



University of Economics, Prague

Faculty of Finance and Accounting
Study programme "Finance and Accounting"

Master Thesis Evaluation

Supervisor form

Student name: *Chandmansuren Naranbat*

Title of the thesis: *Accounting for inventory under US GAAP: Is LIFO still used by companies?*

Year of the defence: *2019*

Supervisor name *David Procházka*
and affiliation: *Department of Financial Accounting and Auditing*

Reviewer name *Libor Vašek*
and affiliation: *Department of Financial Accounting and Auditing*

THESIS CONTENT SUMMARY:

The diploma thesis is structured into three main chapters plus introduction and conclusions. The focus is put on accounting for inventory under US GAAP. In particular, the author derives three hypotheses concerning the usage of LIFO by US companies which are empirically tested on data over the period 2011-2017. The thesis follows a logical pattern, methods are well-selected and results appropriately discussed. Data collection combines both exports from a database and manual gathering from financial statements of respective companies. The potential impact of LIFO repeal is assessed through estimation of the changes in financial ratios of companies.

OBJECTIONS AND REMARKS:

The in-depth investigation of the notes allows the author to distinguish reasons influencing company's decision to stop or to start the usage of LIFO method, which is the main strength of the thesis. Despite the reasons being assessed individually, I miss a deeper discussion of economic consequences of the decision to stop/start the application of LIFO accounting policy. A reader may be interested whether any such a change in accounting policy is reflected by investors, e.g. through measuring the reaction of share prices.

QUESTIONS FOR THE DEFENCE:

The selection of FIFO vs LIFO can be motivated by many intentions of management. In general, the disputes about the advantages and disadvantages of any of the methods rest heavily on (negative) impacts of changes in price level. Regardless of how prices develop, LIFO always better depicts financial performance and FIFO better represents financial position. *Has the selection of LIFO vs FIFO any impact on balance sheet and income statement, if hypothetically allowed by IFRS and if a firm would be required to apply IAS 29, as it is operating in (hyper)inflationary economy?*

Being an investor (or a portfolio manager), how would you rate a company applying LIFO for inventory valuation compared to an “average firm in the industry”?

ASSESSMENT:

Criterion	Excellent	Very good	Good	Insufficient
Aim formulation and fulfilment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Work with literature	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Methods and data used	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Results and their discussion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Formal aspects	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Proposed overall grading: 2 - Very good				



Prague, 31 May 2019

David Procházka