



## FASB Proposes Additional Inventory Disclosures

As part of its broader disclosure framework project, the FASB recently proposed improvements to disclosures about inventory.<sup>1</sup>

### Key Facts and Impacts

- The proposed changes would add new disclosure requirements and change existing disclosures about inventory balances.<sup>2</sup> The proposal would require a company:
  - That applies the retail inventory method (RIM) to qualitatively and quantitatively disclose the critical assumptions used to measure inventory at the end of each annual period presented;
  - To disclose how different types of inventory might affect future cash flows; and
  - To disclose inventory balances by segment if the information is provided to the chief operating decision maker (CODM).
- A company should evaluate its existing processes and controls over accumulating and aggregating data that it will need to comply with the new disclosures.

### Contents

Applying the Proposed Inventory Disclosures.....	2
Looking Ahead.....	3

<sup>1</sup> [FASB Proposed Accounting Standards Update](#), Disclosure Framework – Changes to the Disclosure Requirements for Inventory, January 10, 2017; and [FASB Exposure Draft](#), Conceptual Framework for Financial Reporting: Chapter 8 Notes to Financial Statements, March 4, 2014; both available at [www.fasb.org](http://www.fasb.org).

<sup>2</sup> [ASC Topic 330](#), Inventory, available at [www.fasb.org](http://www.fasb.org).

## Applying the Proposed Inventory Disclosures

Using the objectives of the proposed disclosure framework and information provided by stakeholders, the FASB proposed new disclosures about inventory that it believes would be useful to financial statement users.

### Proposed New Disclosure Requirements

#### All Entities – Annual Financial Statements

- Inventory disaggregated by component (e.g., raw materials, work-in-process, and finished goods)
- Inventory disaggregated by measurement basis (e.g., first-in, first-out (FIFO); last-in, first-out (LIFO) liquidations; average cost; and selling price)
- Changes to the inventory balance that are not specifically related to the purchase, manufacture, or sale of inventory in the ordinary course of business (e.g., acquisitions, dispositions, and foreign exchange rate changes)
- A qualitative description of the costs capitalized into inventory
- The effect of LIFO liquidations on income and the replacement cost for inventory measured using LIFO

A company using the RIM would need to disclose specific information including qualitative and quantitative information about the critical assumptions used to measure inventory at the end of each annual period presented. The proposal includes an example that illustrates both a narrative description of a company's application of the RIM and a rollforward disclosure of the RIM calculation of ending inventory. However, the Board decided not to prescribe a rollforward disclosure format but instead to allow management to choose an appropriate format. Under the proposal, the disclosure could take the form of a rollforward of the RIM calculation or a description of the critical components of the calculation.

#### Public Entities

In annual and interim periods, a company would disclose inventory by reportable segment or by component for each reportable segment, if that information is regularly provided to the chief operating decision maker.



The comment deadline is March 13.

Stakeholders who want to participate in the March 17 roundtable meeting are asked to submit comments by February 27.

## Proposed Modifications to Existing Inventory Disclosure Requirements

### All Entities— Annual Financial Statements

- Add a requirement to disclose the facts and circumstances leading to impairment losses
- Remove the *substantial and unusual* threshold associated with losses from the subsequent measurement of inventory
- Remove the requirements to disclose the measurement basis of inventories and situations in which inventories are stated above cost or at sales prices, because they would be redundant with the proposed requirement to disclose inventory disaggregated by measurement basis

## Looking Ahead

The FASB recently issued proposed changes to fair value measurement, defined benefit plans, and income tax disclosures, which also are part of its disclosure framework project.<sup>3</sup> The Board plans to hold a public roundtable meeting on March 17 to solicit additional feedback on the Board's decision process under the Disclosure Framework and its proposals.

We encourage entities to consider the effect on their financial statements of the proposed changes to inventory disclosures including whether they would be cost effective and operable, and whether they would provide more useful information to financial statement users.

The proposed changes would be applied prospectively. The Board will determine effective dates after redeliberating comments received during the comment period and from the public roundtable meeting.

**Contact us:** This is a publication of KPMG's Department of Professional Practice 212-909-5600

**Contributing authors:** Paul H. Munter and Daniel K. Lim

**Earlier editions are available at:** [kpmg.com/us/frn](http://kpmg.com/us/frn)

Legal—The descriptive and summary statements in this newsletter are not intended to be a substitute for the potential requirements of the proposed standard or any other potential or applicable requirements of the accounting literature or SEC regulations. Companies applying U.S. GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors. Defining Issues® is a registered trademark of KPMG LLP.

<sup>3</sup> [FASB Proposed Accounting Standards Update](#), Changes to the Disclosure Requirements for Fair Value Measurement, December 3, 2015, [FASB Proposed Accounting Standards Update](#), Changes to the Disclosure Requirements for Defined Benefit Plans, January 26, 2016, and [FASB Proposed Accounting Standards Update](#), Changes to the Disclosure Requirements for Income Taxes, all available at [www.fasb.org](http://www.fasb.org).