

March 13, 2017

Submitted via email: director@fasb.org
Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2017-210

Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

We generally agree with the direction taken by the Financial Accounting Standards Board (Board). This Exposure Draft will provide financial statement users with decision-useful information that will enable them to obtain a better understanding of the business and more effectively compare companies.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, MWiniarski@CBIZ.com.

Sincerely,



Mark Winiarski, CPA
TIG Chairman



Robert Singer, CPA
Project Leader

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

Response: In general, we believe that the amendments in this proposed update strike an appropriate balance between decision- useful information and the cost of implementing the proposed footnote disclosures as they relate to inventory. Limiting detailed footnote disclosures to “transactions, circumstances or events” outside normal operating activities will provide important information regarding material changes in the inventory that will streamline the decision- making process for users. In this respect, we believe the guidance provided in this update will make the footnotes more transparent and easier for users to evaluate the relevance and representational faithfulness of the various line items comprising inventory. At the same time, we feel that these proposed disclosures will not place an undue burden on entities. For example, the decision to support the “specific changes approach” over a full roll forward of inventory is consistent with the pervasive cost constraint as described in chapter 3 of SFAC NO. 8. Further, we concur with the Board that the hybrid approach which combines the principles- based implementation of the specific changes approach with a listing of specific items which would be disclosed by the entity if applicable, strikes an appropriate compromise between the two approaches.

Further, we believe that provision 330-10-50-8 requiring disclosure of the major components of inventory (e.g., raw materials, work in process etc.) provides valuable information regarding the composition of inventory. Allowing entities using LIFO to disclose major components of inventory based on alternative cost flow assumptions (e.g., FIFO) will significantly reduce cost without compromising the relevance of the information provided particularly given that most entities maintain perpetual inventory records on a FIFO or average cost basis and make the adjustment to LIFO at the end of a period.

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

Response: In general, we believe the disclosure requirements are operable and auditable. However, some specific areas might prove challenging from both standpoints. These areas might include:

- evaluating the reasonableness of inventory records based on standard costs, and the acceptability of any adjustments “to reflect current conditions” and whether inventory amounts based on the standard costs approximate one of the generally accepted cost flow assumptions.
- differentiating normal from abnormal shrinkage

- confirming the amount, and time periods affected by a LIFO liquidation and the effects of the liquidation on net income and retained earnings
- if dollar value LIFO is used to measure LIFO added or liquidated layers evaluating the reasonableness of the price indices used to compute base layers
- confirming the reasonableness of the assumptions underlying the net markdowns, markups, and approximation of lower of cost/market for firms using the retail inventory LIFO
- Any estimates of replacement cost over the LIFO

The above areas require the exercise of managerial judgment and potentially lend themselves to potential earnings management and earnings quality issues.

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

Response: Per our response to Question 1, aside from some of the issues mentioned above and the specific disclosure discussed below, which might prove challenging from an operations or auditing standpoint, we would not expect the proposed disclosures to impose significant incremental costs. Again, we believe that the proposed update is consistent with general spirit of chapter 8 of SFAC 8 regarding footnote disclosure. The provisions of this update in our view strike an appropriate balance between relevant footnote disclosure regarding inventory, and the cost of providing the information.

We recommend clarification of the requirement in 330-10-50-13a to disclose the “replacement cost or current cost” to clarify the intent of the term current cost. For instance does current cost include any other acceptable measurement of inventory besides LIFO? If the intent is the replicate the disclosure of replacement cost of LIFO inventory we believe it would introduce potential cost and operational difficulty for smaller non-public business entities. Many smaller business entities have limited accounting resources and do not regularly compile information about replacement costs of all inventory items or do not have systems that automatically track and link the information to the inventory system. The disclosure of inventory on an alternative basis, such as FIFO or average cost, would be operationally more feasible for these entities because LIFO is often computed as a top-side adjustment to perpetual or periodic inventory reports based on FIFO or average cost. We also believe the disclosure of replacement cost of LIFO inventory instead of FIFO or average cost provides limited additional value to financial statement users.

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: As mentioned above we believe the requirement to disclose certain specific changes in the inventory balance as provided in paragraph 330-10-50-7 is sufficiently operable. Moreover, in our view, the requirement provides users with decision- useful information while not imposing a significant cost burden on the entity. In this respect, we believe that the requirement is sufficiently operable. On the other hand, a requirement to include a roll forward of inventory would impose significantly greater costs. Although a roll forward of the beginning inventory would most likely capture all changes and would avoid any potentially significant change, it would not only make it much costlier to the entity in terms of implementation, but also significantly increase the cost of the independent audit. Further, such a roll forward would overload the footnotes with information that might cause users to miss significant events and result in potentially adverse decisions. Thus, in our view, the informational benefit of a roll forward would not be sufficient to justify the additional costs, and might be potentially counterproductive in terms of information overload.

