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By PwC Deutschland | 19. Mai 2015

LIFO – open questions clarified

The finance ministry has issued a decree clarifying the conditions under which a business may opt for an inventory valuation based on LIFO.

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All businesses with a double-entry accounting system may opt to value their inventories under the assumption of LIFO (last in first out) “provided this conforms to the commercial law principles of proper bookkeeping”. Once exercised, the LIFO valuation must be continued with in subsequent years unless the tax office allows a departure. The finance ministry has now issued a decree outlining the conditions to be met for initial application of LIFO.

The basic condition of conformity to the principles of proper bookkeeping is met if LIFO is not obviously at variance with the nature of the business and leads to a simplified inventory valuation over the basic rule of valuing each individual item separately. The option is therefore open in respect of all stocks with (if perishable) a shelf-life of more than one year. With this limitation, it can be exercised regardless of the treatment in the legal accounts, of the actual store-keeping practices of the company, or of any legal or other requirements to which it may be subject (e.g. food hygiene rules). The option need not be exercised uniformly for the entire inventory, but rather the individual items can be grouped. However, it is not available – as not meeting the principles of proper bookkeeping – if the stocks are not physically counted at least once a year.

Schlagwörter

LIFO