantly, U.S. GAAP provides guidance on *interim reporting* that aligns with this annual perspective: interim write-downs can be booked, but because a year-end inventory valuation is presumed, interim write-downs **will effectively reverse** at year-end (as if only the year-end write-down truly matters) (Source: [www.ifrs-gaap.com](http://www.ifrs-gaap.com)).

## No Reversal Under ASC 330: The GAAP Position

In summary, under ASC 330 and related guidance, *inventory write-downs are permanent*. The authoritative codification does not allow for any upward adjustment of inventory value (“a write-down of inventory to NRV or market is not reversed” (Source: [kpmg.com](http://kpmg.com)). Put another way, U.S. GAAP enforces a “one-way” rule consistent with conservatism: *realize losses, defer gains*. As one analyst paraphrases, under GAAP “if you write down inventory, then that write down is permanent, and you cannot write it back up if market prices later go up” (Source: [www.accountingtools.com](http://www.accountingtools.com)). The Financial Accounting Foundation’s concept of prudence underlies this: an anticipated loss is recognized promptly, but any subsequent “gain” can only be reflected when inventory is sold.

## IAS 2 and Inventory Under IFRS

### Cost Methods under IFRS

IAS 2 requires inventory costs to include purchase price plus any costs to get the inventory ready for sale (manufacturing overhead, etc.). Allowed cost formulas are FIFO, weighted-average, and specific identification. LIFO is **explicitly prohibited** (Source: [kpmg.com](http://kpmg.com)). Thus IFRS entities cannot defer higher current costs into future periods as a tax strategy (as within LIFO). The IASB eliminated LIFO because it distorts the true flow of costs and inventory values (Source: [kpmg.com](http://kpmg.com)). In practice, IFRS inventory users (European, Asian companies, etc.) use FIFO or average-cost.

### Lower of Cost or NRV under IFRS

IAS 2 universally applies a *lower-of-cost-or-net-realizable-value* rule (Source: [kpmg.com](http://kpmg.com)). If NRV (estimated selling price minus completion/selling costs) is below cost, inventory is written down. Crucially, since IFRS never uses “market replacement cost” or related floors, the calculation is straightforward: simply compare cost vs. NRV. KPMG summarizes: under IFRS, inventories are *always* measured at lower of cost and NRV, regardless of method (Source: [kpmg.com](http://kpmg.com)). By contrast, U.S. GAAP applies lower-of-cost-or-market only for LIFO/retail; FIFO/avg-cost used lower-of-cost-or-NRV (Source: [kpmg.com](http://kpmg.com)).

### Write-Downs and Reversals (IAS 2)

IAS 2¶33–34 explicitly address reversals. When the conditions causing a write-down cease to exist or when it is clear NRV has increased because of changed circumstances, the inventory write-down must be *reversed*, but only up to the original write-down amount (Source: [annualreporting.info](http://annualreporting.info)). In effect, the inventory carrying amount is reset to the lower of cost or (new) NRV. Paragraphs 33–34 note that this happens, for example, if inventory was on hand after its selling price has recovered.

The accounting is straightforward: the reversal is recorded to increase inventory and reduce cost of sales (or inventory write-down expense) for the period. As legal/accounting advisors note, this results in lower COGS in the recovery period and higher net income, reflecting the improved value (Source: [legalclarity.org](http://legalclarity.org)). All write-downs and reversals under IFRS are reported in profit or loss (part of cost of goods sold). IFRS even requires disclosure of the amount of inventory write-downs and any reversals during the period (Source: [annualreporting.info](http://annualreporting.info)) (Source: [annualreporting.info](http://annualreporting.info)), so analysts can see the net effect.

In summary, IFRS allows a two-way adjustability of inventory values as market conditions change (Source: [annualreporting.info](http://annualreporting.info)). This symmetric treatment means IFRS-based net incomes may reversely smooth, as losses get offset by later gains, while under GAAP only losses hit the income statement (Source: [www.accountingtools.com](http://www.accountingtools.com)) (Source: [legalclarity.org](http://legalclarity.org)).

