

27 April 2020

*Via email: [commentletters@ivsc.org](mailto:commentletters@ivsc.org)*

International Valuation Standards Council  
1 King Street  
London, EC2V 8AU  
United Kingdom

Re: IVS 230: Inventory Exposure Draft dated February 28, 2020  
Comments from Globalview Advisors LLC

Dear IVSC Representatives:

The valuation professionals at Globalview Advisors LLC and Globalview Advisors Ltd (“GVA”) appreciate the efforts of the International Valuation Standards Council, its staff and others participating in the development of the exposure draft issued on February 28, 2020 “*IVS 230: Inventory*” (“Inventory Exposure Draft”). This is an important endeavor. We believe the Inventory Exposure Draft and the final standard will advance the quality and depth of understanding of key concepts pertaining to inventory valuation and that divergence in practice in developing valuations and the resulting valuation estimates will be reduced.

### **Consultation Questions**

Globalview Advisors is pleased to provide responses to the consultation questions included in the Inventory Exposure Draft.

1. Please provide any comments or suggested edits to the draft standard for consideration by the Boards.

**GVA** – Our comments and suggested edits follow these responses to IVSC’s consultation questions.

2. Are you aware of additional applicable guidance not cited in this Exposure Draft?

**GVA** – No. We are not aware of any additional relevant guidance on inventory valuation that provides significant additional insights. Tax court cases in the United States have addressed the valuation of inventory in the context of tax reporting for business combinations. The quality of the guidance in these tax court cases varies and none of them provide additional extensive guidance in the topic.

3. Are you aware of additional methods or best practices to value inventory not cited in this Exposure Draft?

**GVA** – No. We believe the Inventory Exposure Draft presents the primary methods for the valuation of inventory for financial reporting purposes pursuant to IFRS 3 and ASC 805.

4. Do you believe that the addition of IVS 230 to IVS will help reduce diversity in practice and enhance practice with regard to the valuation of inventory?

**GVA** – Yes.

5. Do you agree with the classification of the Top-Down Method and Bottom-Up Method under the Income Approach? If not, do you believe they would be more appropriately classified under the Market or Cost Approach, or under a new category such as the Hybrid Approach?

**GVA** – Yes, the Top-Down and Bottom-Up Method are both variations of the Income Approach. Both methods use the exact same data except in different ways. The Top-Down Method first estimates the estimated future selling price and then subtracts remaining expenses to be incurred and profit to be earned. The Bottom-Up Method starts with the costs incurred and adds to these the amount of profit earned based on the costs incurred to date. The profit earned will only be realized upon the future sale of the inventory. Except for raw materials inventory, we believe inventory valuation is primarily based on the value of inventory based on the future proceeds from the sale of the inventory with appropriate adjustments.

6. Do you agree that real property assets should be excluded from the scope of IVS 230?

**GVA** – Yes. Real property assets are significantly different from the types of inventory contemplated by the Inventory Exposure Draft as most accountants, appraisers and users of financial statements view inventory.

## **Introduction, Research and Findings Sections**

Globalview Advisors is pleased to provide comments on Introduction, Research and Findings sections of the IVS 230 Inventory Exposure Draft. We understand that these sections will not be included with the final release of IVS 230. Despite this, we include these comments as they may be of assistance.

1. Under the “Scope” section, there is a reference to the Replacement Cost Method and the Comparative Sales Method. We believe the Top-Down Method (“TDM”) and Bottom-Up Method (“BUM”) more accurately describe the two traditional approaches to valuation of WIP and finished goods inventory. Most appraisers view the Replacement Cost Method as a form of Cost Approach and the Comparative Sales Method as a form of Market Approach. We believe the TDM and BUM represent forms of the Income Approach.
2. Under the “Scope” section, you may wish to further elaborate and describe the term “base cost equivalent”. We believe some readers may find this hard to follow.
3. Under the “Findings” section, the reference to “. . . value added from the non-value-added functions . . .” is hard to follow.

## **Other Comments on Draft Standard**

Globalview Advisors is pleased to provide comments on the Draft Standard: IVS 230 *Inventory*.

1. *Paragraph 20.5 (d)* – Delete extra blank space before word “as”.
2. *Paragraph 50.3 (a)* – Suggest replacing word “comparable” with “guideline”.
3. *Paragraph 60.5 (a)* – Determining estimated selling price typically uses a “mark-up factor” based on the gross profit margin. Suggest expanding language to note use of a mark-up factor.
4. *Paragraph 60.5 (c)* – Suggest replacing the word “deliver”. Some may view deliver as representing shipping costs only. Readers may not correctly consider selling and other costs to incur that aren’t delivery / shipping based.
5. *Paragraph 60.9* – If applied consistently, the Bottom-Up Method and the Top-Down Method will produce identical value indications. May wish to note this in the language.

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6. *Paragraph 60.10 (b)* – May wish to expand language to clarify holding costs and whether these include returns on debt or equity capital invested.
7. *Paragraph 90.3* – May want to rewrite to note that the materials cost may be much higher than the value added associated with the cost to obtain the materials.
8. *Paragraph 90.9* – May wish to add a parenthetical to clarify “symbolic IP” which is not a term that is widely used.
9. *Paragraph 120.1* – The guidance in paragraphs 120.1 and 120.2 is important. May wish to restate that raw materials, work-in-process and finished goods inventory are separate units of account.
10. *Paragraph 120.2* – Might consider changing “vary” to “vary materially”.

Thank you for the opportunity to provide these comments.

Sincerely,  
GLOBALVIEW ADVISORS LIMITED



Sarpel Ustunel, ASA, CFA  
Managing Director