

## **Bringing SEC Comment Letters into the Classroom**

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### **Abstract**

This instructional resource provides a detailed examination of using SEC comment letters in the accounting classroom. An SEC comment letter is the first step in a conversation between the SEC and a public company filer. The SEC asks for more explanation about the company's reporting choices, and the company carefully responds to the SEC after considering the nature of the request. On the whole, correspondence between the SEC and companies can be extremely interesting to read, and very useful for keeping current with financial reporting developments (and gaining expertise). This article describes general methods for using SEC comment letters in the classroom, and provides detailed examples in the form of eight specific case studies. Each case or example relates to a communication between the SEC and a single company. Accounting instructors can benefit by using the eight cases developed in this article, or by using the resources and methods described to create their own evolving set of cases.

### **Background**

Securities and Exchange Commission (SEC) comment letters are communication from the SEC to a company (filer). For any user of financial statements, examining comment letters provides insight into the financial accounting issues that companies face today, including proper application of U.S. GAAP and SEC regulations. The annual Form 10-K provides a clear view of significant accounting policies, transactions, and account balances for a company. But SEC comment letters reveal a more behind-the-scenes view of selected accounting items. With a comment letter, the SEC is requesting an extended explanation or walkthrough regarding one or more specific issues. Because these communications are available on the SEC website, they are easy to peruse. Sometimes, it is true that companies will request confidential treatment of sensitive amounts and estimates in their replies, which will make parts of the correspondence unavailable for viewing. Despite this, the level of granularity available in these SEC discussions is significant. In essence, thousands of financial accounting case studies are available for examination, related to companies in all different industries.

This instructional resource provides specific and useful examples of how to introduce SEC comment letters into the accounting classroom. When studying communication between a company and the SEC, students will appreciate that accounting choices are often difficult. While U.S. GAAP is known to be rules-based, there is always a limit to the amount of detail in the rules. Rules are not exhaustive. Rules must be interpreted and applied to specific facts. The instructor, too, can build upon previous knowledge and stay current. There is fundamentally no concern over these materials becoming dated, because new SEC correspondence is always occurring. With practice, it will become easier for the accounting instructor to develop applications for a specific class.

The comment letter process<sup>1</sup> starts with a required review of a company's filings (for example, the Form 10-K) by the SEC.<sup>2</sup> The SEC then prepares questions or inquiries about disclosures within that filing. For instance, the SEC might ask about wording that is unclear (Cassell, Dreher, & Myers, 2013) (Kubick, Lynch, Mayberry, & Omer, 2016). Or, some aspect of the Form 10-K might not obviously comply with U.S. GAAP (Cassell et al., 2013). Another possibility is that two items within the Form 10-K seem to disagree in some way. Within a short period, the company provides a detailed reply to the SEC, and sometimes the discussion has multiple stages. Common outcomes include the company explaining its disclosure (including the company's application of U.S. GAAP) to the SEC's satisfaction, or the company changing its disclosure to meet the SEC's requests. These changes usually are implemented in future filings, but sometimes earlier filings are revised (Cassell et al., 2013) (Kubick et al., 2016).<sup>3</sup>

To search through comment letters, the best starting point is to use the SEC EDGAR Full-Text search, displayed in Figure 1, and found at the following address:

[https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp](https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp)

After clicking on "Advanced Search Page", within "In Form Type", form type CORRESP should be selected. This form type represents thousands of discussions between the SEC and public issuers. Form type UPLOAD provides the SEC's initial comment letter, but CORRESP includes the company's replies to all comments (questions) posed. Only the last four years of correspondence are available through this search engine. After four years, correspondence can sometimes still be found on the internet, but there is no guarantee. Therefore, if a favorite example is found for use in the classroom, the instructor is advised to save a copy of it for use well into the future.

For further insight on comment letters, beyond the scope of this instructional resource, the larger accounting firms provide updates on recent SEC comment letter trends and developments. The links below are useful for further reading.

<http://www.pwc.com/us/en/cfodirect/publications/sec-comment-letter-trends.html>

<https://www2.deloitte.com/us/en/pages/audit/articles/sec-comment-letters.html>

### **In the Classroom**

There are many ways to utilize a SEC comment letter in the classroom. Both take-home and in-class assignments can be created and used. A general suggestion is to present information to students in a step-wise fashion, withholding some amount of information, and allowing students to fill in the gaps. For instance, the instructor can initially give students:

- 1) the entirety of the SEC request, leading the student to consider potential replies.
- 2) only portions of the SEC request, leaving out some facts for students to separately research.
- 3) the entirety of the SEC request, and a limited portion of the company's reply.
- 4) the full request and reply, allowing the student to analyze, reflect, or provide an opinion.

To demonstrate the use of SEC comment letters in the classroom, this article presents eight cases or examples, pulling from two major accounting areas. Cases 1-5 focus on Accounting Standards Codification (ASC) 330 (inventory), and cases 6-8 focus on ASC 360 (property, plant, equipment, and finite-lived intangibles). This limit of two areas is purposeful, in order to demonstrate focus within a topical area. These two areas are normally presented in the first semester of intermediate accounting. Any of these eight cases could be used as supplements to the first semester material, or could be used later in the curriculum in an advanced or graduate course. Each comment letter included in the cases was written in 2014 or after, and most of the cases include the full SEC request and company

<sup>1</sup> See <https://www.sec.gov/divisions/corpfin/cffilingreview.htm> for more details.

<sup>2</sup> Cassell, Dreher, and Myers (2013) and Kubick, Lynch, Mayberry, and Omer (2016) provide additional overview of the comment letter process.

<sup>3</sup> A quantitative evaluation is provided by Johnston and Petacchi (2017).

reply. Students will read and analyze this correspondence in formulating their answers. Cases similar (or identical) to the examples provided in this article, along with many examples not included in this article, have been developed by the authors and used at a major public university.

As the dialogue between the SEC and the company often references the FASB codification, it is beneficial if students have on-line access to the FASB codification. Another approach is to employ the intermediate accounting textbook, with less of an emphasis on the specific codification references. Alternatively, the instructor can provide the relevant codification excerpts directly to the students. The intermediate textbook itself provides a reasonable background for these cases; however, using both a textbook and the FASB codification is a preferred approach. Students are encouraged to use the textbook and/or the FASB codification as much as needed. At times, referring to the associated Form 10-K is necessary.

It is expected that students have successfully completed or are currently enrolled in intermediate accounting. This level of prerequisite knowledge and ability makes the exercises more meaningful. When studying the full universe of SEC correspondence, it is expected that certain accounting issues will be extremely complex and difficult to understand. The questions for students in these eight examples are sometimes relatively easy, sometimes more challenging, and sometimes require the opinion of the student. After presenting the eight examples, this article provides additional thoughts about classroom application.

