



The Association of
Accountants and
Financial Professionals
in Business

March 10, 2017

Ms. Susan M. Cospers, Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Re: **File Reference No. 2017-210**, Proposed Accounting Standards Update, *Inventory (Topic 330): Disclosure Framework – Changes to the Disclosure Requirements for Inventory*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of the Proposed Accounting Standards Update (ASU), *Inventory (Topic 330): Disclosure Framework – Changes to the Disclosure Requirements for Inventory*.

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

While we generally support the FASB's proposed disclosures about inventory, as the ED principally codifies existing GAAP and SEC rules, we do have some concerns. The comments below highlight our support and concerns.

Support

We agree with the requirements as numbered in the ED to: (1) disaggregate inventory by component, (2) disaggregate inventory by measurement basis, (3) disclose changes in inventory balances that are not in the ordinary course of business, (5) disclose the impact of LIFO liquidations on income, and (6) disclose replacement costs for LIFO inventories. Other than the disclosure of changes in inventory balances, each of these disclosures is already required for most preparers and we agree that they provide useful information.



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Explanation of Changes in Inventory

We support the proposed requirement to explain changes to inventory that are not in the ordinary course of business, instead of presenting a rollforward of the inventory balances. We believe such a descriptive explanation meets the objective of good disclosure, where preparers explain significant events in their financial statements while avoiding a requirement to provide mandated schedules which frequently do not provide insights. Some committee members observed that this disclosure is already required under SEC MD&A guidelines and are concerned that if the explanation disclosure moves to the footnotes, involving auditor involvement, it would be difficult for companies to avoid a checklist approach. Nonetheless, we would favor narrative disclosure rather than a rollforward. A rollforward would require substantial work by preparers, provide minimal information, and any meaningful information would be captured by the disclosure of significant changes in inventory not in the ordinary course requirement. Absent significant changes that are not in the ordinary course of business, we believe a rollforward is likely to show that increases in inventory balances were the result of purchasing or producing more inventory than was sold, while decreases were the result of selling more inventory than was purchased or produced.

Disaggregation by Segment

We disagree with the requirement to provide inventory disaggregated by segment. We believe considering whether to provide disclosures about inventory by segment should be part of a segment disclosure project and not part of an inventory project. We do agree that this information, if required by the final ASU, need not be presented if it is not provided to the chief operating decision maker.

Interim Disclosure

We disagree with the requirement to include the disclosure at interim periods. We are concerned with the further expansion of interim disclosures without a framework as to what information should be provided at interim periods. We believe that interim information should be focused on providing updates to the annual disclosures because of new transactions or significant changes and not be a repeat of annual disclosures.

Types of Costs Capitalized

We disagree with the requirement to provide a qualitative description of the type of costs capitalized in inventory. We agree with the observation in the Background Information, Basis for Conclusions, and Alternative Views section of the ED, that such a requirement is likely to lead to boilerplate information. This is not because preparers will craft language to obscure what is recorded, but rather, it would be difficult to provide meaningful disclosures that are not general in nature or a description of the rules for measuring inventory. Given that costs are capitalized based on their function and not their nature, it would not be possible to characterize certain natural costs as always being capitalized. For example, some labor costs would be capitalized,



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but others would not, depending on the function of the individuals associated with those costs. The same applies for other costs such as utilities, property taxes, insurance, etc. A description of expenses based on function is likely to lead to disclosures that state that costs of activities to purchase and manufacture goods are capitalized in inventory but administrative and selling costs are not.

We think disclosures might look like the following.

Cost of products sold and capitalized in inventory is primarily comprised of direct materials and supplies consumed in the manufacturing of product, as well as manufacturing labor, depreciation expense and direct overhead expense necessary to acquire and convert the purchased materials and supplies into finished product. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs, internal transfer costs, warehousing costs and other shipping and handling activity.

A committee member looked at his company's internal accounting policies for costs capitalized in inventory, as a potential resource as to what might be disclosed. The policy was guidance for meeting current GAAP requirements. For example, specifying that under ASC 330-10-30-7 items such as abnormal freight, handling costs, and spoilage should not be included in inventory costs or that under ASC 330-10-30-8 selling expenses are not part of inventory costs. Delineating this information would not help a user identify changes in inventory valuation from period to period or compare costs in inventory between companies. Accordingly, we do not support this requirement.

Other Observations

We are unable to comment on the disclosures related to companies applying the Retail Inventory Method as none of our committee members have significant experience with this method. Although the example provided in the ED looks quite extensive and lengthy.

The disclosures should apply to both public and private companies (retaining the existing exception for segment information) and we support the longer adoption period usually provided to private companies.

Additionally, we would like to comment on this ED in context of the disclosure framework. This ED, as well as several others, was intended to review existing disclosures as part of an overall disclosure framework. We encouraged such an effort as well-meaning attempt to address concerns about disclosure overload and to look at disclosures in a systematic and structured approach, instead of as an afterthought at the end of the standard-setting process. However, the current approach has not produced what we believe are the desired results. The approach has added additional disclosures, while retaining many redundant, non-useful, or non-cost effective disclosures. We recommend that a disclosure framework that outlines the objectives that companies need to meet to explain important aspects of a particular topic to users, with the



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Board providing examples how one might meet those objectives, instead of mandating specific requirements. We find the disclosure framework that the Board is using justifies almost any disclosure and does not screen out disclosures that are redundant, not useful or cost effective. Further because the Board's cost-benefit analysis is more qualitative than quantitative, Board members make individual assessments as evidenced in the Alternative Views section of the ED. We recommend a unified approach to evaluating benefits and costs. For these reasons, the FASB should not issue future EDs as part of the disclosure framework project until it evaluates the overall process and considers whether the process will result in improved disclosure.

We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder". The signature is fluid and cursive.

Nancy J. Schroeder, CPA
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Institute of Management Accountants
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