

**COHERENT, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

hedged transaction during the period in which the hedged transaction affects earnings. The ineffective portion of cash flow hedges are recognized immediately in other income and expenses. Derivatives that we designate as cash flow hedges are classified in the consolidated statements of cash flows in the same section as the underlying item, primarily within cash flows from operating activities. The changes in fair value of derivative instruments that are not designated as hedges are recognized immediately in other income (expense).

We formally document all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific forecasted transactions. We also assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

**Accounts Receivable Allowances**

Accounts receivable allowances reflect our best estimate of probable losses inherent in our accounts receivable balances, including both losses for uncollectible accounts receivable and sales returns. We regularly review allowances by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

Activity in accounts receivable allowance is as follows (in thousands):

	<b>Fiscal</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance . . . . .	<b>\$ 4,568</b>	\$ 6,890	\$ 2,420
Additions charged to expenses . . . . .	<b>5,210</b>	1,980	4,190
Accruals related to acquisitions . . . . .	<b>—</b>	37	4,390
Deductions from reserves . . . . .	<b>(1,088)</b>	(4,339)	(4,110)
Ending balance . . . . .	<b><u>\$ 8,690</u></b>	<u>\$ 4,568</u>	<u>\$ 6,890</u>

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out or weighted average cost) or net realizable value. Inventories are as follows (in thousands):

	<b>Fiscal year-end</b>	
	<b>2019</b>	<b>2018</b>
Purchased parts and assemblies . . . . .	<b>\$134,298</b>	\$137,566
Work-in-process . . . . .	<b>174,550</b>	186,240
Finished goods . . . . .	<b>133,682</b>	162,935
Total inventories . . . . .	<b><u>\$442,530</u></b>	<u>\$486,741</u>