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Technical Director
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**Proposed Accounting Standards Update Inventory (Topic 330)
Disclosure Framework—*Changes to the Disclosure Requirements for Inventory***

The Accounting Principles and Assurance Services Committee (the “Committee”) of the California Society of Certified Public Accountants (“CalCPA”) respectfully submits its comments on the referenced proposal. The California Society of CPA’s (“CalCPA”) Accounting Principles and Assurance Services Committee (the “Committee”) is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 55 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

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

The Committee believes that, in general, the proposed disclosures will result in more effective, decision-useful information about inventory because it will provide relevant information which is currently not provided consistently, and which will enhance the understanding of how inventory affects financial results.

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

The Committee is not aware of any aspects of the proposed disclosure requirements which are not operational or auditable.

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

While the Committee believes the additional requirements will impose incremental costs, including auditing costs, we are not in a position to comment on how significant they might be.

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?

The requirement as proposed is operable, but may require significant initial efforts on the part of entities with operations dispersed over multiple locations to design a system to gather the information. Some of this information is currently available, particularly if it is material, but it is often not accumulated on a comprehensive basis suitable for inclusion in its financial statements.

A roll-forward of inventory could impose significant costs, particularly on entities which do not maintain a perpetual inventory for all or part of their inventory. It would be particularly difficult and expensive for entities relying on a periodic inventory system, which is not uncommon among smaller entities.

We believe the proposed disclosures will be adequate. The Committee does not believe that the informational benefit of a rollforward would justify its additional costs.

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?

The Committee does not believe any of the proposed segment disclosures under Topic 280 should be implemented at this time. Inventory is the only subset of assets for which disclosure would be required, and may not be the most important subset of assets. Rather, the Board should do a comprehensive study of segment disclosures as a separate project, rather than taking the piecemeal approach in this proposal.

The proposed amendments in Topic 280 should not be applicable to entities that are not public business entities, since they are not currently subject to the other disclosures which are applicable to public entities, and the disclosures are of questionable usefulness to users of their financial statements.

The Committee suggests that entities that are not public business entities not be required to make the following proposed disclosures:

- 330-10-50-10: qualitative description of the types of costs it capitalizes into inventory
- 330-10-15-12: retail inventory disclosures.

Both of these disclosures can be expensive to prepare and we believe they are not generally useful to recipients of these entities' 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?

Is not the correct reference paragraph 330-10-50-10? What the Board means by "qualitative description" is unclear in the absence of more description and an example. The only specific reference to qualitative information in the body of the proposal is in

paragraph 330-10-55-17 applicable to the retail inventory method, and this table seems more quantitative than qualitative.

In the absence of better information on what the Board is proposing, we cannot comment on this question.

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?

The Committee does not believe disclosure of the cost-to-retail margin should be required for the same reasons as expressed in the dissenters' views in paragraph BC77. The other disclosures seem operable, but the Committee does not have a view on whether the information is useful to users of public entity financial statements. As stated on response to Question No. 5, none of the RIM disclosures should be required for entities other than public business entities.

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.

The Committee has not identified any other disclosures that should be required.

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.

The Committee does not believe there should be a requirement to restate any financial statements for prior periods. It should be permitted if an entity desires to do so. However, if the information in the year of initial implementation is materially different than that of prior years which are not restated, then the entity should disclose that difference.

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.

The Committee is unable to comment on how much time would be needed to implement the proposed amendments.

Please refer to our response to Question No. 4. Providing this information could be particularly problematic for smaller entities that are not public business entities, and they should be provided an additional year to implement the proposals.

The Committee supports early adoption, since the disclosures are useful.

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

Sincerely,

A handwritten signature in black ink that reads "A.J. Major III". The signature is written in a cursive style with a large initial "A" and "J" that are connected to the rest of the name.

A.J. Major III
Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants