



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 BLS category assignments for the IPIC method)
 - Layer calculations
 - LIFO inventory value, LIFO reserve & LIFO reserve change calculations
 - Prepare documentation (LIFOPRO report package) 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
- Interim LIFO estimate preparation & delivery (if applicable)
- Preparing the book vs. tax LIFO Schedule M value (if applicable)
- Preparing the §263A UNICAP cost Schedule M 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)

Services Included, Fee Schedule, Document Requirements & Onboarding Procedures

Outsourcing Services Included

- **Recurring annual calculation services**
 - **IPIC method only (Using Bureau of Labor Statistics Consumer/Producer Price Indexes)**
 - BLS CPI/PPI category assignment
 - Up to three interim LIFO estimates using year to date inflation & prior year product mix (upon request; no documentation required)
 - **All methods**
 - 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)
 - Sec. 263A UNICAP costs for Schedule M tax return entry (if applicable; using client-provided absorption ratio)
 - Consolidated LIFO report showing financial reporting/GAAP (book) & tax LIFO calculation results (if applicable; for clients with different book & tax bases or methods)
 - Consolidated LIFO report showing all entities/locations combined totals (if applicable; for companies with multiple LIFO calculations amongst separate entities)
 - LIFO expense breakout schedule by entity/location (if applicable; for clients 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 clients with different book & tax LIFO bases or methodologies)
 - 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)
 - LIFOPro's Service Organization Control Report (SOC I Type II report)
- **First Year Only (if applicable)**
 - **Companies Already on LIFO**
 - Historical layers import
 - Tie out prior year LIFO reserve & layers calculated by client to LIFOPro software
 - IRS Form 3115 & statement preparation (if applicable)
 - **First-time LIFO Elections**
 - Base year layer preparation
 - 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

Inventory Balance at Cost	Inflation Calculation	Internal Indexes		External Indexes (IPIC Method Using BLS CPI/PPI)		
		LIFO Calculation & Report Delivery	Combined Totals	BLS Category Assignment	LIFO Calculation & Report Delivery	Combined Totals
Less than \$1M	\$100 - \$200	\$300 - \$800	\$500 - \$1,000	\$100 - \$250	\$250 - \$750	\$500 - \$1,000
\$1M - \$4M	\$150 - \$250	\$600 - \$1,000	\$750 - \$1,250	\$200 - \$500	\$500 - \$1,500	\$750 - \$2,000
\$5M - \$9M	\$200 - \$500	\$800 - \$1,500	\$1,000 - \$2,000	\$500 - \$2,000	\$500 - \$2,000	\$1,000 - \$4,000
\$10M - \$24M	\$250 - \$1,000	\$1,250 - \$4,000	\$1,500 - \$5,000	\$500 - \$5,000	\$1,500 - \$5,000	\$2,000 - \$10,000
\$25M - \$49M	\$500 - \$2,500	\$2,000 - \$5,000	\$2,500 - \$7,500	\$500 - \$7,500	\$2,500 - \$7,500	\$3,000 - \$15,000
\$50M - \$99M	\$750 - \$3,500	\$3,250 - \$6,500	\$4,000 - \$10,000	\$500 - \$12,500	\$4,500 - \$7,500	\$5,000 - \$20,000
\$100M - \$499M	\$1,500 - \$5,000	\$3,500 - \$7,500	\$5,000 - \$12,500	\$1,000 - \$15,000	\$6,500 - \$10,000	\$7,500 - \$25,000
\$500M - \$999M	\$3,000 - \$6,500	\$4,500 - \$8,500	\$7,500 - \$15,000	\$2,500 - \$20,000	\$7,500 - \$10,000	\$10,000 - \$30,000
\$1B or more	\$4,000 - \$10,000	\$6,000 - \$15,000	\$10,000 - \$25,000	\$5,000 - \$30,000	\$10,000 - \$20,000	\$15,000 - \$50,000

- **IRS Forms preparation**

- IRS Form 970 Application to Use LIFO Inventory Method & statement \$ 400 - \$ 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

Fee Ranges

- A range of fees are provided as they are dependent on the total inventory balance of the client, the scope of the engagement and the expected recurring billable hours required to complete the engagement
- LIFOPro guarantees to match the fees quoted by alternative LIFO service providers
- Inflation calculation services (for internal indexes) & BLS category assignment services (for external indexes or IPIC method) are billed as separate line items from LIFO calculation & LIFOPro report delivery. Accordingly, these are optional service items, and clients wishing to minimize outsourcing fees can exclude these services from outsourcing engagement scope.
- 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
- 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:
 - Files in Excel format (as opposed to PDF reports or Word documents)
 - "Flat files" where each item's information resides on a single line/row (as opposed to reports where item information is located on multiple rows; aka text wrapping)
 - Existing inventory classifications or groupings (which often materially reduces the BLS category assignment fees for companies using the IPIC method)
- 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:
 - Converting scanned PDF inventory reports to Excel format (material data manipulation efforts typically not required if the reports are non-scanned PDF reports)
 - Converting inventory reports containing item data on multiple rows into flat file
- 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 Client Document Requirements

Recurring

- Inflation calculation and/or BLS category assignment service requirement
 - Period end item detail report listing all goods on hand at year end & the following applicable fields:
 - Unique identifier (item/part/product number or code; aka SKU/UPC)
 - Item/part/product description/name
 - Year end quantity on hand (or weight)
 - Current period unit or standard cost
 - Inventory classifications or groupings (if available; supplemental schedule or item master listing can be provided to accommodate mapping classes/groups into item detail report)
- LIFO calculation and LIFOPro report delivery requirement
 - Year end summarized trial balance or balance sheet schedule showing balances for all inventory-related general ledger subaccounts

First year only

- Prior two period's LIFO calculation documentation (for companies already on LIFO)
- Prior period's item detail report containing fields listed above (for first-time LIFO elections)
- 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: [Request 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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