



March 13, 2017

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

File Reference No. 2017-210

The Accounting Principles Committee of the Illinois CPA Society (“Committee”) appreciates the opportunity to provide its perspective on the Proposed Accounting Standards Update (“ASU”), *Disclosure Framework – Changes to Disclosure Requirements for Inventory (Topic 330)*. The Committee is a voluntary group of CPAs from public practice, industry and education. Our comments represent the collective views of the Committee members and not the individual views of the members or the organizations with which they are affiliated. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

In general, we are supportive of the Board’s proposed changes, as it will improve the effectiveness of inventory disclosures without imposing significant compliance costs. The requirements to disclose inventory disaggregation by component, the effect that LIFO inventory has on income, and LIFO replacement costs seem to be the most meaningful improvements. We do have some concerns about the proposed requirement relating to the Retail Inventory Method (RIM), as noted in our response to Question 7.

We have provided our responses to certain questions raised in the proposed ASU below.

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

**Response:** We believe the amendments in the proposed Update would provide greater clarity about the components of inventory valuations, including changes in inventory balances related to transactions, circumstances, or events outside the normal course of business and the effects of using the LIFO method.

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

**Response:** We believe the proposed requirements are operable and auditable.

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

**Response:** We do not believe there would be significant incremental cost imposed.

**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 roll-forward of inventory impose significantly greater costs? If so, please describe the nature and extent of the additional costs. Would the informational benefit of a roll-forward 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?

**Response:** We believe that most of the disclosure requirements described in Paragraph 330-10-50-7 are sufficiently operable since much of the required information is disclosed elsewhere in the financial statement and disclosures such as the impact from acquisitions or dispositions. We understand the Board's desire to provide information to the users of financial statements regarding changes in an entity's inventory balances; however, determining what constitutes "atypical" losses is an area of concern. For reasons similar to those cited in ASU 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)*, we believe without providing further guidance defining the meaning "atypical", the introduction of this concept will create uncertainty for preparers of financial statements. We note that ASU 2015-01 retained and expanded the presentation and disclosure guidance for items that are unusual in nature or occur infrequently. We believe the guidance in ASU 2015-01 currently provides the framework for entities to consider for disclosing losses from the subsequent measurement of inventory shrinkage, spoilage or damage which may be unusual in nature. Adding the concept of an additional disclosure regarding "atypical" losses would be confusing. We believe the Board should utilize the guidance provided in ASU 2015-01 regarding such disclosures with respect to the measurement of inventory. We agree with the Board that providing a complete roll-forward of inventory would not likely add significant costs to the disclosure process.

**Question 5:** The proposed amendment 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 disclosure for which entities other than public business entities should be allowed a modification?

**Response:** We agree the proposed amendment should apply to all entities except for the requirements in paragraphs 280-10-50-25 and 280-10-50-32, which apply only to public entities. Requiring non-public entities to comply with paragraphs 280-10-50-25 and 280-10-50-32 would not provide the users of the financial statements decision-useful information and for many smaller non-public entities the information is not readily available. This information could also be available upon request of management from those users of certain non-public financial statements.

**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?

**Response:** We agree that a requirement to disclose a qualitative description on types of costs that an entity capitalizes into inventory could provide users with additional useful information but we are concerned that in many cases the disclosure will be in the form of boilerplate language.

**Question 7:** Paragraph 330-10-50-12 proposes a requirement for entities that record inventory using 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?

**Response:** The proposed disclosure requirement in to provide qualitative and quantitative information about critical assumptions used under RIM is incremental to existing guidance for critical accounting estimates and significant accounting policies. However, ASC 330-10-50-6 currently requires disclosure of significant estimates applicable to inventories as required by ASC 275, *Risks and Uncertainties* (ASC 275). However, ASC 275 addresses situations where based on information available before the financial statements are issued or available to be issued, it is reasonably possible that the estimation of the recoverability of inventory will change in the near term and the effect of that change will be material. In that regard, existing standards provide users of financial statements information regarding the prospects of future cash flows associated with inventory. Just as ASC 330-10-50-6 is applicable to all entities, we believe the qualitative disclosure information included in the proposed ASU is appropriate for all entities, and not just those under the RIM. We also believe the proposed disclosure, if required as drafted, would be operable as this information is readily available to entities using the RIM; however, the proposed quantitative disclosure information may not be aggregated at a level required for disclosure which would be problematic.