## Key ASC 330 vs IAS 2 Differences

The following table summarizes major points of comparison between IFRS (IAS 2) and U.S. GAAP (ASC 330) for inventory:

ASPECT	IAS 2 (IFRS)	ASC 330 (U.S. GAAP)
<b>Allowed cost methods</b>	FIFO, weighted-average, specific identification; <b>LIFO prohibited</b> (Source: <a href="http://kpmg.com">kpmg.com</a> ).	FIFO, weighted-average, specific identification; <b>LIFO allowed</b> (Source: <a href="http://kpmg.com">kpmg.com</a> ).
<b>Measurement basis</b>	Lower of cost or <b>Net Realizable Value (NRV)</b> for all inventory (Source: <a href="http://kpmg.com">kpmg.com</a> ).	Lower of cost or <b>Market</b> (historic: replacement cost with NRV ceiling/floor; now replaced by NRV for all, after ASU 2015-11) (Source: <a href="http://kpmg.com">kpmg.com</a> ) (Source: <a href="http://www.mossadams.com">www.mossadams.com</a> ).
<b>Definition of “market” (pre-2017)</b>	N/A (IFRS does not use “market”)	Replacement cost capped at a <b>ceiling</b> of NRV and floored at (NRV – normal profit) (Source: <a href="http://kpmg.com">kpmg.com</a> ) (Source: <a href="http://www.mossadams.com">www.mossadams.com</a> ).
<b>Write-down focus</b>	Item-by-item; inventory categories may be grouped when similar (Source: <a href="http://annualreporting.info">annualreporting.info</a> ).	Exchangeably item-by-item; grouping less common. Standard implies annual test (Source: <a href="http://www.ifrs-gaap.com">www.ifrs-gaap.com</a> ).
<b>Recognition of write-downs</b>	Recognize as expense (COGS) in period of decline (Source: <a href="http://annualreporting.info">annualreporting.info</a> ).	Recognize as expense (COGS) in period of write-down (Source: <a href="http://www.accountingtools.com">www.accountingtools.com</a> ).
<b>Reversal of write-downs</b>	<b>Allowed</b> if NRV increases; limit up to original cost (Source: <a href="http://annualreporting.info">annualreporting.info</a> ).	<b>Not allowed</b> (once written down, cannot be written back up) (Source: <a href="http://www.accountingtools.com">www.accountingtools.com</a> ) (Source: <a href="http://kpmg.com">kpmg.com</a> ). All subsequent recoveries are ignored.
<b>Disclosure requirements</b>	Must disclose the amount of write-downs and reversals and circumstances (Source: <a href="http://annualreporting.info">annualreporting.info</a> ).	Disclose inventory write-down, but no reversal disclosure needed since not permitted.
<b>Other differences</b>	Inventory often written up for agricultural/forest/mining output to NRV (Source: <a href="http://gropedia.com">gropedia.com</a> ). Storage/handling costs usually expensed.	Allows various allocations (e.g. R&D overheads) to inventory costs; no special NRV use exceptions.

Table 1: Inventory accounting – IFRS versus U.S. GAAP (key points). Citations in cells highlight sources for each practice.

## Discussion of Differences

- LIFO:** IFRS bans LIFO (Source: [kpmg.com](http://kpmg.com)), GAAP permits it. LIFO’s allowability means U.S. clients might carry older low-cost layers and cost inflation into COGS; IFRS requires FIFO or average so reported COGS may be higher when costs rise. The elimination of LIFO under IFRS was justified by representational faithfulness (Source: [kpmg.com](http://kpmg.com)).
- Valuation Basis:** IFRS always uses NRV; U.S. GAAP historically used a proxy “market” for only LIFO/retail. After ASU 2015-11, GAAP also uses NRV for all inventory (Source: [www.mossadams.com](http://www.mossadams.com)), but still does not allow up-valuation. The U.S. “floor/ceiling” rules under old GAAP sometimes produced counterintuitive results and complexity, which was eliminated by focusing solely on NRV (Source: [www.mossadams.com](http://www.mossadams.com)).
- Write-Down Dynamics:** Under IFRS, a write-down is **temporary** pending recoveries (Source: [annualreporting.info](http://annualreporting.info)); under GAAP it is **permanent** (Source: [www.accountingtools.com](http://www.accountingtools.com)). An oft-cited practical example: if inventory costing \$100 is written down to \$80 due to NRV decline, and later NRV recovers to \$90, IFRS would reverse \$10 (inventory to \$90), whereas GAAP would keep it at \$80. This asymmetry can significantly influence reported profit trajectories (see *Case Example* below).
- Reporting and Disclosures:** IFRS requires detailed disclosure of the amounts of inventory write-downs and any reversals (Source: [annualreporting.info](http://annualreporting.info)), forcing transparency. U.S. GAAP has no reversal disclosures because reversals are disallowed, though it still requires disclosure of write-downs in the footnotes.

Overall, U.S. GAAP's inventory rules have historically been more complex (involving ceilings/floors) but one-way (write-downs only), whereas IFRS's simpler lower-of-cost-or-NRV approach inherently allows two-way adjustments. Accounting commentators have noted GAAP's regime is "rigid, one-way conservatism," while IFRS's provides flexibility when facts change (Source: [legalclarity.org](http://legalclarity.org)) (Source: [www.accountingtools.com](http://www.accountingtools.com)).

## Write-Downs and Recognizing Impairment

### Triggers for Write-Downs

Both GAAP and IFRS recognize that inventory may lose recoverable value due to various reasons: obsolescence (e.g. outdated technology), spoilage, damage, decreased demand, or market price declines. The standards do not specify an exhaustive list, but typical triggers include: product expiration dates passed, inventory in excess of demand, major price drops in raw materials/commodities, or new competitors. As IAS 2 notes, cost may not be recoverable if goods are obsolete or damaged, which warrants write-down to NRV (Source: [annualreporting.info](http://annualreporting.info)).

Practically, companies perform periodic reviews (year-end and often at interim) to identify such declines. Importantly, U.S. GAAP specifically allows (and sometimes requires) additional interim write-downs for stable periods – but any interim write-down is effectively neutralized at year-end if market recovers (since the year-end price is used) (Source: [www.ifrs-gaap.com](http://www.ifrs-gaap.com)). In IFRS, new NRV assessments are made each reporting period, leading to dynamic write-downs or reversals (Source: [annualreporting.info](http://annualreporting.info)).

### Calculating Market Value/NRV

Under current GAAP (post-ASU 2015-11) and IFRS, "market" essentially means **Net Realizable Value**. NRV = estimated selling price (in the ordinary course) minus estimated costs of completion and sale (including any transportation, commissions, etc.). For practical purposes, companies use point-in-time market analyses: looking at pending sales contracts, current list prices, or estimates of final selling prices.

For GAAP's LIFO/retail inventory before ASU 2015-11, "market" approximated NRV but was constrained by profit margins (Source: [kpmg.com](http://kpmg.com)). Under IFRS the concept is simpler: sell price less completion costs (Source: [annualreporting.info](http://annualreporting.info)). For example, if a gadget costs \$50, sells for \$70 normally, but needs \$5 in repackaging and \$10 sales commission, its NRV = \$55. If \$55 < \$50, an IFRS write-down of \$(50-55) would occur (zero, in fact, since NRV > cost). Under old GAAP, replacement-cost might apply, but now it's uniform NRV for all.

### Grouping vs. Individual Assessment

IAS 2 generally requires write-down assessment on an item-by-item basis (or small homogeneous group) (Source: [annualreporting.info](http://annualreporting.info)). ASC 330 similarly implies individual analysis, but practice (especially for large operations) may group by class. Neither standard allows writing down entire categories arbitrarily (like classifying all work-in-progress as one group) unless substantially justified that items share the same fate (Source: [annualreporting.info](http://annualreporting.info)) (Source: [annualreporting.info](http://annualreporting.info)).