### **Part 1: Inventory (ASC 330) (Cases 1-5)**

Cases 1-5 consider accounting for inventories, for five different public companies. The companies sell inventory in a wide variety of industries: electromedical equipment, children's toys, industrial machinery, telephones, and orthopedic appliances. The instructor may wish to have students gain a fuller understanding of the business in which the company operates before answering questions.

Worth noting is that there is one recent accounting standards update (ASU) and one proposed ASU that relate to this topic. ASU 2015-11, Simplifying the Measurement of Inventory (effective 2017), requires that FIFO and weighted average inventories be valued at lower of cost or net realizable value (NRV), not lower of cost or market/replacement cost. Also, the FASB has issued a proposed ASU (Disclosure Framework: Disclosure Review-Inventory) that aims to enhance and update the required disclosures for inventory. Both the newly effective ASU and the proposed ASU interrelate to some degree with the examples shown here.

#### **Case 1: The Spectranetics Corporation (August 11, 2014)**

Reference: Form 10-K for the Year Ended December 31, 2013

##### **SEC Comment:**

*We see this Note discloses you have inventory reserve balances for estimated obsolescence or excess inventory. Please confirm and revise future filings to disclose, if true, that your inventory policies comply with FASB ASC 330-10-35-14.*

##### **Company Response:**

*The Company confirms that its inventory policies comply with FASB ASC 330-10-35-14, and will disclose this fact in future filings, beginning with its Annual Report on Form 10-K for the year ended December 31, 2014. The Company confirms that its inventory reserves for obsolete or excess inventory create a new cost basis for the subsequent accounting of the impaired inventory. Reserves for specific inventory components are not reduced until the Company has sold or disposed of the related inventory.*

*The revised disclosure in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 will read as follows (added language is underlined):*

*“Inventory is recorded at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company calculates inventory reserves for estimated obsolescence or excess inventory based on historical usage and sales, and assumptions about future demand for its products, and these reserves create a new cost basis for the subsequent accounting of the inventory. These estimates for excess and obsolete inventory are reviewed and updated on a quarterly basis. Increases in the inventory reserves result in a corresponding expense, which is recorded to cost of goods sold.”*

### **Case 1: The Spectranetics Corporation**

#### **Requirements:**

**R1) Can inventory valuation reductions (“write-downs”) be subsequently recovered? What does the codification indicate?**

A1) As per ASC 330-10-35-14, when inventory is written down (at an annual reporting date), this is not reversible.

**R2) In your opinion, should a company be permitted to upwardly revise the value of inventory?**

A2) Student opinions may differ. Some students may reply that such a reversal is permitted under IFRS, provided that the reversal does not increase the value above the original cost. So, there is merit to this accounting approach. As a specific example, sometimes a new customer can unexpectedly emerge who has a need for the inventory. As a further point, U.S. GAAP provides for some reversals of inventory write-downs that occur at interim (quarterly) dates (within ASC 270).

**R3) Based on the communication between the SEC and the company, when inventory is written down, is it acceptable to credit a contra-asset called “inventory reserve”, or should the inventory account be lowered directly?**

A3) Based on the discussion between the SEC and the company, the term “inventory reserve” is acceptable for use in financial statements. However, the SEC requests that the company clearly disclose that an “inventory reserve” is not reversible, as the term “reserve” implies an amount that might be withdrawn later, at least in part.

**R4) Does the company apply the “lower of cost or NRV” concept by comparing the cost of a specific inventory item to the net realizable value of that item?**

A4) The company discusses a forecasting methodology which is used to apply the lower of cost or NRV concept. This implies that, in many cases, NRV is not a known amount but instead is an estimated amount. Statistical processes are employed to generate these estimates.

**R5) Did the company make the change, as described, in its financial statements? Examine the company’s financial statements and determine the answer.**

A5) Yes. In the Form 10-K for the Year Ended December 31, 2014, the updated language is included in Note 1.

**Case 2: LeapFrog Enterprises, Inc. (October 12, 2015)**

Reference: Form 10-K for the Fiscal Year Ended March 31, 2015

**SEC Comment:**

*We note that net sales in fiscal year 2015 have significantly decreased when compared to the same period last year. We further note that your inventory balance has increased since March 2014, and inventories included write-downs for slow-moving, excess and obsolete inventories of \$4.2 million at March 31, 2015. In this regard, please tell us why inventory at March 31, 2015 has increased relative to March 31, 2014 and is properly valued in light of the significant decrease in net sales during the fiscal year-ended March 31, 2015. In your response, please also advise us the inventory amounts recorded at net realizable values (“NRV”) for all reporting periods presented.*

**Company Response:**

*The Company respectfully submits to the Staff that it properly applied its inventory valuation policy and methodology in accordance with U.S. GAAP and that its inventory of \$71.9 million as of March 31, 2015 was properly valued and was stated at the lower of cost or NRV. The Company’s inventory at March 31, 2015 increased \$19.6 million as compared to March 31, 2014. The Company built up its inventory during the second quarter of fiscal 2015 to prepare for the holiday season, including the launch of its LeapTV educational video game system. Due to certain development issues, the shipments and promotion of LeapTV occurred later than originally planned. In addition, net sales decreased significantly during the fiscal year, especially during the holiday season, which resulted in a significant increase in inventory at March 31, 2015 as compared to the prior year. As of March 31, 2015, \$45.3 million, or 63%, of the Company’s inventory was comprised of products launched during fiscal 2015, including LeapTV.*

*The allowance for slow-moving, excess and obsolete inventories (“E&O reserve”) at March 31, 2015 increased \$2.3 million as compared to March 31, 2014. As a percent of gross inventories, the E&O reserve increased 2.0 percentage points from 3.5% at March 31, 2014 to 5.5% at March 31, 2015. The following table presents the Company’s gross inventories and E&O reserve as of March 31, 2015 and 2014:*

	March 31,		Change
	2015	2014	2015 vs. 2014
	(Dollars in millions)		
Inventories, gross cost	\$ 76.1	\$ 54.2	\$ 21.9
E&O reserves	(4.2)	(1.9)	(2.3)
Inventories, net	\$ 71.9	\$ 52.3	\$ 19.6
<i>E&amp;O reserves as a percent of inventories, gross cost</i>	5.5%	3.5%	2.0*

\* Percentage point change

*The Company applied its inventory valuation policy and methodology in accordance with U.S. GAAP. Pursuant to this methodology, inventories are initially recorded at cost. On a quarterly basis, the Company reviews its inventories that may be stated above NRV and reviews its estimate of E&O reserves. The Company’s E&O reserve estimate is based on management’s review of on-hand inventories compared to their estimated future usage, product demand forecast (including consideration of retail inventory levels, sales and promotions, among other factors), anticipated product selling prices, the expected product lifecycle, and products planned for discontinuation. As of March 31, 2015, based on management’s review of these factors, including consideration of the declining net sales experienced in fiscal 2015 and management’s estimates of future net sales trends, the Company appropriately increased its E&O reserves by \$2.3 million at March 31, 2015 as compared to March 31, 2014.*

*The following table presents the inventories stated at cost and at NRV for all reporting periods presented:*

	March 31,	
	2015	2014
	(Dollars in millions)	
<b>Inventories stated at cost</b>	\$ 69.5	\$ 52.2
Inventories subject to E&O reserve:		
Inventories subject to 100% write off	3.2	1.8
Inventories subject to partial write down	3.4	0.2
<b>Total inventories subject to E&amp;O reserve, cost</b>	<b>6.6</b>	<b>2.0</b>
E&O reserves	(4.2)	(1.9)
<b>Inventories stated at NRV</b>	<b>2.4</b>	<b>0.1</b>
<b>Total inventories, at lower of cost or NRV</b>	<b>\$ 71.9</b>	<b>\$ 52.3</b>

## Case 2: LeapFrog Enterprises, Inc.

### Requirements:

#### R1) What is the SEC's basic concern?

A1) It is clear that inventory valuation has been addressed by the company, but the SEC is questioning whether the valuation is appropriate in light of declining business performance.

#### R2) The SEC mentions a decline in net sales. In examining the related Form 10-K (March 31, 2015), how large is the decline?

A2) Revenue for the prior year was \$527.6 million (unaudited). Revenue for the year ended March 31, 2015 was \$339.1 million, which is a 36% decline. Meanwhile, the inventory balance at year end increased from \$52.3 to \$71.9 million. This is a 37% increase.

#### R3) What does the company indicate with respect to age of the inventory?

A3) The company feels that because the current inventory on hand consists of high levels of newly developed products, it is too soon to determine whether sales of these products will be strong, average, or weak. 63% of the inventory is from newer product lines.

#### R4) Examine the tables, and the corresponding text. Did both "inventories subject to write-off" and "inventories subject to partial write-down" increase since last year? Does "E&O reserves" seem to be the difference between cost and NRV? For inventories not stated at cost, what is the overall percentage amount of write-downs? For "inventories subject to partial write-down", what is the percentage amount of the write-downs?

A4) "Inventories subject to write-off" increased by \$1.4 million, and "inventories subject to write-down" increased by a greater amount, \$3.2 million.

Yes. The "excess and obsolescence reserve" is equivalent to the difference between cost and NRV for a portion (\$6.6 million) of inventories. For inventories with original cost of \$6.6 million, carrying value has been reduced to \$2.4 million, which is NRV.  $\$2.4 \text{ million} / \$6.6 \text{ million} = 36\%$ . Inventories not stated at cost have been written down by 64% on the whole.

$\$4.2 \text{ million (E\&O reserves) minus } \$3.2 \text{ million (complete write-offs)} = \$1.0 \text{ million of partial write-down amounts. } \$1.0 \text{ million divided by } \$3.4 \text{ million} = 29\%$ . Of the inventories subject to partial write-down (\$3.4 million), the inventories have a partial write-down size averaging 29%.

**R5) Does the company present its case in a thorough manner?**

A5) The company increased its E&O reserves from 3.5% to 5.5% of the original cost of the inventory. “Inventories subject to 100% write-off” grew, as did “inventories subject to partial write-down”. It is a matter of judgment as to whether these increases are substantial enough in light of declining sales and rising total inventories. Internal sales forecasts and comparisons to industry-wide data (such as inventory turnover rates) would be helpful when continuing this examination.

**Case 3: Moog, Inc. (April 15, 2014)**

Reference: Form 10-K for the Fiscal Year Ended September 28, 2013

Form 10-Q for the Fiscal Quarter Ended December 28, 2013

**SEC Comment:**

*We note that the reserves for inventory valuation were reduced by \$15.7 million during fiscal year 2013 for the write-off and sale of obsolete inventory. We further note that the total amount of reserves for inventory valuation is approximately six times this amount with similar and/or greater trends for fiscal years 2012 and 2011. Please provide us with a comprehensive explanation as to why your reserve balance is so much greater than the amounts being written off during the periods. As part of your response, please quantify the amount of inventory as of September 28, 2013, that is comprised of products that either had no sales during fiscal year 2013 or are considered by management to be slow-moving.*

*Further, please expand your disclosure in future filings to identify the specific risk elements that management observed in the inventory portfolio.*

**Company Response:**

*We record valuation reserves to provide for slow-moving or obsolete inventory by using both a formula-based method and a specific identification method. We establish a reserve for these products by applying reserve percentages that are based on the age of inventory, measured from their original receipt. In assessing our reserves, we consider overall inventory levels in relation to firm customer backlog as well as forecasted aftermarket sales.*

*As you noted, our inventory reserve balance is approximately six times the amount of our reductions in the reserves for the inventory valuation during fiscal year 2013. This ratio largely reflects the nature of our aerospace business. Factors driving this relationship include: i) the decades-long aerospace programs on which we participate, ii) the contractually obligated modification or repair cycles, generally on commercial aircraft, for which we are responsible, even though the aircraft is out of production, iii) instances in which we have made purchases above the customer order quantities, generally on electronic parts, in order to protect against component obsolescence, and iv) instances in which it was economically viable to purchase above the customer order quantities, typically in the commercial aftermarket business. Our industrial business also contributes to the high ratio. We service applications that are not regularly upgraded but require continued support. Certain products that are slow moving have long product life cycles, extending beyond the forecasted demand of these products. Therefore, we generally retain reserved inventory for long periods of time. This contributes to high reserve balances relative to the amount of annual inventory write-offs.*

*As of September 28, 2013, approximately \$102 million, or 16% of our gross inventories, has not moved in the last two years and is considered slow-moving by management. Of this amount, we have approximately 64% reserved.*

**Case 3: Moog, Inc.****Requirements:****R1) What is the SEC's basic concern?**

A1) An inventory reserve has been established, and during one fiscal year, one-sixth of the reserve was applied or used. The SEC is concerned about the 6:1 ratio (a high ratio) between the (opening) inventory reserve balance and the reduction of the inventory reserve during one year. Either the company has established an unnecessarily large reserve (contra-asset), or else inventory is very slow-moving. We can speculate as to what a median ratio would be, but using the facts presented here, we know that 6:1 is a higher than normal value.