For instance, many retailers apply RIM at a store level for departments within each store location. Providing quantitative aggregated information could be a time-consuming endeavor for many entities. That being said, we don't believe the quantitative disclosure would provide useful information to the financial statement users. The example disclosure in ASC paragraph 330-10-55-17 reflects data at an overall entity level and providing such aggregated information isn't predicative of future cash flows given the level of aggregation and the complexities in applying RIM. Even if more disaggregated information was provided, it still may not be informative given many retailers have hundreds of departments and stores for which cost of inventory is determined. Expanded disaggregated information may be more confusing to the users of financial statements and would certainly not be cost effective. Furthermore, other factors such as changes in an entity's mix, seasonality, consumer and competitive factors inherently limit the ability to project any disaggregated information in assessing an entity's future cash flows. Therefore, we believe providing more extensive disaggregated information would be misleading.

ASC paragraph 330-10-50-1B states one of the objectives of the proposed ASU is to provide users information about how inventory recorded using different measurement methods may affect the decision usefulness of information for projecting cash flows. Regardless of the method used to measure inventory, be it RIM, LIFO, FIFO, weighted average cost or moving average costs, all methods are used to *estimate the cost* of inventory. The method used to determine the cost of inventory by itself is not a factor used in projecting cash flows of an entity.

**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.

**Response:** None.

**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.

**Response:** We believe the proposed disclosures should be applied prospectively to the fiscal year in which the requirements are effective. Retrospective application of prior period disclosure information would not provide users of the financial statements additional decision useful information, as the additional information for the period would not be deemed timely.

**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.

**Response:** We believe the information is readily available to implement the proposed amendments. Non-public entities should be allowed an additional year before implementation is required to allow for system changes if necessary to gather required disclosure information.

**Other comments:** We also wish to express to the Board our concerns about the timing of the issuance of this particular ASU and its January through March comment period. The disclosure changes in this proposed ASU are potentially significant, as inventory disclosures could affect nearly as many entities as the revenue recognition and lease projects. Having a proposed ASU and comment period with due dates within a time period where many practitioners are focusing on multiple financial statement issuances and public filing deadlines reduces the likelihood of many practitioners being able to provide constructive feedback to the Board. We recommend that the Board consider this impact on standard setting and the comment process.

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We appreciate the opportunity to provide our comments and observations on the proposed ASU and would be pleased to discuss them with the Board members or the FASB staff at your convenience.

Sincerely,

**Ryan Brady, CPA**

Chair, Accounting Principles Committee

**Brian Kot, CPA**

Vice Chair, Accounting Principles Committee

APPENDIX A

ACCOUNTING PRINCIPLES COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2016-2017

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to fully study and discuss exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times includes a minority viewpoint. Current members of the Committee and their business affiliations are as follows:

**Public Accounting Firms:**

**Large:** (national & regional)

Jared Bourgeois, CPA	PricewaterhouseCoopers LLP
Ryan Brady, CPA (Chair)	Grant Thornton LLP
Rakesh Desai, CPA	KPMG LLP
William Keirse, CPA	Ernst & Young LLP
Scott Lehman, CPA	Crowe Horwath LLP
Reid Mitchell, CPA	Wipfli LLP
Elizabeth Prossnitz, CPA	BDO USA LLP

**Medium:** (more than 40 professionals)

Timothy Bellazzini, CPA	Sikich LLP
Michael Kidd, CPA	Mowery & Schoenfeld LLC
Matthew Mitzen, CPA	Marcum LLP
Jeffery Watson, CPA	Miller Cooper & Company Ltd

**Small:** (less than 40 professionals)

Peggy Brady, CPA	Selden Fox, Ltd.
Marvin Hoffman, CPA	Bronswick, Reicin, Pollack, Ltd.
Brian Kot, CPA (Vice Chair)	Cray Kaiser Ltd CPAs
Joshua Lance, CPA	Joshua Lance CPA, LLC

**Educators:**

John Hepp, CPA	University of Illinois at Urbana-Champaign
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**Industry:**

Rose Cammarata, CPA	Mattersight Corp.
Ashlee Earl, CPA	
Jeffrey Ellis, CPA	FTI Consulting, Inc.
Marianne Lorenz, CPA	AGL Resources Inc.
Michael Maffei, CPA	GATX Corporation
Joshua Shenton, CPA	Northern Trust Corp.
Richard Tarapchak, CPA	Reynolds Group Holdings

**Staff Representative:**

Gayle Floresca, CPA	Illinois CPA Society
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