

Auto Dealer LIFO Calculation Outsourcing Engagement Overview

IRS & Financial Reporting Annual LIFO Calculation Requirements

In accordance with IRS regulations §472, taxpayers are required to annually calculate the ending LIFO inventory value. In order to comply with the IRS LIFO conformity rule, taxpayers are also required to present income as determined under the LIFO method on year end financial reports/statements for all periods that income is reported on a LIFO basis on the tax return. In conjunction with complying with the LIFO conformity rule, an adjusting journal entry must be made annually to account for the change in the current vs. prior period's LIFO reserve.

A taxpayer's current LIFO value inventory is a historic accumulation of quantity and price changes from the taxpayer's initial year of the LIFO election. Therefore, the taxpayer must maintain supplemental and detailed LIFO inventory records that support the current value of the inventory and the clear reflection of income. The LIFO regulations underline the importance of these historic records by specifically requiring that taxpayers maintain them. This includes annually determining the Current-year Cost, calculating a current year inflation index, calculating base year & LIFO increments (decrements), computing the LIFO inventory value and determining the LIFO reserve.

The IRS may terminate a taxpayer's LIFO election if the taxpayer fails to comply with the LIFO conformity rule, or if the taxpayer does not maintain adequate books and records for its LIFO inventory and all computations.

LIFOPRO's Outsourcing Engagement Responsibilities

- **Preparing all aspects of the LIFO calculation & supporting documentation free of errors and in accordance with IRS Regs., including:**
 - Inflation calculation (if applicable, including prior year base vehicle cost reconstruction for alternative LIFO method & BLS category assignments for the IPIC method)
 - Layer calculations
 - LIFO inventory value, LIFO reserve & LIFO reserve change calculations
 - Prepare documentation (LIFOPRO reports) that provide adequate books & records of the LIFO inventory value & all supporting computations (and satisfies IRS LIFO books & records requirement)
- **Deliver LIFOPRO report package that includes all amounts required for the client to complete the following:**
 - Record this year's LIFO journal entry which will adjust the year end inventory balance to its LIFO value
 - Prepare the year end annual financial report/statement on a LIFO basis
 - Prepare year end tax return on a LIFO basis
- Net inventory method adjustment preparation for trade discounts & advertising expenses (if applicable)
- Interim LIFO estimate preparation & delivery (if applicable)
- Preparing the book vs. tax LIFO Schedule M tax return entry value (if applicable)
- Preparing the §263A UNICAP cost Schedule M tax return entry value (if applicable; using the client-provided absorption ratio)
- Preparing IRS forms & statements related to LIFO elections or accounting method changes (if applicable)
- Preparing supporting documentation related to any pro forma LIFO calculations, reviews or accounting method changes (if applicable)
- Up to 40 hours of audit support related to the services provided by LIFOPRO

Client Responsibilities

- Prepare & furnish the documents required by LIFOPRO to complete the services listed above
- Review LIFOPRO report package and confirm all applicable amounts match the client's books and records
- Record the annual LIFO adjusting journal entry using amounts provided in client's LIFOPRO report package
- Prepare annual financial reports/statements on a LIFO basis using amounts provided in client's LIFOPRO report package
- Prepare the tax return on a LIFO basis using amounts provided in client's LIFOPRO report package
- Notify LIFOPRO of any LIFOPRO report discrepancies discovered by the client
- Notify LIFOPRO of adjustments made after LIFOPRO report delivery that would affect the accuracy of the client's LIFO inventory value (if applicable)
- Attach IRS forms & statements related to LIFO elections or LIFO accounting method changes to the tax return (if applicable)

Net Inventory Method Outsourcing Engagement Overview (if applicable)

IRS & Financial Reporting Annual Net Method Calculation Requirements

In accordance with IRS Regs. §471-3(b) Rev. Ruling 84-41, manufacturers rebates (aka trade discounts) and advertising expenses must be treated as a reduction in the cost of the automobile in the year of purchase. Accordingly, these items must be annually reduced from the cost of ending inventory.

LIFOPro's Outsourcing Engagement Responsibilities

- Determining the value of trade discounts and advertising expenses included in the cost of the vehicles on hand at year end
- Computing the year over year change in the value of trade discounts and advertising expenses
- Determining the Current-year Specific Identification Cost net of these adjustments which is required to prepare the LIFO calculation
- Preparing net method calculation & supporting documentation in accordance with IRS Regs.
- **Preparation & delivery of LIFOPro report package containing the following:**
 - Comprehensive documentation of the net method calculation
 - Schedule containing all amounts required to record this year's net inventory method journal entry (which will adjust the year end inventory balance to be net of trade discount and advertising expense adjustments)

Client Annual Net Inventory Method Responsibilities

- Prepare & furnish the documents required by LIFOPro to complete the services listed above
- Review LIFOPro report package and confirm all applicable amounts match the client's books and records
- Record the annual net method adjusting journal entries using LIFOPro report package illustrative journal entry schedule provided to client
- Preparing annual financial reports/statements using the net inventory method using LIFOPro report package illustrative journal entry schedule provided to client
- Preparing the tax return using the net inventory method using LIFOPro report package illustrative journal entry schedule provided to client
- Notify LIFOPro of any LIFOPro report discrepancies discovered by the client (if applicable)
- Notify LIFOPro of adjustments made after LIFOPro report delivery that would affect the accuracy of the client's annual net inventory method adjustments (if applicable)

Services Included, Fee Schedule, Document Requirements & Onboarding Procedures

Services Included

- **Recurring annual calculation services**
 - **Alternative LIFO method only (Using client's base vehicle invoice costs)**
 - Excel vehicle data input schedule preparation containing the following fields for all vehicles on hand at year end (if applicable; using vehicle invoice PDF files provided by client):
 - Stock number
 - Invoice date
 - Model code
 - Year, Make & Model
 - Base cost
 - Net method adjustments (if applicable)
 - New item prior year base cost reconstruction using dealer price book database
 - **IPIC method only (Using Bureau of Labor Statistics Consumer/Producer Price Indexes)**
 - BLS CPI/PPI category assignment (if applicable; using client-provided stock status report)
 - Up to three interim LIFO estimates using year to date inflation & prior year product mix
 - **All methods**
 - Net method adjustment for trade discounts, advertising expenses, factory receivables and (if applicable)
 - Current year inflation index calculation preparation
 - Base year & LIFO layer calculation preparation
 - Year end LIFO reserve calculation preparation
 - LIFOPro report package preparation & delivery containing comprehensive calculation documentation (including amounts required to record LIFO adjusting journal entry & prepare financial reports/statements & tax return on a LIFO basis)
 - Consolidated LIFO report showing financial reporting/GAAP (book) & tax LIFO calculation results (if applicable for dealers with different book & tax bases or methods)
 - Consolidated LIFO report showing all entities/locations combined totals (if applicable; for dealers with multiple LIFO calculations amongst separate entities)
 - LIFO expense breakout schedule by dealership/location (if applicable; for dealers who record multiple/separate LIFO journal entries amongst various locations/business units)
 - Book vs. tax LIFO reconciliation schedule containing amounts for Schedule M LIFO entries (if applicable; for dealers with different book & tax LIFO bases or methodologies)
 - Sec. 263A UNICAP costs for Schedule M entry (using client-provided absorption ratio)
 - Any LIFO calculation and/or report revisions requested by client
 - Unlimited training, support & best LIFO practices feedback
 - Up to 40 hours of audit support (including IRS exams and information document requests or IDRs)
 - LIFOPro's Service Organization Control Report (SOC I Type II report)
- **First Year Only**
 - **Auto Dealers Already on LIFO**
 - Prior year vehicle invoice base cost software import (alternative LIFO method only)
 - Historical layers software import
 - Tie out prior year LIFO reserve & layers calculated by client to software totals
 - IRS Form 3115 preparation (if applicable)
 - **Auto Dealers Electing LIFO**
 - Layer history creation
 - IRS Form 970 Application to Use LIFO Inventory Method & statement preparation

Standard LIFOPro report package includes a next year LIFO reserve change schedule (LIFO Projection Report) that includes all amounts required to perform an interim estimate for the next year to be closed without the need to furnish additional documents to LIFOPro.

