March 9, 2017

Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 2017-210

Dear Ms. Cosper:

I appreciate the opportunity to respond to the Exposure Draft of the Proposed Accounting Standards Update concerning Inventory (Topic 330): Disclosure Framework—Changes to the Disclosure Requirements for Inventory.

I give the following responses to the questions for respondents and any opinions based on my own experience and views. My experience has been limited mostly to private companies, and my thoughts and responses generally are in relation to those entities.

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

I think that the amendments in the proposed update will result in more effective, decision-useful information about inventory. The disclosures required by this proposed update will allow users of financial statements to better predict cash flows by seeing the assumptions and estimates disclosed.

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

I have no direct experience with performing audit engagements, and therefore my opinion to this question is limited to my observations of the auditing practice, and my own experience with performing review engagements and general accounting experience. However, I do not see anything in the proposed updates that would not be available for preparers of financial statements to include as they most likely have this information anyways, with the exception to specific changes in inventory due to reclassification (see my response to question 3), nor do I see any items that would be difficult to 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.
Although I agree with almost all of the proposed changes, I see one area where the costs could be significant, and more so than the benefits derived from disclosing the information. Under proposed update 330-10-50-7, an entity must disclose changes in the inventory balance from outside the normal course of business, specifically (as listed in item b) balance sheet reclassifications. Although I believe this information is useful, in some cases it may be difficult to apply.

As an example to illustrate this concern, a client comes to mind. This client sells, repairs, services, and leases durable tangible equipment. The leases are available both in the short-term (from one day to two weeks) and long-term (from one to two years). Equipment that is leased is required to be classified as property, plant, and equipment under Topic 360. The problem relating to this disclosure is that items for sale (inventory) may at a moment’s notice become leased, either for a short-term duration or a long-term duration. Then at the end of the lease, the items may be transferred back to inventory (after some repairs if long-term). These reclassification changes happen constantly throughout the year.

Any business that sells and also leases property with this type of interchange between the two may discover significant costs in disclosing the balance sheet reclassifications. Again, to be clear, I think this information would be quite useful to the users of the financial statements to see the changes in equipment and inventory related to this reclassification, but I’m worried the cost may be too great to justify the usefulness of the disclosure.

**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?

I think the rollforward of inventory (beginning balance, purchases, sales, nonoperating changes, ending balance) would be quite useful. Having information which details out the cost of sales and services would be quite useful in analysis. However, I agree with that the notion that this information could be very costly to present, particularly for a business with multiple aspects of inventory.

This seems to be a disclosure relating to cost of sales, and not directly inventory. If this is not part of the accounting standard update, I request the board to review this disclosure requirement again once disclosures for Topic 705 are addressed. As present, I believe the proposed update is sufficient for inventory.

**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?
I do not understand the disclosure on segments reporting to only being limited to public entities. If a company (public, private, or not-for-profit) has separate segments (as defined in 280-10-50-1) I feel the information would be beneficial for all users. Since segment reporting is required for public entities, I’ll narrow my comments to private entities.

Private companies have shareholders, stakeholders and financial institutions that require information to be reported by segment. The disclosures suggested for inventory seem to be quite useful to all shareholders. I think the disclosures for segments should be reported by all entities.

I have no other disagreements with the proposed accounting standard update that should be limited to specific entities.

**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?

Absolutely. Having the information that informs users what costs are capitalized instead of directly expensed seems to me to be one of the most efficient disclosures when considering cost vs. benefit. This is a very easy disclosure to include in the notes and provides very useful information.

**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?

My experience with the Retail Inventory Method (RIM) is limited, at best. However, viewing financial statements that use the RIM, I believe these proposed disclosure requirements will be much more clear and explicit than the broad requirement to disclose accounting estimates and significant accounting policies. The companies that use RIM generally have this information anyway, and the inclusion of the information would be useful.

Regarding disagreement of Messrs. Buck and Smith with these requirements under RIM and the disclosure of cost-to-retail margin and the potential for litigation if companies do not achieve these benchmarks, I would input that any inventory method disclosed has similar risk. The effect of any litigation should be mitigated by the disclosure that estimates were made in the financial statements and notes to the financial statements, and that actual results may vary.

**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.

I would recommend requiring disclosing how often inventory is reconciled and adjusted based on physical counts of inventories. In some businesses, physical inventory can be taken every week. Other businesses only reconcile their inventory once per year. This qualitative disclosure would have very little cost, but would inform users the frequency of physical inventory counts, which could indicate the reliance on inventory for interim reporting, risk of poor control procedures and
related shrinkage, and increase accountability of management to perform inventory counts at appropriate times.

I also would add that the disclosure of inventory that is pledged as collateral is quite important. I see the question was addressed in Basis for Conclusion Paragraph 59, and I would implore the board that if this disclosure is not added in this Accounting Standard Update, that it be readdressed in the disclosure for all assets pledged as collateral.

**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.

I do not see enough benefit, for comparison or otherwise, to restate the disclosures in years prior to when the Accounting Standard Update become effective. The disclosures for inventory relate to current period end information, and potentially future cash flow calculations. This information is greatly reduced by periods already in the past, and therefore the benefit of disclosure changes for prior periods would not, in my opinion, outweigh the costs.

**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.

I believe one full year will be enough time to implement these changes. These disclosures are not sufficiently intensive to change how entities account for their transactions. They are only for presentation purposes. However, starting with a year fresh may be helpful for some changes, such as RIM requirements. Therefore, I recommend these updates become effective for fiscal years beginning after December 15, 2017 or 2018. Early adoption should be permitted.

I do not see a reason to differentiate, in this case, the effective date for separate types of entities.

Thank you for the opportunity to comment on this matter. I would be glad to discuss my opinions with you further should you have any question or require additional information.

Sincerely,

Patrick d. Sanford, CPA