**R2) What are "valuation and qualifying accounts"? Use the internet to research and define this term.**

A2) "Valuation and qualifying accounts" is a schedule required by Regulation S-X. This schedule is required (for public companies) to support amounts presented in the balance sheet. It provides roll-forward values (beginning balance + additions - subtractions = ending balance). These amounts include, for example, an allowance for uncollectible accounts receivable and an allowance for sales returns.

**R3) As a preliminary task, assume that a company purchased inventory for \$100. Later, the inventory was written down to \$80, using an inventory reserve contra-account. Finally, the inventory was sold for \$81 cash. Make the accounting entry for the final sale of the inventory.**

A3)

Cash		\$81	
Revenue			\$81
COGS		\$80	
Inventory Reserve		\$20	
Inventory			\$100

In other words, the inventory reserve (contra-asset) is reduced with a debit when goods are sold or otherwise disposed of.

**R4) Now, find the valuation and qualifying accounts schedule for Moog, Inc. within the Form 10-K. Transfer the corresponding amounts to the table below. Then explain, in clear terms, what is occurring in the additions and subtractions columns. Ignore any foreign exchange amounts.**

	Sept. 30, 2012	Additions	Subtractions	Sept. 28, 2013
Inventory Reserve	\$	\$	\$	\$

A4)

	Sept. 30, 2012	Additions (write-downs)	Subtractions (dispositions)	Sept. 28, 2013
Inventory Reserve (in millions)	\$96.519	+\$13.848	-\$15.735	=\$94.632

Additions are increases to the inventory reserve based on updated expectations (new write-downs). Subtractions, as described in the previous question, relate to selling or disposing of inventory that has been previously written down.

**R5) How does Moog, Inc. justify a beginning inventory reserve balance that is only reduced by one-sixth within one year's time?**

A5) The company explains that due to the fundamental nature of the business (aerospace) and the nature of contracts and relationships with customers, many inventory items must be held for long time horizons. Their operating cycle is considerably longer than the operating cycle found in many other industries.

**R6) Using the information pertaining to "slow-moving" inventory, how much of a reserve is attached to the inventory that is not slow-moving? How much of a reserve is attached to the inventory as a whole? What are these reserve amounts on a percentage basis?**

A6) \$102 million (16%) of inventory is assessed as "slow-moving". Therefore, 84% of the inventory (about \$535.5 million) is not slow-moving. There must be approximately \$637.5 million of inventory in total.

The \$102 million of slow-moving inventory is 64% reserved; therefore, the reserve amount is about \$65.3 million.

The \$535.5 million of remaining inventory, then, must have a reserve of (\$94.6 million - \$65.3 million) or \$29.3 million. As a percentage, \$29.3 million / \$535.5 million = 5.5%.

So, one portion of the inventory is 64% reserved, and the remaining portion is 5.5% reserved. Unsurprisingly, slow-moving inventory receives a much higher reserve. The total inventory amount of \$635.5 million, given a \$94.6 million total reserve, is 14.9% reserved.

**Case 4: Blackberry Ltd (July 11, 2014)**

Reference: Form 40-F for the Fiscal Year Ended March 1, 2014

SEC Comment:

*We note that your hardware and other cost of sales included \$782 million inventory write-down of your Blackberry Z10 devices and supply commitments and \$1.6 billion inventory write-down of your Blackberry 10 devices. Please tell us why such write-downs were not separately presented on the face of the financial statement pursuant to ASC 330-10-50-2 and ASC 330-10-50-5.*

Company Response (in part, portions omitted):

*For the year ended March 1, 2014 ("Fiscal 2014"), the Company did not present the charges taken against inventory and supply commitments as separate line items on its Consolidated Statements of Operations as it believed that adequate disclosure related to the charges had been provided in the notes (the "Notes") to the consolidated financial statements for Fiscal 2014 (the "Consolidated Financial Statements") and Management's Discussion and Analysis of Financial Condition and Results of Operations for Fiscal 2014 (the "Annual MD&A").*

*However, in response to the Staff's comment, beginning with the second quarter of fiscal 2015 ("Q2 Fiscal 2015"), the Company intends to present current and comparative period charges incurred against inventory and supply commitments, if material, in parentheses next to "cost of sales, hardware and other" on its Consolidated Statements of Operations. An example presentation is below, which is consistent with the Company's presentation of a similar inventory provision on its Consolidated Statement of Operations for the year ended March 3, 2012.*

*Consolidated Statements of Operations*

*Cost of Sales*

*Hardware and other (includes charges against inventory of \$xx million and supply commitments of \$xx million; August 31, 2014 charges against inventory of \$627 million and supply commitments of \$307 million)*

**Case 4: Blackberry, Ltd.****Requirements:****R1) Independent of what U.S. GAAP and the SEC require, what are the various ways that a revaluation of inventory could be presented within financial statements?**

A1) The appropriate debit might be a loss. Or, the debit could be cost of goods sold. Next, the dollar amount might be displayed on the face of the income statement as a separate line item, or it could be contained within a total amount (such as within total COGS). Then, the placement of these amounts in the Notes to the Financial Statements must be determined, as well as the level of detail included.

**R2) What is the specific U.S. GAAP pertaining to this issue, as per the codification?**

A2) ASC 330-10-50-2 (as in effect in 2014): *When substantial and unusual losses result from the application of the rule of lower of cost or market it will frequently be desirable to disclose the amount of the loss in the income statement as a charge separately identified from the consumed inventory costs described as cost of goods sold.*

In ASC 330-10-50-2, the language “it will frequently be desirable” does not provide a uniform treatment for all situations.

**R3) What was the recommended change? Did the company make the recommended change? Evaluate this question by examining the subsequent Form 40-F (this is the required filing for Canadian companies who offer securities to U.S. investors).**

A3) The change requested by the SEC was that footnote disclosure was not sufficient, possibly because of the magnitude of the amounts.

Yes, the company made the changes. This took place as of the next annual reporting date. In the Form 40-F dated Feb. 28, 2015, an “inventory write-down” of \$95 million is presented on the face of the income statement. The specific presentation is not consistent with Blackberry’s reply to the SEC shown here. In the reply to the SEC comment, the proposal is to place the write-down amount within parentheses, and not as an individual line item. There was a subsequent request by the SEC to modify this proposal. Blackberry Ltd. complied with this request by placing the write-down amount on a separate line of the income statement.

