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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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Re: Proposed Accounting Standards Update: Inventory (Topic 330): Simplifying the Measurement of Inventory (File Reference No. 2014-210)

Dear Members of the Board:

Wal-Mart Stores, Inc. (“Walmart” or “we”) appreciates the opportunity to provide comments on the proposed accounting standard update on simplifying the measurement of inventory. While we applaud the Board’s efforts to simplify various accounting standards, we are concerned the proposed accounting standard update to simplify the measurement of inventory, as currently written, has potential unintended consequences, which result in neither improving nor simplifying the existing standard.

Retail Inventory Method

The retail inventory method (“RIM”) approximates inventory cost by using current retail prices to estimate inventory cost. This is accomplished by applying a ratio of cost to selling price (“cost complement”) at a department or other level. For retailers, RIM has many practical advantages over other inventory measurement methodologies and is commonly used. However, in practice, there are various acceptable methods for calculating RIM.

The most common and longstanding practice for applying RIM under U.S. GAAP is to calculate the cost complement before considering permanent markdowns so that the lower of cost or market principle is followed. This method is commonly referred to as the conventional RIM method and results in valuing inventory below net realizable value as it includes the effect of normal profit margins. While it is our understanding through discussions with the FASB staff that the intention of the proposed update is not to impact current RIM practices, we remain concerned that the current language in the proposed update is not adequate to eliminate future interpretations to the contrary. As an example, current interpretations of similar guidance under International Financial Reporting Standards (“IFRS”) do not allow for use of the conventional RIM methodology. Additionally, more closely aligning with IFRS is a stated objective of the proposed standard which creates further ambiguity regarding the proposal.



Last-in, First-out Method

The proposed update also appears to introduce additional complexities for companies that have elected to follow RIM using the LIFO method. These complexities result when the LIFO cost of inventory exceeds the RIM lower of cost or market value. This could result in companies recording LIFO debit reserves, which would be a fundamental change in the historical application of RIM using the LIFO method. Again, it is our understanding that the intent of the proposed update is not to change current acceptable practices for retailers using RIM or RIM LIFO methodologies.

Recommendation

We believe that the proposed standard, as currently written, potentially can be interpreted to change the accounting related to RIM or LIFO RIM practices. Therefore, if misinterpreted, the proposed standard would cease to be a simplification update for the retail industry, resulting in a significant change in accounting for retailers. We believe that our concerns could be resolved by clarifying the language in the proposed update intended to include RIM as an acceptable inventory methodology for both the cost and subsequent measurement guidance of the proposed standard. We recommend that the language of 330-10-35-7 be amended to read as follows:

“If adequate markdowns are taken, the estimated cost of inventory under the retail inventory method accomplishes the objectives described in the Subtopic because, even though inventory could be stated below net realizable value, inventory would not be stated above net realizable value.”

Summary

We appreciate the Board for its efforts to simplify various accounting standards. While we believe the current standard for inventory is neither controversial nor broken, we are not opposed to the simplification as long as there is greater clarity that the proposed update is not intended to change current retail inventory practices.

Thank you for the opportunity to comment on the proposed update. We would be pleased to discuss our comments in more detail with members of the Board or staff.

Sincerely,

s/ Steven P. Whaley

Steven P. Whaley
Senior Vice President and Controller