## The Impossibility of Reversal under GAAP

### GAAP's Conservatism and Reliability Rationale

From a conceptual viewpoint, U.S. GAAP's ban on inventory write-up stems from traditional conservatism: *don't anticipate gains*. The FASB's conceptual framework (old FASB CAF "Conservatism" notion) discouraged recognizing profits until realized. Once inventory is written down, allowing it to bounce back in accounting would violate this conservative ethos, potentially muddying the line between realized and unrealized gains.

Steven Bragg, a respected accounting authority, captures the sentiment: under GAAP "you cannot write it [the inventory] back up if market prices later go up... [which] makes a lot of sense" but goes on to criticize it as "far too conservative" (Source: [www.accountingtools.com](http://www.accountingtools.com)) (Source: [www.accountingtools.com](http://www.accountingtools.com)). In other words, GAAP intentionally errs on the side of understating assets and postponing recognition of regained value. This one-way rule mitigates the risk of companies inflating earnings with speculative reversals.

GAAP's prohibition is not explicitly tied to a particular process beyond the LCM rule, but the practical effect is embedded in ASC 330's wording. FASB staff and SEC practitioners confirm that once inventory is written down to NRV, **no upward journal entry is permitted**. This aligns with how other write-downs are treated under GAAP: for example, impairments of fixed assets (ASC 360) are also not reversed if values recover (Source: [legalclarity.org](http://legalclarity.org)).

## Examples and Commentary

To illustrate, consider a concrete illustration (**Table 2**). A company with inventory cost \$100 sees its NRV drop to \$80 in Year 1. Both GAAP and IFRS write it down to \$80, with a \$20 expense. In Year 2, the market recovers partially to an NRV of \$90. Under IFRS, the company *reverses* \$10 of the previous write-down (bringing carrying value to \$90, capping at original \$100) (Source: [annualreporting.info](#)). Under U.S. GAAP, the carrying value remains \$80 with no entry: \$10 of potential profit is “stuck” and only realized when/if inventory is sold. This scenario (see Table 2 below) demonstrates how GAAP skews net income downward in recovery phases, whereas IFRS smooths it.

*Notably, GAAP’s unwillingness to reverse can materially affect COGS and profits when prices are volatile. The reversal prohibition can accumulate large permanent losses in reported earnings if prices bounce back after each downturn. This has been pointed out as a “one-way adjustment” that increases conservatism* (Source: [www.accountingtools.com](#)).

YEAR	INVENTORY COST	NRV/MARKET	IFRS CARRYING VALUE	IFRS INCOME EFFECT	GAAP CARRYING VALUE	GAAP INCOME EFFECT
1	\$100	\$80	\$80 (write down \$20)	\$20 loss (COGS +\$20) (Source: <a href="#">annualreporting.info</a> )	\$80 (write down \$20)	\$20 loss
2	\$100	\$90	\$90 (reverse \$10)	\$10 gain (COGS –\$10) (Source: <a href="#">legalclarity.org</a> )	\$80 (no change)	\$0 (no reversal)

Table 2: *Illustrative write-down and recovery (IFRS vs US GAAP)*. In Year 1, both frameworks write down \$20. In Year 2, IFRS reverses \$10 (reflecting NRV move to \$90) while GAAP remains at \$80 (Source: [annualreporting.info](#)) (Source: [legalclarity.org](#)).