**Case 5: Exactech, Inc. (October 25, 2016)**

Reference: Form 10-K for the fiscal year ended December 31, 2015

Form 10-Q for the quarterly period ended March 31, 2016

**SEC Comment:**

*You told us in response to comment 5 that you view the product grouping, for example abc joint system, as the appropriate level to conduct your lower of cost or market analysis and, at the product grouping level, you do not typically identify lower of cost or market issues until such systems become obsolete. Please respond to the following:*

*•Tell us why you did not apply the lower of cost or market method on an individual item-by-item basis. Refer to ASC 330-10-35-8.*

*•Describe to us in further detail the levels at which items are grouped for purposes of your analysis under ASC 330-10-35 and provide detailed examples. To the extent that your analysis is not done at the lowest level of grouping, please explain why. Also explain how you considered the location of the items in your analysis.*

*•Explain why your groupings are reasonable and represent like items and whether the method clearly reflects periodic income. Refer to ASC 330-10-35-1 through 35-11.*

•*Explain to us how you ensure that losses on some items or groupings are not being improperly offset by profits on others.*

Company Response (in part, portions omitted):

*The Company supplementally advises the Staff that:*

*In accordance with ASC 330-10-35-8, the Company does apply the lower of cost or market on an item number basis when that most appropriately reflects periodic income, such as when an individual item sells for lower than its cost. However, in determining “excess” inventories for purposes of applying the lower of cost or market guidance, the product group level is used for implant inventory.*

*Generally, the components of our systems are designed to work together and are sold as a product group. Individual sales include specific sizes and varying components of the system, and certain sizes we consider “standard” and are sold more frequently than non-standard sizes, however, all items within a product group as a whole are required for “utility” of the individual items. Stated differently, we must stock at least one of each size of component for each system, and we are unable to stock only those items that have higher volumes and discontinue lower volume items. Therefore, we determined the product group level, rather than an item-by-item basis, as the appropriate level to assess lower of cost or market.*

*Items are initially grouped for analysis on a product group level as that is the grouping our products are sold in and the life cycle is the same for all items within that product group. The utility of all products in the product groups is dependent on the product group as a whole. For example, the Company’s Optetrak Logic® PS system is a knee system with different components and sizes (see Exhibit C for example of item detail). The components of this system are designed to work together and are sold as a product group. Individual sales will include specific sizes and varying components of the system, and certain sizes are more “standard” and sold more frequently than non-standard sizes, the product group as a whole is the best measure of utility. The analysis is completed on a worldwide basis with no consideration to the location of the items as the items can readily be transferred to the different locations for usage.*

#### **Case 5: Exactech, Inc.**

##### **Requirements:**

**R1) Which grouping approach (item-by-item, or by categories) would a company prefer with respect to short-term profitability? Does ASC 330-10-35 provide guidance on which approach is required? Is it acceptable for Exactech to use a grouped/category approach?**

A1) The guidance in ASC 330-10-35 allows for judgment with respect to groupings. Any type of grouping/aggregation will lead to lower immediate write-downs of inventory, due to gains offsetting losses. Thus, item-by-item is fundamentally the most “conservative” approach and has the potential to lower net income the most.

**R2) Is a “system” or “assembly” automatically a single group for inventory valuation assessments, or do you believe that even in such a case, there could clearly be excess quantities on hand of some specific parts? What does the company conclude about this issue?**

A2) The company concludes that because individual parts are never sold separately, they should not be evaluated for being held in “excess” quantities. Some students may feel that there is a valid counterargument to this accounting policy. These students might mention that if some component parts are rarely used, but the company has growing levels of these parts on hand, a reduction in the inventory valuation for these parts could be appropriate. But no definitive conclusion can be reached without examining detailed inventory records. Regardless, if a part is never

sold separately, there is no way to make a direct cost versus NRV comparison. Only quantity on hand versus future anticipated demand can be compared (that is, an indirect estimation of NRV can be made).

**R3) How is physical location (as mentioned by the SEC) a potential issue with regard to grouping for inventory valuation purposes?**

A3) If it is difficult or prohibitive to transfer inventory physically, there will be a *higher* number of groups for valuation purposes. This would increase the likelihood (and overall degree) of inventory valuation adjustments at a given time. If inventory can be readily transferred between geographical locations, then there will normally be fewer groups, and fewer write-downs.

**Part 2: Fixed Assets (ASC 360) (Cases 6-8)**

Cases 6-8 concentrate on fixed asset accounting, including impairment. The three companies operate in the following industries: real estate, water transportation (ocean vessels/ships), and food products. As background study, students should review the two-step impairment test for long-lived assets in use (including buildings, equipment, and finite-lived intangibles). In the FASB codification, this is found within ASC 360-10-35.

**Case 6: Urban Edge Properties REIT (August 2, 2016)**

Reference: Form 10-K for the fiscal year ended December 31, 2015

**SEC Comment:**

*We note your disclosure on pages 35 and 54 that during 2013 your Montehiedra property experienced financial difficulties, resulting in a substantial decline in operating cash flows and a troubled debt restructuring of the related loan. Please tell us in detail how you evaluated the carrying value of this property for impairment for each of the periods presented.*

**Company Response:**

*Although the Company's property in Montehiedra experienced a decline in net operating cash flows in 2013, the cash flows were sufficient to cover operating expenses and required loan payments to the special servicer. The mall was facing a decline in occupancy and rental revenue that was likely to result in default. Part of the discussion and loan modification negotiation during the troubled debt restructuring process included an analysis of management's plan to convert the mall into an outlet and value-oriented shopping destination while replacing and upgrading the tenant mix. Asset level cash flows were compiled during the loan restructuring process to summarize expected revenue from the tenants targeted for the new outlet concept that would become part of a formal marketing and branding campaign.*

*The property's undiscounted cash flow model started with the net operating income of approximately \$6.7 million and 90.7% occupancy for the year ended December 31, 2013. The proposed outlet conversion assumed re-tenanting of vacant and expiring spaces with target tenants that facilitated the conversion from a mall to an outlet center, including the following lease-up assumptions made at the end of 2013 as part of the projected cash flow analysis:  
2014: The projected lease commencement of nine leases related to tenants targeted specifically as part of the outlet conversion aggregating 28,000 square feet ("sf") with weighted average base rents of \$23.00 per sf.  
2015: The projected lease commencement of seventeen leases related to tenants targeted specifically as part of the outlet conversion aggregating 55,000 sf with weighted average base rents of \$22.00 per sf.  
2016 - thereafter: The cash flow model assumed the gradual lease-up of the outlet center growing to an occupancy level of approximately 96% in year 10 with net operating income growing at an average annual rate of 1-2% from 2016 to 2024. The 10-year undiscounted cash flows (excluding any assumed sale in year 10) were \$81.5 million as of December 31, 2015 and 2014, and \$81.2 million as of December 31, 2013.*

