



## 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. CHANGES IN ACCOUNTING METHOD ...

**STILL THE HOT TOPIC.** This entire issue of the *LIFO Lookout* is devoted to one major topic ... **changes in accounting methods (CAMs)** that are being made to eliminate trade discounts and advertising fees and expenses from inventory costs.

**Although our discussion is in terms of automobile dealers, these CAMs can be beneficially made for a variety of other inventory-intensive clients.**

We have included extensive discussions and illustrations to reflect the many considerations where LIFO inventories are involved with these changes in accounting method. Also, to demonstrate some actual results, we've included two cost effectiveness-benefit analyses on pages 27 and 30. From these, you'll see the size of the benefits that some dealers are garnering from making these changes.

For auto dealers using LIFO, the benefits of making these changes can be significant. The Section 481(a) adjustments required to implement these changes will be **negative** adjustments. The great news is that the entire amount of the adjustment is 100% deductible in the year of change.

Even better is the fact that these deductions (i.e., the reductions of LIFO valuation of opening inventory in the year of change) are permanent deductions. They are locked into, or embedded, in the LIFO layer valuations. As a result, the amount of the Section 481(a) deduction for a LIFO taxpayer will only be paid back or offset in the future under certain circumstances. See *LIFO Bonanza* on page 13.

This more permanent aspect of the Section 481(a) adjustment for LIFO taxpayers needs to be distinguished from the more obvious year-to-year offsetting effect of the year-end differences in the amounts of trade discounts (and/or ad fees) in successive years. These year-to-year differences will

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wash or more directly offset from year to year ... unless inventory levels and program dollars included in vehicle costs generally increase over the years.

**A word of caution to CPAs:** You probably should not attempt on your own to undertake the necessary year-by-year, invoice-by-invoice, manufacturer-by-manufacturer analyses that are necessary to determine the amounts to be eliminated from ending inventory. These determinations really require specialized databases and familiarity with program variations that few CPA firms already have. For more on this, see page 15, *Issues / Perils for CPA Firms Undertaking the "Do-It-Yourself" Approach*.

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