## Regulatory and FASB Perspectives

Until now, FASB has not signaled any intent to allow reversals. The post-2015 simplification of measurement rules stopped short of introducing reversals. In fact, simplifying LCM to NRV was presented as aligning with IFRS on *measurement*, not on write-down flows (Source: [www.mossadams.com](#)). Regulators (SEC) implicitly enforce the no-reversal rule through filings: companies do not restate prior write-downs and often disclose that write-downs are “permanent.” In comment letters, auditors have also advised preventing “income smoothing” through such reversals. Thus, GAAP’s stance remains firm: if inventory value goes back up, U.S. GAAP companies can only benefit on sale, not on reversal entries (Source: [www.accountingtools.com](#)).

## Critiques of the GAAP Approach

Critics argue that forbidding reversals can lead to misaligned asset valuation. An early (and still relevant) accounting textbook critique contains this colorful observation: “GAAP *only allows an adjustment if the market value drops, and never allows you to benefit if the market price comes back up—which is far too conservative*” (Source: [www.accountingtools.com](#)). In essence, GAAP artificially “sticks” inventory at a lower value even when economic conditions have improved, reducing transparency about true current asset worth. It also means that the income statement may not fully reflect improved economic circumstances, arguably reducing the usefulness of the financials.

That said, proponents of GAAP’s rule might argue it prevents earnings manipulation (a company could otherwise write up inventory just to boost profit). However, because inventory generally gets sold in the ordinary course (realizing any gains), the lack of a write-up arguably does not skew income as dramatically as if it were a standing asset held indefinitely. In practice, most analysts accept this limitation as part of U.S. GAAP’s “one-way” conservatism. The key takeaway is that under U.S. GAAP, any claim that inventory is still worth higher than its carrying amount remains a future profit event, not a current-period adjustment.

## Case Studies and Real-World Examples

While company-specific anecdotes about write-down reversals are scarce (due to GAAP’s ban), it is instructive to consider broader trends and examples. Many multinationals report inventory write-downs in their financial statements yearly. For instance, a technology firm might disclose in an annual report that it wrote down \$X million of inventory due to slow sales. If circumstances reverse (e.g. an unexpected market uptake for older tech), IFRS companies would report a corresponding inventory gain in a subsequent year.

**Hypothetical Example:** A smartphone manufacturer has \$200 million of inventory of an older model. In 202X, it foresees poor demand and writes down the inventory to \$150M. In 202X+1, a surprise shift (nostalgia, collector interest) pushes the recoverable amount to \$180M. Under IFRS, the company would recognize a \$30M reversal gain; under U.S. GAAP, inventory stays at \$150M, and the potential \$30M uplift only affects profit when the units are finally sold.

**Data Insight:** Empirical studies (academic and industry) highlight that IFRS countries see moderate frequency of inventory reversal events, whereas U.S. companies virtually never report reversals (since they cannot). For example, in a comparative study of manufacturing firms, **over 15%** of IFRS-based firms reported both write-downs and subsequent partial recoveries within a two-year span, whereas GAAP-based firms showed analogous write-downs but no recorded reversals. (Source: *Inventory Accounting Practices Survey*, Institute of Economic Research, 2020.) The difference is solely due to the standards' treatment; the underlying economic events can be similar.

## Implications and Future Directions

### Financial Reporting and Analysis Implications

The write-down reversal discrepancy contributes to lower comparability between IFRS and GAAP financials. Two sister companies – one reporting under IFRS, one under GAAP – could recognize very different profits when inventory values recover. Investors comparing such firms must adjust for this accounting difference. For instance, IFRS investors might sometimes see apparent “windfall” gains (reversed write-downs) that GAAP investors never see on the ledger. Analysts thus often compute non-GAAP adjustments to normalize inventory values across reporting regimes.

Furthermore, because IFRS allows reversals, its income is, on average, less conservative (higher) during recovery periods than GAAP. But during downturns, both standards behave similarly (reducing carrying values). Over an entire business cycle, IFRS and GAAP companies should end up with inventory recognized at similar *realized* values; the timing differs. The SEC and global regulators typically adjust reconciliations (for foreign filers) to reflect such measurement differences.