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?

Response: We concur with the Board that entities not subject to the guidance in Topic 280 be excluded from the requirements in paragraphs 280-10-50-25 and 280-10-50-32. We believe that requiring small to medium sized enterprises to report inventory by segment would impose an undue burden on these entities. Any benefits derived from such disclosures would not justify the cost to these entities of having to prepare the detailed information required. We believe that the other disclosures contained in this exposure draft would prove beneficial to all users of financial statements of all business entities where inventory is a significant asset.

For the reasons discussed in Question 3, if the Board intends for disclosure of replacement cost be required when LIFO inventory method is used, we recommend limiting disclosure of replacement cost to public business entities. In addition to the cost-benefit ratio not justifying the additional disclosure for smaller non-public business entities, we also believe that in general financial statement users of non-public business entities have better access to management and a greater understanding of inventory that makes this disclosure less important to the financial statement users.

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 believe that disclosure of a qualitative description of the types of costs an entity capitalizes into inventory would provide useful information to users. Such information would prove beneficial to the extent that it would facilitate a comparison and evaluation of the costs comprising inventory among similar entities. In this respect, such information would enable to users to better evaluate the impact of inventory management on operations.

We are concerned that this disclosure may become “boiler plate” and may, as a result, become less useful for investors. We believe the Board should consider providing more detailed description of the nature of the disclosure or example disclosures to illustrate the types of disclosure that would be most useful to financial statement users.

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?

Response: We believe that this disclosure requirement would enable users to evaluate and understand the nature of inventory determined by this estimating method. As indicated in the draft, many users are not familiar with the retail inventory method, and disclosure of how the method was used to determine inventory coupled with a qualitative description would provide valuable information with which to evaluate inventory. Moreover, given the complexity of the method, and the assumptions underlying its application (e.g., average cost, LIFO, lower of cost/market), such disclosure would improve the transparency and understanding of inventory. In this regard, the guidance provided in this update provides useful information to users while at the same time, would not prove costly to the entity in preparing and incorporating the disclosure of this information.

Similar to our response to Question 6, we believe this disclosure is also at a greater risk to become “boiler plate” and therefore less useful for investors than originally envisioned by the Board. We recommend considering example disclosures or more specific guidance to attempt to avoid the risk of boiler plate disclosures.

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: In general, the proposed disclosures are fairly comprehensive, will in our view will improve the clarity and relevance of the footnotes, and would appear to be consistent with Chapter 8 of the Conceptual Framework. However, despite the concern expressed by some stakeholders that disclosure of alternative inventory methods might cause them potential harm, such information might be useful in assessing future cash flows and thus, is consistent with the objectives and qualitative characteristics concepts. In this regard, failure to disclose such information would appear to be inconsistent with the primary objective to provide users with disclosures that will enhance their ability to make informed decisions. Given the elevated status of the balance sheet in recent years, such failure to disclose alternative inventory measurements would appear inconsistent, particularly in light of the fact that alternative measurements are required in connection with other balance sheet elements (e.g., pensions, stock based compensation, investments etc.).

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 that the proposed disclosure should be required only for the fiscal year in which the requirements are effective and years after that fiscal year (i.e., prospective inclusion). Retrospective inclusion of the disclosures proposed in this draft would, in our view, result in information that has limited usefulness to financial statement users. Since the information is not timely, the only benefit of this information in the year of adoption would be comparison from period to period, while at the same time, it would place a burden on the entity thereby violating the pervasive cost constraint.

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 that the Board has struck an appropriate balance between the proposed content of the footnote disclosures relating to inventory and the cost of preparing the information to the entity. By effectively limiting the inventory disclosures to changes in the inventory balance to “transactions, circumstances or events outside the

normal course ...”, as opposed to explaining changes that are “normal and recurring”, we would not anticipate that public entities would have much difficulty transitioning into the proposed standard. We further note that the standard provides for prospective rather than retrospective incorporation of the notes. On this basis, we believe the proposed footnote disclosures might be implemented within one year from the date in which they become effective for public entities. Regarding small to medium size enterprises (SMEs) with limited resources, implementation might be three years from the date the proposed disclosures in this exposure draft become effective.