

## CFA® SAMPLE QUESTION - LEVEL I

## Financial Reporting and Analysis

**Q:** For which of the following would the use of lower of cost or market valuation be **MOST APPROPRIATE**?

**CORRECT ANSWER:**

**Ⓒ Inventory under both IFRS and U.S. GAAP.**

Both IFRS and U.S. GAAP require that the lower of cost or market basis be applied to inventory. Note that market is generally defined as replacement cost under U.S. GAAP, and net realizable value under IFRS.

Choice "a" is incorrect. Lower of cost or market valuation is specific to inventory accounting. Fixed assets are generally reported at historical cost less accumulated depreciation, unless it has been determined that the fixed assets are impaired.

Choice "b" is incorrect. The lower of cost or market methodology is **MOST APPROPRIATE** under both IFRS and U.S. GAAP.



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