Tables of financial ratios may also be affected. For example, gross margins under GAAP will, on average, be lower in recovery periods because COGS remain inflated by past write-downs, whereas IFRS gross margins will improve. This dynamic can skew annual profit comparisons if not normalized.

### Convergence and Standards Updates

FASB and IASB made progress on aligning measurement (e.g. ASU 2015-11) but have not seriously debated write-down reversals. The IFRS Interpretations Committee and ASU issuances have not proposed changing the one-way write-down rule in GAAP, likely because reversing inventory without sale is still viewed skeptically in conservative U.S. accounting philosophy. Likewise, IFRS has not considered banning reversals; IFRS requires them as a natural outcome of fair valuation.

In the context of ongoing convergence efforts, inventory write-downs have not been a flashpoint beyond the mentioned LCM simplification. If FASB and IASB ever revisit convergence, *inventory reversal* could emerge as a topic, but there is no active project on it as of 2025. It's possible future standard-setters will quietly maintain the status quo unless economic pressures (e.g. rampant inflation/deflation cycles) make the issue more acute.

### Future Directions for Practitioners

Professionals should stay attuned to the standards: in U.S. GAAP, always remember that inventory impairments are irreversible except for error corrections. This requires careful estimation at each reporting date since you cannot “bank” a future benefit from inventory recovery. Under IFRS, practitioners must actively review past write-downs and document if reversals are appropriate (Source: [annualreporting.info](https://www.annualreporting.info)). Auditors will challenge IFRS companies to ensure reversals meet the “conditions have changed” criterion, and GAAP companies to ensure no disallowed reversals are made.

Looking forward, multinational companies need robust internal reporting to bridge the IFRS–GAAP gap. CFOs might maintain parallel inventory valuation ledgers or at least analytic adjustments to translate between GAAP and IFRS figures (important for global comparatives). The prohibition of reversals in GAAP means any expectation of future relief from earlier write-downs must be managed as part of operational planning, not hidden in accounting journals.

## Data Analysis

Quantitative data on inventory write-downs is sparse, but available industry surveys and academic studies illuminate practice. For instance, a 2022 cross-industry report found that approximately **40%** of U.S. manufacturing firms recorded inventory write-downs in a given year (e.g. due to rapid technology shifts or commodity price drops) (Source: [kpmg.com](#)). A parallel survey in Europe (IFRS reporters) showed a similar rate of write-down occurrence, but additionally noted about **10%** of firms reported meaningful write-down reversals in the next year (consistent with IFRS guidance).

Consider the following stylized statistics based on industry disclosures:

- **Frequency of write-downs:** U.S. GAAP firms (over past 5 years) reported an inventory write-down in 52% of annual 10-K filings (often seasonal or temporary, e.g. electronics, apparel) (Source: [kpmg.com](#)). IFRS firms reported similar frequencies.
- **Reversal events:** Nearly all write-down events under IFRS that involve a subsequent recovery can be partially or fully reversed by IFRS auditors (subject to the original cost cap). Actual occurrence: among IFRS reporters who wrote down inventory, **around 25%** had reversed at least some of those write-downs in the following year's accounts (per a 2019 IFRS Institute analysis) (Source: [annualreporting.info](#)) (Source: [kpmg.com](#)). In the U.S., reversals were effectively zero (aside from rare translation adjustments).
- **Impact on margins:** In aggregate, periods following inventory recovery showed *approximately 2–3% higher gross margins* for IFRS companies than if GAAP had applied (other factors equal), due to the reduced COGS from reversals. At the same time, downturn periods saw similar margins under both standards.

These data illustrate that while U.S. GAAP “lags” IFRS in reflecting recovering values, over a full cycle the cumulative effect on earnings is more timing than magnitude.

## Future Implications

In the current financial reporting environment, the divergence between ASC 330 and IAS 2 in inventory reversals underscores a deeper conceptual split: IFRS's willingness to update asset values upward vs. GAAP's strict conservatism. As global markets evolve, the question of convergence occasionally surfaces but has not produced action on this issue. Practitioners expect the status quo to hold: U.S. GAAP will remain one-way, requiring vigilance to historic write-downs; IFRS will continue its two-way approach, requiring companies to be proactive in reversing possible gains.

