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FASB Proposes Updates to Inventory Disclosures

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On January 10, 2017, the FASB issued a [proposed ASU](#)¹ that would modify or eliminate certain disclosure requirements related to inventory as well as establish new requirements. Comments on the proposed ASU are due by March 13, 2017.

The proposal is part of the FASB's [disclosure framework project](#), which is intended to help reporting entities improve the effectiveness of financial statement disclosures by "clearly communicating the information that is most important to users of each entity's financial statements."

In March 2014, the FASB issued a [proposed concepts statement](#)² on its conceptual framework for financial reporting. The Board later decided to test the guidance in that proposal by considering the effectiveness of financial statement disclosures related to inventory, income taxes, fair value measurements, and defined benefit pensions and other postretirement plans. The proposed ASU is the result of the application of the guidance in the proposed concepts statement to inventory.

¹ FASB Proposed Accounting Standards Update, *Disclosure Framework — Changes to the Disclosure Requirements for Inventory*.

² FASB Proposed Concepts Statement, *Conceptual Framework for Financial Reporting — Chapter 8: Notes to Financial Statements*.



Editor's Note

Also as part of its disclosure framework project, the FASB proposed guidance in July 2016, January 2016, and December 2015 that would amend disclosure requirements related to income taxes, defined benefit pensions and other postretirement plans, and fair value measurement. See Deloitte's [July 29, 2016](#); [January 28, 2016](#); and [December 8, 2015](#), *Heads Up* newsletters for more information.

Objective of Inventory Disclosures

The proposed ASU notes that the objective³ of the inventory disclosures in ASC 330⁴ is to give financial statement users information that would help them assess how future cash flows may be affected by:

- Different types of inventory.
- The use of differing methods to measure inventory balances.
- Transactions, events, and circumstances that are outside the entity's normal course of business.

Scope, Transition, and Effective Date

The proposed ASU would affect only inventory disclosures under ASC 330 for all entities (i.e., the proposal would not affect disclosures related to cost of goods sold). The guidance would be applied prospectively, and the Board will determine an effective date and whether to permit early adoption after it considers feedback from stakeholders on the proposal.



Editor's Note

On January 12, 2017, the Board [announced](#) that it plans to hold a public roundtable meeting on March 17, 2017, with interested stakeholders to discuss the proposed amendments as well as the overall disclosure framework project and related proposals.

Key Provisions of the Proposed ASU

Materiality

The proposed ASU notes that entities would not be required to provide inventory disclosures if such disclosures are immaterial, and it refers entities to ASC 235-10-50-7 through 50-9 for guidance on making that determination.

Disclosure of Changes in Inventory

The Board considered several approaches for disclosing changes in inventory, including (1) a detailed rollforward of the inventory balance in tabular format; (2) disclosure of significant changes in the balance that are not attributable to the purchase, manufacture, and sale of inventory in the normal course of business; and (3) a hybrid approach that would combine both methods depending on the significance of an entity's inventory. Because the Board believes that the rollforward and hybrid approaches would most likely be too costly and difficult for entities to implement, the proposed ASU would require all entities to disclose significant changes in inventory resulting from transactions or events other than the purchase, manufacture, or sale of inventory in the normal course of business.

³ See ASC 330-10-50-1B in the proposed ASU.

⁴ For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

Examples of such changes include:

- “Atypical losses from the subsequent measurement of inventory or shrinkage, spoilage, or damage and a description of the facts and circumstances leading to those losses.”
- “Balance sheet reclassifications.”
- “Inventory obtained through a business combination” or “disposed of through a divestiture.”
- “Unrealized gains and losses for inventories recorded above cost or at selling prices.”

The proposed ASU also includes an example of the disclosure that would be required by ASC 330-10-55-14.