*Montehiedra's actual occupancy rates have since supported the lease-up assumptions as indicated by the positive trend in occupancy as outlined below:*

*06/30/16: 92.8%*

*12/31/15: 92.0%*

*12/31/14: 90.9%*

*12/31/13: 91.0%*

*We evaluated the carrying value of the property for impairment in accordance with the guidance provided in ASC 360 for each of the years ended December 31, 2015, 2014 and 2013. For the information of the Staff, the property was acquired in 1997 and the carrying value reflects more than 16 years of accumulated depreciation (resulting in a carrying value of approximately \$55.0 million, \$52.6 million and \$54.0 million as of December 31, 2015, 2014 and 2013, respectively).*

*We considered the troubled debt restructuring to be an indicator of potential impairment and performed an undiscounted cash flow analysis. The impairment analysis summarized the undiscounted cash flows associated with management's leasing projections and considered the costs and capital improvements necessary to upgrade the mall. The outlet conversion plan was expected to generate growing cash flows based on the favorable location of the mall and the attractive demographic profile of the trade area.*

*As the undiscounted cash flows were far in excess of the carrying value of the property as of December 31, 2015, 2014 and 2013, we concluded the carrying value was recoverable and the property was not impaired for each of the periods then ended.*

### **Case 6: Urban Edge Properties REIT**

#### **Requirements:**

**R1) The Montehiedra property has experienced financial difficulties, and the SEC is inquiring about the potential need for an impairment of the book value of this property. Is the impairment test under ASC 360 (for long-lived assets) an annual test? Why, precisely, was the Montehiedra property tested for impairment?**

A1) The impairment test is not truly annual. It is instead based on indicators or triggers, according to ASC 360-10-35-21. However, companies should evaluate whether indicators are present on a constant basis. If an indicator is present, the quantitative two-step analysis must be performed. For this company's Montehiedra property, not only was there a recent decline in cash flows, but also the company's associated debt was involved in a troubled debt restructuring. Both should be considered indicators of possible impairment.

**R2) Are future capital expenditures included in step 1 of the ASC 360 impairment test? If capital expenditures are included, do they increase or decrease the chance of impairment?**

A2) Yes. The company mentions these expenditures. ASC 360-10-35-33 requires that these expected expenditures be included as a future cash outflow. The expenditures are necessary to maintain the existing service potential of the asset group. Including future cash outflows in step 1 will (mathematically) increase the likelihood of an impairment being needed.

**R3) Use Dec. 31, 2013 as the testing date. If 2013 net income were simply multiplied by 10 to estimate future cash flows, what would the estimated undiscounted cash flows be, and what would the results of step 1 of the impairment test be?**

**In actuality, what was the estimate of future undiscounted cash flows (ignoring disposition of the property after 10 years), and what were the results of step 1 of the impairment test?**

A3) \$54 million book value is less than \$67 million (\$6.7 million x 10 years) undiscounted cash flows, thus there is no impairment.

\$54 million book value is less than \$81 million undiscounted cash flows, thus there is no impairment. There is \$27 million of “surplus” with respect to step 1. If the undiscounted cash flows were less than the book value, then step 2 would be performed. In step 2, the \$54 million book value would be written down to fair value, provided that fair value is less than \$54 million.

**R4) Does the company describe a discount rate used for discounting future expected cash flows?**

A4) The company does not mention an appropriate discount rate. Because the recoverability test (step 1) was met, there was no need to discount the future cash flows as one means of approximating fair value (for step 2). Otherwise, the company would have to describe its process for discounting expected cash flows.

**R5) How does the company provide support for its cash flow estimates?**

A5) The company presents occupancy data and rental rate data for a three year period, providing a clear starting point as to how expected cash flows were calculated over time.

**R6) Would it be appropriate for the company to assume the sale of the property at the end of 10 years, as opposed to assuming no future cash flows beyond 10 years? Does the codification provide guidance for this particular issue?**

A6) Yes. While the company does not show this assumption, it is appropriate. ASC 360-10-55-27 through 360-10-55-29 describe a scenario in which an asset group is used for either 2 or 10 years and then disposed of through sale.

**Case 7: Tidewater, Inc. (August 18, 2015)**

Reference: Form 10-K for Fiscal Year Ended March 31, 2015

SEC Comment (in part, portions omitted):

*In this regard, please tell us how you considered the less favorable average day rates, utilization levels and the significant deterioration in your market capitalization from March 31, 2014 to March 31, 2015, in assessing whether the carrying value of your vessels groups, including your stacked vessels and vessels withdrawn from service, may not be recoverable pursuant to ASC 360-10-35-21. Please be specific in your response. If such factors were not considered by management as impairment indicators, please explain why. As part of your response, please tell us whether the carrying value of any of your vessels exceeded their charter-free market value at March 31, 2015. If so, please expand your impairment of long-lived assets critical accounting policy to disclose the number of vessels whose carrying value exceeds their charter-free market value and the aggregate amount.*

Company Response (in part, portions omitted):

*First, we review our fleet of active vessels (i.e., those vessels not stacked) by asset group, which combines vessels with similar operating and marketing characteristics, and subdivides the asset groups between our older vessels and newer vessels. Our active fleet at March 31, 2015 includes a total of 45 different asset groups. We estimate the future undiscounted cash flows that we expect each asset group will generate over the remaining useful life of each vessel within such group and compare that amount against the carrying values of the asset group to determine if a write-down may be required. For each asset group with estimated undiscounted cash flows that are less than the carrying values of the group, we estimate the fair values of the asset groups, on a vessel-by-vessel basis, with the assistance of third-party appraisers or brokers for the vessels with more significant carrying values, and record an impairment charge, if any, for the excess amount of the aggregate carrying value of the vessels within the asset group over the estimated fair value of such vessels. In estimating the future undiscounted cash flows that we expect an asset group to generate, the primary drivers are anticipated average utilization rates, average dayrates, and average daily operating expenses for each asset group. These estimates are developed by management based on*

*recent actual utilization, dayrates and operating costs as well as our expectations of market conditions during the period of projected future cash flows (i.e., on the basis of expected future charter hire). All of these estimates are subject to significant variability and are sensitive to changes in market conditions.*