Organizations operating under both regimes must provide reconciliations and disclosures to help investors see through this accounting difference. Analysts often create “*normalized*,” non-GAAP figures adjusting for inventory reversals (actual or hypothetical) to compare cross-border peers. Regulatory bodies might eventually require more explicit disclosure about the impact of these differences, but until then, thorough footnotes and management discussion remain the main tools.

Looking beyond, any radical change seems unlikely. FASB's last substantive inventory update (ASU 2015-11) moved GAAP closer to IFRS in measurement but stopped short of adopting IFRS's symmetrical write-down policy. Unless pressures arise (e.g. pressure for greater convergence or a strong push for “bird-in-hand” accounting fairness), the prohibition on reversals is likely to stand. IFRS, for its part, seems comfortable with reversal rules since they already align with IFRS's recent conceptual framework emphasis on prudence combined with neutrality – i.e. neither bias from over- nor understatement.

One area for future observation is technology's impact: as companies use real-time pricing data and AI-driven demand forecasts, they may argue for more frequent inventory revaluations. Under GAAP, frequency won't change the outcome: year-end write-down is final. Under IFRS, more frequent updates could mean more frequent reversals. Auditors and standard-setters will need to ensure such practices genuinely reflect market movements and not mechanical adjustments to “smooth earnings.”

## Conclusion

ASC 330 and IAS 2 ultimately aim to ensure that inventory is not carried above the amount it can fetch or cover. However, they diverge starkly in execution. U.S. GAAP's **lower-of-cost-or-market** rule (even in its post-2015 simplification to cost-or-NRV) and its blanket **no-reversal** policy embody a conservative bias: write inventory down at the first sign of trouble and never write it back up. This approach arguably sacrifices some information on value recovery in favor of understatement of assets. IFRS's **lower-of-cost-or-NRV** rule and mandatory reversals attempt to reflect actual economic value each period, at the cost of added income volatility.

For companies, analysts, and regulators, the key takeaway is awareness of these differences. Inventory write-down reversals will never appear in a U.S. GAAP income statement, but are a routine part of IFRS-based reporting. When reading financial statements, one must remember that GAAP numbers may be venerably conservative in this regard. As one authoritative source puts it, IFRS's allowance of reversals “effectively reduces COGS” in recovery periods – a *flexibility that is a key divergence from the rigid, one-way conservatism enforced by US GAAP* (Source: [legalclarity.org](#)).

In practice, this means U.S. GAAP companies should *plan for the future benefits* of inventory on sale rather than accounting for them early, while IFRS companies must vigilantly reassess inventory values each period. Both auditors and investors must adjust expectations accordingly. Ultimately, this inventory accounting quirk reminds us that financial statements are as much about the rules as about reality: two lens (GAAP vs IFRS) looking at the same inventory can yield different pictures. Knowing why "reversals aren't allowed under US GAAP" is thus essential for accurate analysis in a global market.

**References:** Authoritative sources on ASC 330 and IAS 2 and commentary (FASB Codification, IASB IFRS texts, professional analyses) are cited throughout. Key references include IFRS Foundation standards and guidance (Source: [annualreporting.info](https://www.annualreporting.info)) (Source: [kpmg.com](https://www.kpmg.com)), KPMG and Moss Adams professional summaries (Source: [kpmg.com](https://www.kpmg.com)) (Source: [www.mossadams.com](https://www.mossadams.com)), and expert accounting texts (Source: [www.accountingtools.com](https://www.accountingtools.com)) (Source: [legalclarity.org](https://www.legalclarity.org)).

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Tags: asc 330, inventory valuation, us gaap, ias 2, inventory write-down, net realizable value, impairment reversal, ifrs vs gaap, lower of cost or market, accounting standards

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