

LIFO Calculation Service Outsourcing Engagement Description

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 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 & price changes from the taxpayer's initial year of the LIFO election. Therefore, the taxpayer must maintain supplemental & detailed LIFO inventory records that support the current value of the inventory & 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 & determining the LIFO reserve. The Service 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 & records for its LIFO inventory & all computations.

LIFOPRO's Outsourcing Service Engagement Responsibilities

Our LIFO calculation service engagement responsibilities include all aspects related to preparing your company's annual year end LIFO calculation, documenting the year end calculation results, updating the calculation documentation for all prior periods & LIFOPRO report package preparation/delivery containing comprehensive LIFO calculation documentation. Your LIFO calculation & supporting documentation have been prepared in accordance with IRS Regs. The report contents include adequate books & records of your LIFO inventory & all computations.

If applicable, LIFOPRO's responsibilities include preparing interim LIFO estimates. If applicable, LIFOPRO's responsibilities include preparing the book vs. tax LIFO Schedule M entry. If applicable, LIFOPRO's responsibilities include preparing the §263A UNICAP cost Schedule M entry amount (using the client-provided absorption ratio).

If applicable, LIFOPRO's responsibilities include preparing IRS forms & statements related to LIFO elections or accounting method changes. If applicable, our responsibilities include preparing supporting documentation related to any pro forma LIFO calculations, reviews or accounting method changes. Our engagements include up to 40 hours of audit support related to the services provided by LIFOPRO.

The LIFOPRO report package contents include an illustrative journal entry schedule that can be used to record this year's LIFO journal entry which will adjust the year end inventory balance to its LIFO value. It also includes all amounts required to prepare annual financial reports/statements & tax returns on a LIFO basis.

Client Responsibilities

It is the Client's responsibility to prepare & furnish the documents required by LIFOPRO to complete our services. It is the client's responsibility to record the annual LIFO adjusting journal entry. It is the client's responsibility to review their LIFOPRO report package and confirm all applicable amounts match the client's books and records. If applicable, it is the client's responsibility to notify LIFOPRO of any LIFOPRO report discrepancies discovered by the client. If applicable, it is the client's responsibility to notify LIFOPRO of adjustments made after LIFOPRO report delivery that would affect the accuracy of the client's LIFO inventory value. If applicable, it is the client's responsibility for preparing annual financial reports/statements on a LIFO basis & preparing the tax return on a LIFO basis. If applicable, it is the client's responsibility to attach IRS forms & statements related to LIFO elections or LIFO accounting method changes to the tax return.

Net Inventory Method Adjustment Outsourcing Engagement Description (For Auto Dealers)

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 Service Engagement Responsibilities

Our net inventory method service engagement responsibilities include determining the value of trade discounts and advertising expenses included in the cost of the vehicles on hand at year end, and computing the year over year change in those values. It also includes determining the Current-year Specific Identification Cost net of these adjustments which is required to prepare the LIFO calculation. Your net method calculation & supporting documentation have been prepared in accordance with IRS Regs.

The LIFOPro report package contents include an illustrative journal entry schedule that can be used 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

It is the client's responsibility to prepare & furnish the documents required by LIFOPro to complete our services. It is the client's responsibility to record the annual net method adjusting journal entries. If applicable, it is the client's responsibility for preparing annual financial reports/statements on using the net inventory method & preparing the tax return using the net inventory method. It is the client's responsibility to review their LIFOPro report package and confirm all applicable amounts match the client's books and records. If applicable, it is the client's responsibility to notify LIFOPro of any LIFOPro report discrepancies discovered by the client. If applicable, it is the client's responsibility to notify LIFOPro of adjustments made after LIFOPro report delivery that would affect the accuracy of the client's annual net inventory method adjustments.

Thank you for choosing us for all your LIFO needs! We appreciate your business and welcome your feedback. Please contact us with any questions, concerns or to further discuss.

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