

# The Positive Future Outlook of The Last in First out Inventory Methods (LIFO)

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# Inventory methods

- Accounting methods
- FIFO
- LIFO
- Average cost
- Specific Identification Method

# LIFO-tax benefit

- LIFO-not allowed under IFRS
- Tax driven
- Allowed under Internal Revenue Code in USA
- Tax advantage in inflationary periods/products

1-build up in inventory

2-increasing/inflationary pricing

3-tax rate

# LIFO use-Industries

- LIFO used mostly in commodity based industries
- Mostly on US oil and gas companies
- Exxon-Mobil
- LIFO reserve=FIFO vs LIFO

# Tax conformity rule

- Tax conformity rule
- Efficient market hypothesis
- Must shift to LIFO in early 1970's due to inflationary periods

# Attack on LIFO since inception

- 1939 passage of LIFO
- Under severe attack from 1990 until 2012
- IFRS-US GAAP convergence aimed to eliminate LIFO
- US deficit aimed to eliminate LIFO
- Tax reform aimed to eliminate LIFO
- Obama's 2010 tax reconciliation Act aimed to eliminate LIFO VOLUNTARILY

# 481

- Change from LIFO-10 year tax payment under Obama act
- Tax savings=LIFO Reserve times tax rate
- Many relinquished LIFO use from 1990-2010
- Maintained by oil companies

# Conclusion

- Questions
- Comments
- Thank you



# 2012 SEC Ruling

- July 13, 2012 SEC ruled no IFRS in USA.
- Further-no agenda on IFRS at anytime in future
- LIFO cited as one of seven major stumbling blocks to IFRS adoption
- Tax related issue not financial related
- LIFO-major roadblock to IFRS passage in USA

# Since 2012

- Oil prices down drastically. LIFO benefit has been neutralized to some extent
- Tax reform discussion
- Not necessarily targeting LIFO
- US Deficit close to 19 trillion dollars

# Since 2017

- Political climate change in USA
- Republican president-Trump, senate and House
- Pro business
- LIFO-strength further silicified.

# Future of LIFO

- As international stock exchanges strengthen-  
possibility of IFRS adoption in US becomes  
more probable
- Interest groups always strong
- IFRS adoption can eliminate LIFO
- IRC can eliminate LIFO
- LIFO-as is for next decade

# Recent Developments

- US GAAP changed LCM rules for non-LIFO inventory
- Lower of Cost and Market now defines market as selling price less disposal/selling
- This is consistent with IFRS costs

# LIFO

- LIFO – no changes
- LCM
- Market defines as the replacement cost subject to a max. value=NRV and Minimum-floor value=NRV-normal profit margin
- Tax rules-no LCM