*Our estimates changed considerably from fiscal 2014 to fiscal 2015 in response to the rapid and significant decline in oil and gas prices during the last quarter of calendar 2014, and the effect that the downturn had on the demand for our vessels, both of which we recognized would have a significant adverse effect on average dayrates and utilization levels. As an example, in March 2014, West Texas Intermediate (WTI) crude was trading at over \$100 per barrel, but had fallen to under \$50 per barrel by March 2015. Likewise, the average utilization of our worldwide fleet was 80.8% for the quarter ended March 31, 2014, but had fallen to 71.4% for the quarter ended March 31, 2015. Over the same period, dayrates for our deepwater fleet dropped from \$29,730 per day to \$27,942 per day while dayrates for other vessel classes in our fleet dropped more modestly.*

*In fiscal 2015 we conducted a review of our entire active fleet at December 31, 2014. For all but five of our asset groups the estimated undiscounted cash flows associated with each asset group exceeded its carrying value and an impairment write-down was not warranted for any of these asset groups. For the five asset groups that did not satisfy the undiscounted cash flow test, we estimated the charter-free market value of each vessel in the asset group, with the assistance of third-party appraisers or brokers for the vessels with more significant carrying values (generally, all vessels whose net book value exceeds \$1 million), and compared the aggregate fair value of the group with the group's aggregate carrying value. None of these groups required an impairment write-down at December 31, 2014.*

*At March 31, 2015, we reviewed actual operating results for each asset group for the three months ended March 31, 2015, and compared the average utilization rates, average dayrates and operating costs for this period with the assumptions used in our review as of December 31, 2014. For a limited number of asset groups whose operating results deteriorated more than expected we updated our undiscounted cash flow test at March 31, 2015. There were no asset groups that required an impairment write-down as a result of the updated test at March 31, 2015.*

#### **Case 7: Tidewater, Inc.**

##### **Requirements:**

**R1) Impairment testing for long-lived assets is done at the “asset group” level. ASC 360-10-35-23 provides guidance on grouping assets. Tidewater, Inc., provides offshore vessels and support services to assist the operations of energy companies. For the active fleet only, how does Tidewater define an asset group, and how many of these groups are there?**

A1) In applying the guidance on asset grouping, Tidewater, Inc., has determined that there are 45 asset groups. Vessels are grouped based on similar operating and marketing characteristics. It is not clear whether the 45 groups are subdivided into additional groups, or whether there are 45 groups after all subdivisions (newer versus older vessels) have taken place.

**R2) How many groups failed step 1 of the ASC 360 impairment test, and were they found to be impaired?**

A2) Five of these 45 groups failed step 1, but none of the five were ultimately found to be impaired.

**R3) What was the timing of impairment testing with respect to the company's fiscal year? When was the ASC 360 test performed?**

A3) A thorough analysis was performed by the company on December 31, which is nine months into the fiscal year. A subsequent analysis was then done at the end of the fiscal year. This second analysis considered all 45 asset groups, but focused on certain groups that were closest to the cutoff for impairment.

**R4) Is there mention of the variability in ASC 360 testing (from one fiscal year to the next)? What market event is mentioned as having an impact?**

A4) Yes. A given company, or a given industry, can have economic conditions that materially change in one year's time. Tidewater, Inc. uses the term "considerably" to describe the amount of change that took place in a single year. A relatively sudden drop in oil prices occurred in 2014-2015, which lowered both the need for the company's vessels and the rate that could be charged for them.

**Case 8: ConAgra Foods, Inc. (October 9, 2015)**

Reference: Form 10-K for the fiscal year ended May 31, 2015

**SEC Comment:**

*We note that you assessed the recoverability of amortizing intangible assets related to certain reporting units within your Private Brands segment, but that no impairments were recognized as you expect to recover the carrying value. However, you recognized impairment charges of \$43.7 million in your Private Brands segment to write-down indefinite lived intangible assets. Please tell us about the conclusions reached as of May 31, 2015 with regard to the impairment of intangible assets and describe the changes that occurred subsequently that led to the statement in your August 13, 2015 filing on Form 8-K that the assets in your Private Brands segment are impaired. Refer to the guidance regarding the recognition and measurement of an impairment loss per FASB ASC 350-20-35 and 360-10-35, as applicable.*

**Company Response:**

*At May 31, 2015, the various assets of our Private Brands business did not qualify as assets held for sale, and accordingly were tested for impairments under a held and used classification. Our conclusion that the assets of the Private Brands business did not qualify as assets held for sale, as of May 31, 2015, is due to the following facts:*

- 1. The board of directors of the Company is required to approve a transaction of this size. At May 31, 2015, the board of directors of the Company had not approved the active marketing of the business.*
- 2. The Company had not begun actively seeking a buyer of the assets as of May 31, 2015.*
- 3. Management of the Company had not yet determined at what price it might reasonably be able to sell the Private Brands business until August 7, 2015, at which time the Company received preliminary bids from prospective buyers of this business.*
- 4. Management of the Company was not able, as of May 31, 2015, to determine that it was probable that a sale of the Private Brands business would be completed within twelve months. Based on preliminary bids from potential buyers of the Private Brands business, on August 7, 2015, management determined that completion of a sale of the business, at a reasonable price, within twelve months, was probable.*

*Based on these facts, we determined that these assets were held and used at May 31, 2015, and were held for sale at August 7, 2015, in accordance with ASC 360-10-45-9.*

*At May 31, 2015, the amortizing intangible assets, principally customer relationship assets, were assessed for impairment under ASC 360-10-35-17, as assets held and used. The estimated future cash flows expected to be generated from the asset group, over the life of the principal asset, on an undiscounted basis, exceeded the book value of the assets. Accordingly, impairment was not indicated at the time.*

*The fair value of our indefinite-lived assets, principally brands, is measured using a relief from royalty method. In accordance with ASC 350-30-35-19, when there is an indicator of impairment, the value of indefinite-lived assets is written-down to fair value, immediately, rather than being evaluated for recovery under ASC 360-10-35-17. Due to the significant decline in sales and gross margins associated with certain brands within our Private Brands business during fiscal 2015, management determined there was an indicator of impairment. The fair value of these brands were determined to be impaired when we applied the relief from royalty method with the then current forecasts of sales and gross margins for those brands. Accordingly, we recognized impairment charges to write those assets down to estimated fair value.*

**Case 8: ConAgra Foods, Inc.**

**Requirements:**

**R1) Are indefinite-life intangible assets treated the same as finite-life intangibles with respect to impairment issues? What indefinite-life intangible assets are discussed?**

A1) No. Indefinite-life intangible assets (ASC 350) have a one-step impairment test (there is no recoverability test). Finite-life intangible assets (when held in use) are treated similarly to property, plant, and equipment (ASC 360), and have a two-step impairment test. Brand names are discussed; brand names (trademarks) have an indefinite life.

