

**Date:** [Insert Date]

**To:** [Insert Management Name/Title]

**From:** [Insert Auditor/Department Name]

**Subject:** Management Letter Regarding Inventory Valuation (Lower of Cost or Net Realizable Value)

Dear [Insert Name],

In connection with our review of the inventory records for the period ending [Insert Date], we are writing to address the application of the Lower of Cost or Net Realizable Value (LCNRV) principle.

**Observation:**

During our assessment, we noted that certain inventory items are currently recorded at their historical cost. However, market conditions, obsolescence, or physical damage indicate that the estimated selling price, minus costs of completion and disposal, is lower than the recorded cost.

**Accounting Requirement:**

Under applicable accounting standards, inventory must be measured at the lower of its cost or its net realizable value. When the net realizable value falls below cost, a write-down is required to reflect the loss in the current period.

**Recommendation:**

We recommend that management performs the following:

- Review aging reports to identify slow-moving or obsolete stock.
- Update the estimated net realizable value based on current market trends and recent sales data.
- Adjust the carrying amount of the inventory by recording a valuation reserve or a direct write-down.

**Management Response:**

[Insert space for management comments/action plan]

Please let us know if you require further clarification regarding these valuation adjustments.

Sincerely,

[Insert Signature]

[Insert Printed Name]

[Insert Title]