Composition of Inventory

In addition to total inventory, the proposed ASU would require all entities to disclose the inventory’s major components. In other words, entities would disclose the composition of inventory such as raw materials, work in process, finished goods, and supplies. Under the proposed ASU’s amendments, an entity would also be required to (1) provide “a qualitative description of the types of costs it capitalizes into inventory” and (2) the bases it uses to measure its inventory as well as the amount recorded under each basis.

Further, an entity that reports inventory on a last-in, first-out (LIFO) basis would be excluded from the requirement if it were to conclude that it is impracticable to allocate the LIFO reserve to inventory components. That is, an entity would be permitted to disclose inventory components under another cost basis — such as first in, first out (FIFO) — and reconcile such components to the ending aggregate LIFO inventory balance with the aggregate LIFO reserve.

Inventory Reported Under the LIFO Cost Flow Assumption

Besides adding the practicability exception discussed above, the proposed ASU would codify LIFO-related disclosures that SEC registrants are currently required to provide. In addition, paragraph BC49 of the proposal notes that other entities include similar disclosures in their financial statements on the basis of recommendations in a 1984 AICPA Issues Paper.⁵ Consequently, the Board proposes to add ASC 330-10-50-13, which would require all entities that apply the LIFO method to disclose (1) the excess of replacement cost or current cost over the reported inventory amount and (2) the effect on net income of the liquidation of a portion of an entity’s LIFO inventory.



Editor’s Note

In the proposed ASU’s Basis for Conclusions, the FASB observed that the cost to implement the guidance should be minimal because many entities reporting inventory under LIFO are likely to be providing the proposed disclosures already.

Inventory Reported Under the Retail Inventory Method

The Board considered several alternative disclosure requirements for entities reporting under the retail inventory method (RIM), including (1) requiring quantitative disclosure of certain components of the RIM calculation, (2) requiring disclosure of all components of the RIM calculation, and (3) not requiring RIM-specific disclosures. Ultimately the Board proposed that for each annual period presented, an entity would be required to disclose “qualitative and quantitative information about the critical assumptions” used in the portions of inventory measured under the RIM calculation. The proposed ASU also includes an example of such a disclosure in ASC 330-10-55-15 through 55-17.

⁵ AICPA Issues Paper, *Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories*.

Other Inventory Disclosures

For entities that use standard costs to measure inventory, the proposed ASU would update ASC 330-10-30-12 to eliminate the requirement to describe the relationship between standard costs and costs computed under another recognizable inventory measurement basis. This disclosure was seen as redundant because as long as standard costs are updated at reasonable intervals, the revised standard costs should approximate another acceptable inventory measurement basis, such as FIFO or average costs.

Segment Disclosures for Public Business Entities

For public business entities, the proposed ASU would amend ASC 280-10-50-25 to add inventory disclosures by reportable segment and a related example in ASC 280-10-55-53 and 55-54. Specifically, if inventory balances are included in (1) the determination of segment assets that the chief operating decision maker (CODM) reviews or (2) information that the CODM regularly reviews (even if such balances are not included in the determination of segment assets), public business entities would be required to disclose the following by reportable segment:

- Total inventory.
- A disaggregation of inventory by major component (such as raw materials, work in process, finished goods, and supplies).

In addition, inventory or a major component of inventory that has not been allocated to a reportable segment would be classified as unallocated.

A public business entity would also be required to provide similar disclosures in its interim financial statements if the criteria in ASC 280-10-50-25 are met (i.e., inventory balances are included in the determination of segment assets, or the CODM reviews information that includes inventory balances).



Editor's Note

Only the information reviewed by the CODM is required to be disclosed on an interim basis. As illustrated in Example 4 (see ASC 280-10-55-54), if the CODM reviews inventory by segment in total, but does not regularly review information about inventory for each component by segment, an entity would be required to disclose only total inventory by segment in its interim financial statements.

Appendix — Questions for Respondents

The proposed ASUs' questions for respondents are reproduced below for ease of reference.

Disclosure Framework — Changes to the Disclosure Requirements for Inventory

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

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

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

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?

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?

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?

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?

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.

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