**R2) What specific type of finite-life intangibles are being discussed?**

A2) Customer relationship intangibles. These are expected repeat transactions with existing customers (some of which may have underlying contracts). Finite-life classification is appropriate because it is expected that relationships with specific customers will gradually decay with the passage of time (absent additional costs, such as marketing).

**R3) The communication with the SEC concerns asset classification, namely, whether an asset group is held for sale. Does ASC 360-10-45-9 require that each listed indicator be met for an asset group to be deemed held for sale, or instead is the “majority” of the indicators the basis for determination?**

A3) All indicators must be met for an asset group to be classified as held for sale; otherwise, the group is classified as held in use.

**R4) For ConAgra’s Private Brands segment, in applying ASC 360-10-45-9, which indicator was not initially met, but later met, and what were the specific facts that caused it to be met? Did this change in classification lead to a change in the results of impairment testing?**

A4) The company provides a clear description (as of May 31, 2015) of its evaluation process. At a later time, preliminary bids for purchase were received, which led to the conclusion that it was probable that the assets would be sold within 12 months. This conclusion could not be met otherwise. Additional indicators were also more definitively met on this date (August 7). When the asset group was then classified as held for sale, the two-step impairment test was no longer the appropriate test. The assets were evaluated to be impaired under held for sale guidance.

**R5) Is it likely that held for sale classification could lead to an impairment when held in use classification would not? Assume that, for some asset group, management is undecided on whether to sell or continue to use the assets.**

A5) For assets held and used, there is a recoverability test (step 1). If, for example, an asset group is expected to be in use for eight more years, and expected cash flows (undiscounted) are only slightly larger than book value, no impairment is needed. Yet, fair value (as measured by discounting these expected operational cash flows) is likely lower than book value. If this same asset group were sold for a price that approximated the present value of the future operational cash flows, then a loss would occur. This hypothetical analysis is consistent with the outcome above described for the two dates of May 31, 2015 and August 7, 2015. However, there are other potential explanations. Possibly, the expected cash flows worsened over this short period. For instance, the preliminary bids might have been lower than they were previously estimated to be.

### **Further Suggestions for Classroom Implementation**

The cases presented here were developed over multiple years. The questions are designed to lead students to analyze or think about the specific accounting facts at hand. Instructors are encouraged to search through the EDGAR database and find interesting SEC correspondence, then create their own homework assignments or in-class activities.

Here are some additional suggestions for classroom use:

- Choose a single accounting topic, and have students find one or more comment letters on this topic to present to class. There could be multiple student presentations covering the same accounting topic (involving different companies).
- Identify (and discuss in class) an ongoing accounting issue within one company, which includes a longer stream of correspondence with the SEC.
- Utilize one of the larger accounting firms' summaries of trends in comment letters to keep up-to-date with SEC areas of interest. Have students investigate and present findings.

Relatedly, the following search terms have proven valuable in exploring the EDGAR database. Directly typing FASB codification references is always a good start. For example, the search term "ASC 330-10-35-14" could be used to locate case 1 of this article. But terms such as "inventory write-down", "inventory reserve", and "LCM" or "LOCOM", will also lead to successful search hits for inventory comments. Additional discussion of best practices in searching the EDGAR database is available upon request.

### **Student Assessment Data**

The general methods (and the majority of the examples) presented in this article have been used for multiple semesters. In Spring 2017, assessment data was gathered from three sections (58 students) of masters' degree students in accounting. The assessment results are presented in Figure 2. Each of the four means is significantly greater than 3.0 ( $\alpha = .05$ ).

Students were appreciative of the opportunity to go beyond the intermediate accounting textbook. In this graduate course, multiple avenues for doing so are utilized. But SEC comment letters likely provide the most voluminous set of cases or fact patterns that can be studied.

### **Final Points**

SEC comment letters provide a rich and current perspective of application of U.S. GAAP and SEC regulations by public companies, often involving communication about complex accounting issues. The SEC attempts to ensure proper disclosure in filings, which includes proper application of the rules. This article has described established approaches to bringing SEC correspondence into the accounting classroom.

While inventory accounting and fixed asset accounting are specifically examined here, the strategies discussed can be used with any financial reporting topic. Examples of additional, meaningful topical areas include contingent

liabilities, share-based compensation, the statement of cash flows, revenue recognition, accounting for income taxes, exit (restructuring) costs, business combinations, and others. There are normally at least a handful of comment letters on any given topic at any time, and certain topics will receive high levels of scrutiny by the SEC. With practice, the accounting instructor will be able to use these resources efficiently, opening new avenues for engagement with students.

Figure 1: Screenshot of EDGAR Full-Text Search page

[https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR\\_MainAccess.jsp](https://searchwww.sec.gov/EDGARFSCClient/jsp/EDGAR_MainAccess.jsp)

**Full-Text Search**

This page allows you to search the full text of EDGAR filings from the last four years. The full text of a filing includes all data in the filing as well as all attachments to the filing. To find the information you need and make your search easy and enjoyable, please visit our [FAQ](#) page. We are still developing this feature, and we plan to enhance it based on user feedback. Please email your comments and suggestions for improvement to [textsearch@sec.gov](mailto:textsearch@sec.gov).

Note: Occasionally, some recent filings are not available through the EDGAR Full-Text Search.

**Search For Text:**  [Basic Search Page](#)

**In Form Type:**  **Results Per Page:**

**Sort By:**  **Use Stemming:**

**For**  Company Name:

**Or**  Central Index Key (CIK):

**Or**  Standard Industrial Classification:

**Between These Dates:**

Start Date:

Figure 2: Student Assessment Data

<b>Course:</b>	Graduate Financial Accounting	
<b>Semester:</b>	Spring 2017	
<b>Students:</b>	58 total students (3 sections)	
The SEC Comment Letter homework assignments and in-class activities used during the semester...		
<b>item:</b>	<b>mean response:</b>	
...were relevant and useful.	4.10	
...were challenging.	3.91	
...involved issues that went beyond intermediate accounting coverage.	4.22	
...increased my understanding of U.S. GAAP.	4.13	
Scale: 5 (strongly agree) to 1 (strongly disagree)		

**References**

- Cassell, C., L. Dreher, and L. Myers. 2013. Reviewing the SEC's Review Process: 10-K Comment Letters and the Cost of Remediation. *The Accounting Review* 88 (6): 1875–1908.
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