Outsourcing Fee Schedule - Recurring Annual Calculation Services

- **Using Alternative LIFO Method**
 - Base cost \$300 - \$800 per dealer
 - Unit cost per vehicle \$ 2 - \$ 5 per vehicle
 - Parts LIFO calculation \$200 - \$500 per dealer
 - Interim estimates (optional; per estimate) \$150 - \$300 per dealer
- **Using IPIC Method (using Bureau of Labor Statistics Consumer/Producer Price Indexes)**
 - BLS CPI/PPI category assignment (optional) \$100 - \$1,000/dealer
 - LIFO calculation & report preparation \$300 - \$1,500/dealer
- **IRS Forms preparation**
 - IRS Form 970 Application to Use LIFO Inventory Method & statement \$ 600 - \$ 900
 - IRS Form 3115 Change in Accounting Method & statement \$1,000 - \$2,500
- **Services Delivery and Timing:** Earlier of the following two dates:
 - Client's requested LIFOPro report delivery deadline
 - Within 1 week of receipt of the documentation requested by LIFOPro
- **Terms**
 - Engagement Period: 1 year with optional annual renewal
 - Recurring annual calculation service fee lock period: 3 years

First year and recurring annual calculation service costs will be the same amount unless explicitly listed above

Fee Ranges

- A range of fees are provided for alternative LIFO method base costs, interim estimates & IPIC method calculations as they are dependent on the total inventory balance of the dealership and the total number of dealerships included in the engagement
- LIFOPro guarantees to match the fees quoted by alternative LIFO service providers
- Fixed recurring annual calculation service fee amounts will be provided within a fee quote and/or engagement letter once the required information has been provided to LIFOPro
- Alternative LIFO method unit costs charged on a per vehicle basis are shown as a range to account for the following variations in services to be provided:
 - If the calculation of net inventory method adjustments for items such as trade discounts and advertising expenses will be included in the engagement
 - If the preparation of an Excel vehicle data input sheet of all vehicles on hand at year end to calculate inflation using the client's vehicle purchase invoices will be included in the engagement
- In most cases, fees quoted will be on the low end of the ranges listed above as LIFOPro will use all commercially available efforts to achieve the most efficient calculation procedures. The following documentation and/or document formatting will assist LIFOPro in minimizing the recurring fees:
 - Alternative LIFO method: Client preparing an Excel data input schedule of all vehicles on hand at year end with the fields listed in the document requirements section below
 - IPIC method: Client providing Excel schedule with inventory balances by BLS CPI/PPI category
- Fees quoted will likely be on the middle or higher end of the ranges listed above if material data manipulation efforts are required, such as LIFOPro using client's scanned vehicle purchase invoice PDF files to prepare Excel data input sheet schedule required to complete inflation calculation (material data manipulation efforts typically not required if the reports are non-scanned PDF reports)
- The fee ranges will be on the lower end of the fee ranges for multi-dealership engagements
- Fee reductions will be applied in the following circumstances:
 - If LIFOPro performs separate financial reporting (book) and tax LIFO calculation services. For example, if separate book & tax LIFO calculations are required where each calculation would be quoted on a standalone basis at \$2,500/year per calculation (or \$5,000/year total), it is common for LIFOPro to discount the combined fee to \$4,000/year for both calculations.
 - If LIFOPro performs multiple LIFO calculations for separate entities or locations
 - Where clients with multiple entities/locations are agreeable to receiving a single LIFO report package (as opposed to requiring separate LIFOPro report packages for each entity/location)

