

[Company Header/Logo]

Date: [Insert Date]

To: [Management Name/Board of Directors]

From: [Finance/Accounting Department]

Subject: Advisory on Inventory Obsolescence Reserve Policies

Dear [Recipient Name],

This advisory letter serves to outline the recommended framework and policy updates regarding the establishment and maintenance of the Inventory Obsolescence Reserve. The objective is to ensure that the company's financial statements accurately reflect the Net Realizable Value (NRV) of on-hand inventory in accordance with standard accounting principles.

1. Objective of the Policy

The primary goal is to identify inventory items that are no longer saleable or have experienced a significant decline in market value due to damage, expiration, technological advancement, or changes in consumer demand.

2. Criteria for Obsolescence Identification

Inventory should be reviewed periodically based on the following indicators:

- **Slow-Moving Items:** Items with no sales or usage activity for a period exceeding [Insert Number] months.
- **Excess Quantities:** Stock levels that exceed the forecasted demand for the next [Insert Number] months.
- **Technical Obsolescence:** Items replaced by newer versions or updated technology.
- **Physical Damage:** Goods that are expired, broken, or otherwise unsellable.

3. Provisioning Methodology

We recommend a tiered reserve calculation based on the age of the inventory:

- **Age 0-6 Months:** 0% Reserve
- **Age 7-12 Months:** [Insert %] Reserve
- **Age Over 12 Months:** [Insert %] Reserve
- **Specific Identification:** 100% Reserve for items known to be scrap.

4. Review and Approval Process

On a [Monthly/Quarterly] basis, the Inventory Manager and Finance Team will review the Obsolescence Report. Any significant write-downs or adjustments to the reserve must be approved by the [CFO/Controller].

5. Disposal and Liquidation

Once an item is fully reserved, the operations team should initiate disposal or liquidation actions to free up warehouse space and optimize carrying costs.

Please review these guidelines. We recommend formalizing these points into the corporate accounting manual to ensure consistent application across all departments.

Sincerely,

[Your Name]

[Your Title]

[Company Name]