

Letter of Comment No: 28  
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**John T. Griffo**  
5899 Whitecraigs Ct.  
Dublin, OH 43017  
(614) 764-0139

October 29, 2004

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5166

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Dear Ms. Bielstein:

I appreciate the opportunity to respond to the Proposed Statement of Financial Accounting Standards, Inventory Costs – an amendment of ARB No. 43, Chapter 4. I realize that this response is late but the Exposure Draft seems to be unclear as to the treatment of low production and idle capacity

**Low Production & Idle Capacity**

I believe the text implies that volume variances from low production, regardless of whether normal or abnormal (seasonal or otherwise), should be expensed. While I believe the Board may have intended that volume variances “only” from abnormally low production and abnormal idle capacity be expensed, it is unclear. Perhaps a chart as illustrated below would enlighten us all.

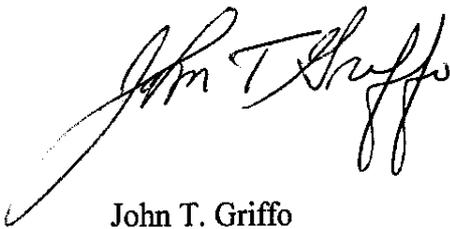
<b>Cause of Volume Variance</b>	<b>Low Production Period Expense (Y or N)</b>	<b>Idle Capacity Period Expense (Y or N)</b>
Planned maintenance	N	N
Planned vacation shut down	N	N
Strikes	Y	Y
Natural disasters	Y	Y
Seasonality	N	N
Supplier delays due to high demand	N	N
Supplier delays for other reasons	Y	Y

I recommend that low production be defined and additional amendments be introduced to respond to the issues I raise.

**Standard Costs**

I realize that this is outside the scope of the Exposure Draft, but this may be a good time to clear up a misconception. There are still many companies that value inventories at standard. Accordingly, inventories are estimated especially at interim dates. I believe that the footnote in ARB 43, Chapter 4 discussing standards be moved into the body of the text and then amended to make it clear that ARB 43 applies in its entirety to interim as well as year end Financial Statements.

Very truly yours,

A handwritten signature in black ink, appearing to read "John T. Griffo". The signature is written in a cursive style with a large, sweeping initial "J".

John T. Griffo