

## **LIFO Calculation Service Outsourcing Engagement Overview**

### **IRS Annual LIFO Calculation Requirement & LIFO Conformity Rule**

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.

### **IRS LIFO Books & Records Requirement**

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 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 & 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 the 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. The LIFO calculation & supporting documentation have been prepared in accordance with IRS Regs. The report contents include adequate books & records of the LIFO inventory & all supporting computations.

The LIFOPRO report package contents include all amounts required 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 the year end annual financial report/statement & year end tax returns on a LIFO basis.

If applicable, LIFOPRO's responsibilities include interim LIFO estimate preparation & delivery. If applicable, LIFOPRO's responsibilities include preparing the book vs. tax LIFO Schedule M tax return entry amount. 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.

### **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 review their LIFOPRO report package and confirm all applicable amounts match the client's books and records. It is the client's responsibility to record the annual LIFO adjusting journal entry. It is the Client's responsibility to prepare the tax return on a LIFO basis, and if applicable, it is the client's responsibility for preparing annual financial reports/statements on a LIFO basis.

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 to attach IRS forms & statements related to LIFO elections or LIFO accounting method changes to the tax return.