Outsourcing Engagement Client Document Requirements

Recurring document requirements

- **Alternative LIFO method**
 - One of the following two forms of documentation:
 - Vehicle purchase invoice PDF files for all vehicles on hand at year end
 - Excel data input sheet containing the following fields for all vehicles on hand at year end:
 - Stock number
 - Invoice date
 - Model code
 - Year, make & model
 - Invoice base vehicle cost
 - Net inventory method adjustments (if applicable)
 - Schedule of in-transit vehicles containing the same fields listed above for the Excel vehicle data input sheet (if applicable)
 - Year end summarized trial balance or balance sheet schedule showing balances for all inventory-related general ledger subaccounts
- **IPIC Method**
 - One of the following two forms of documentation:
 - Summary schedule of year end inventory balances by the following types (for clients performing BLS category assignments):
 - Cars
 - Trucks, SUVs & crossovers
 - Parts (if applicable)
 - Year end stock status report Excel file listing all vehicles on hand at year end containing the following fields (for clients wishing for LIFOPro to perform BLS category assignments):
 - Stock #
 - New/used (if applicable)
 - Make
 - Model
 - Total cost
 - Year end summarized trial balance or balance sheet schedule showing balances for all inventory-related general ledger subledger accounts

First year only

- Companies already on LIFO only: Prior two period's LIFO calculation documentation
- First-time LIFO elections: One of the following two forms of documentation:
 - Vehicle purchase invoice PDF files for all vehicles on hand at prior year end
 - Excel data input sheet containing the following fields for all vehicles on hand at PY end:
 - Stock number
 - Invoice date
 - Model code
 - Year, make & model
 - Invoice base vehicle cost
 - Net inventory method adjustments (if applicable)
- Completed New client questionnaire
- Executed engagement letter

Outsourcing Onboarding Procedures & Engagement Performance

- **Onboarding:** The following steps are included in the onboarding process for first-time clients:
 - Client requests to proceed with an engagement with LIFOPro
 - LIFOPro delivers engagement letter, document request & New client questionnaire
 - Client executes engagement letter, completes New client questionnaire & returns to LIFOPro
- **Engagement commencement & Service performance**
 - **First year**
 - The engagement with LIFOPro will begin upon the client delivering their executed engagement letter & completed New client questionnaire to LIFOPro
 - The performance of our services will commence upon the client delivering the documents required to complete the client's year end LIFO calculation
 - The client's LIFOPro report package will be delivered at the earlier of the client's requested LIFO report delivery date or within one week of receipt of the required documentation
 - LIFOPro will email an invoice 1 – 3 business days following delivery of client's LIFOPro report
 - **Recurring**
 - LIFOPro's engagements have an initial term of one year commencing on the date of the executed engagement letter, and with automatically renew for successive one year terms thereafter on the anniversary thereof
 - Clients may opt out of the engagement by providing LIFOPro with notice prior to the engagement anniversary date
 - In the event of automatic renewal, LIFOPro guarantees for the recurring annual calculation service fee amount to remain fixed for a three year period
 - LIFOPro will issue notice of any fee increases after the conclusion of the third year of the engagement & prior to the commencement of the fourth year of the engagement

Get Started Today or Contact us to Learn More

Request an outsourcing free quote today! Companies already on LIFO will also receive a LIFOPro report package that ties to your most recently calculated LIFO reserve & illustrates the deliverable you'd receive as a Client. LIFOPro will also provide a complimentary interim estimate of next year's projected LIFO reserve change in addition to your fee quote! All that's required is for you to email/upload your LIFO documentation from the most recent two periods closed. The process is quick & easy and LIFOPro will return your fee quote, LIFOPro report package & free interim estimate within 1 week of receipt of the required documents. Get started today by emailing/calling us or by submitting our online request form here: [Auto Dealer Outsourcing Fee Quote](#)

Have questions or want to learn more about our offerings? Contact LIFOPro to schedule a Teams meeting/call! [Schedule Meeting/Call](#)

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