



LIFO UPDATE

If you had called me personally to ask "What's happening lately with LIFO that I need to know about?"... Here's what I'd say:

#1. DETERMINATION OF FAIR MARKET VALUE OF INVENTORY IN LUMP SUM PURCHASE SITUATIONS.

In Rev. Proc. 2003-51, the IRS provided updated guidance on how a lump sum purchase price should be allocated to determine the fair market value of the underlying inventory items.

This determination is necessary when the assets of a business are purchased for a lump sum amount. It may also be necessary where a corporation acquires the stock of another corporation and makes an election under Section 338 to allocate the purchase price paid to the underlying assets acquired.

This current IRS guidance emphasizes that there should be a fair division between the buyer and the seller of the profit inherent in the inventories. This should take into account that the quantity of inventory purchased may be greater than the quantity of inventory that is usually or normally purchased.

To some extent, this guidance ties in with the finalization of the regulations under Sections 338 and 1060 in February 2001 which provided rules for basis allocations where assets are transferred in a deemed or actual asset acquisition. It is also instructive for LIFO inventory situations for companies that have made lump sum bargain purchases of goods that are included in opening LIFO inventories ... the classic *Hamilton Industries* (clear reflection of income) scenario. For more on Rev. Proc. 2003-51, see pages 2-4.

#2. LIFO PRACTICE GUIDE CHECKLISTS.

In the midst of an otherwise quiet summer, many firms are evaluating their technical competence in—and hopefully not adverse exposure to—LIFO issues.

To help in this endeavor, three *Practice Guides* are included on pages 5-9. The first identifies ever-present "hot spots" in LIFO inventory situations. The second can help in establishing and documenting appropriate review procedures for LIFO inventories. And the third identifies circumstances that, in the

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past, have embroiled some CPAs in LIFO malpractice issues. We welcome your comments on these *Practice Guides*.

#3. COMPARISON OF IRS & *SUPERLIFO* "UNOFFICIAL" NEW ITEM DETERMINATIONS.

Over the years, we have compared our *SUPERLIFO* new item determinations with those made by the office of the IRS Motor Vehicle Technical Advisor.

Although many CPAs and/or dealers are using service bureaus for their LIFO calculations, other firms still do their own new vehicle LIFO calculations and must be making these new item determinations each year for themselves.

The last comparison, involving determinations for the manufacturer model years 2001-2002 appeared in the June 2002 *LIFO Lookout*. We have made a similar detailed comparison for the model year 2003 new items based on the lists the IRS released in April, 2003. Our overview begins on page 10, and the detailed side-by-side comparisons for autos and light-duty trucks follow on pages 14-27.

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