

March 9, 2017

Susan M. Cospers, CPA
Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: FASB January 10, 2017 Proposed Accounting Standards Update *Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory* [File Reference No. 2017-210]

Dear Ms. Cospers:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the Proposed Accounting Standards Update, *Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the overall objectives of this ED, which are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by generally accepted accounting principles (GAAP) that is most important to users of each entity's financial statements.

TIC discussed that currently many private companies use inventory as collateral for their loan obligations and, therefore, regulators, banks, and other lenders are requesting information related to inventory that goes beyond what is currently disclosed in the financial statements. Requiring enhanced disclosures could help to satisfy some of these requests and, in many cases, entities may have this information available for internal use as well as for audit support even though it is not currently required to be disclosed in the financial statements.

TIC does have concerns about the proposed requirement for entities that record inventory using the Retail Inventory Method (RIM) to disclose qualitative and quantitative information about the critical assumptions used under that method, as noted in our response to question 7 in the “Specific Comments” section below.

SPECIFIC COMMENTS

Question 1: *Would the amendments in this proposed Update result in more effective, decision-useful information about inventory? Please explain why or why not.*

In some cases, inventory may be the largest asset on an entity’s balance sheet. Therefore, more information regarding the components of inventory might be beneficial to some users of financial statements. Currently, GAAP does have additional qualitative and quantitative disclosure requirements related to fixed assets and debt, which also can be significant balance sheet accounts for many entities. TIC does agree that inventory also could be an area where additional disclosures might result in more effective, decision-useful information.

Question 2: *Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability concerns and why?*

TIC did not foresee any operability or auditability issues with these enhanced disclosure requirements. TIC member firms are already auditing much of the information that comprises the inventory balances as part of the financial statement audit.

Question 3: *Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.*

TIC does believe that there likely would be additional costs in the initial year of adoption, especially for smaller private entities and not-for-profit entities. Those costs would mainly be in gaining an understanding of the enhanced disclosure requirements and then the necessary time required to pull together the information necessary to draft those additional disclosures. TIC thinks that the most significant level of effort would be in the initial year of adoption and, thereafter, the incremental costs would be significantly lower.

Question 4: *Paragraph 330-10-50-7 proposes a requirement to disclose certain specific changes in the inventory balance. Is this requirement sufficiently operable? Why or why not? Would a requirement to include a rollforward of inventory impose significantly greater costs? If so, please describe the nature and extent of the additional costs. Would the informational benefit of a rollforward be sufficient to justify the additional costs? Are there other ways to provide users with this information without imposing significant incremental costs, and, if so, what are they?*

TIC agrees with the proposed requirement in ASC 330-10-50-7 and thinks it is sufficiently operable. However, TIC does believe that a requirement to include a rollforward would

impose significantly greater costs and should not be required. TIC believes that the preparation of a rollforward adds additional time and complexity to the preparation of the financial statements and would add little value and would not provide decision-useful information for a financial statement user. TIC is not aware of another way to provide users with this information without imposing significant incremental costs and, therefore, believes it should not be required.

Question 5: *The proposed amendments would apply to all entities, except for the requirements in paragraphs 280-10-50-25 and 280-10-50-32, which apply only to those public entities subject to the guidance in Topic 280. Is it appropriate to exclude entities that are not public business entities from this guidance? Are there other disclosures for which entities other than public business entities should be allowed a modification?*

TIC agrees that the amendments should apply to all entities, except for the requirements in paragraphs 280-10-50-25 and 280-10-50-32, which apply only to those public entities subject to the guidance in ASC 280. TIC members only had one private entity client that elected to do segment reporting. This is very uncommon for private entities.

TIC also believes that private companies should be afforded a modification from reporting the proposed additional disclosures about RIM, as noted in our response to question 7.

Question 6: *Paragraph 330-10-50-11 proposes a requirement to disclose a qualitative description of types of costs that an entity capitalizes into inventory. Would this requirement provide useful information to users?*

TIC can see how disclosing the types of costs could provide useful information to financial statements users. However, TIC has concerns that these disclosures could become cookie-cutter (especially among specific industries or inventory types) and take away from any usefulness for a financial statement user. Adding quantitative information, as well as qualitative information, would make the information more useful but would add to the disclosure burden, so we are not recommending that quantitative information be required.

Question 7: *Paragraph 330-10-50-12 proposes a requirement for entities that record inventory using the RIM to disclose qualitative and quantitative information about the critical assumptions used under that method. Is this disclosure requirement incremental to existing guidance for critical accounting estimates and significant accounting policies? Would it be operable and provide useful information to users?*

TIC believes that the proposed disclosure requirements for entities that record inventory using the RIM are incremental to existing guidance for critical accounting estimates and significant accounting policies. Currently, TIC does have clients that use the RIM method that are disclosing this information in their notes to the financial statements.

TIC agrees with the dissenting views expressed by two FASB Board members as noted in the Basis for Conclusions to this ED that there could be a potential litigation impact regarding people using the RIMs and comparing to gross margins on the income statement to manage earnings. TIC agrees that disclosure of the cost-to-retail margin would enable users to determine the gross margin expected to be earned on the future sales of inventory recorded under the RIM.

TIC also agrees that it seems unfair imposing this requirement only on entities that use the RIM, whereas entities that use other methods of inventory are not required to disclose expected gross margins. TIC believes that RIM is simply a mechanism to estimate the cost of the inventory, just as there are estimates used in valuing inventory at FIFO, average cost, LIFO, and so on, yet the details of those calculations used in the other methodologies are not required to be disclosed. TIC does believe that any proposed disclosures of expected gross margin would be more suitable for Management's Discussion and Analysis rather than notes to the financial statements, mainly because of the potential for unintended litigation consequences if reporting entities fail to achieve those margins upon the eventual sale of the inventory.

If the Board ultimately decides to leave these incremental disclosures related to RIM in the final standard, TIC believes that private entities should be excluded from these additional disclosure requirements.

Question 8: *Are there any other disclosures that should be required by Topic 330 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.*

TIC could not come up with any additional disclosures that should be required by ASC 330 other than those already addressed in this ED.

Question 9: *Should the proposed disclosures be required only for the fiscal year in which the requirements are effective and years after that fiscal year, or should prior periods be restated in the year in which the requirements are effective? Please explain why.*

TIC agrees that if the proposal becomes effective, restatement should not be required. Prospective application would be TICs preference since this ED relates to financial statement disclosures only.

Question 10: *How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.*

TIC believes that this ED should have a delayed effective date due to the volume and complexity of other major ASUs that are effective in the next few years as well as the amount of information required to be gathered and the time it will take to draft the additional disclosures required by this ED. TIC believes the amount of implementation time required may be similar to the adoption of ASU 2015-11, *Inventory (Topic 330)*

Simplifying the Measurement of Inventory, which was issued in 2015 but not effective until 2017 for all entities.

TIC also believes that private entities should be allowed one year of additional time to prepare for these additional disclosures. Many times, private entities look to public company financial statement disclosures as best practices for preparing their annual financial statements and they could benefit from having that additional time.

TIC does believe that early adoption should be permitted for those entities that wish to provide these additional disclosures earlier.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees