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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
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File Reference No. 1200-100

Dear Ms. Bielstein:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants is pleased to offer its comments on the FASB's December 15, 2003, exposure draft, *Inventory Costs—an amendment of ARB No. 43, Chapter 4*.

AcSEC supports the issuance of the proposed Statement and believes that the proposed wording changes will improve the consistency of the application of ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*. However, AcSEC believes that the proposed amendment to ARB No. 43 will have a more significant effect on practice than noted by the FASB. For example, the proposed amendment would result in the expensing of "volume variances" as they relate to the allocation of fixed overhead costs. In addition, some AcSEC members observed that the proposed amendment may have the effect of requiring all unfavorable volume variances to be charged to expense as incurred rather than included in inventory, whereas all favorable volume variances would be included in inventory.

Under the proposed Statement, certain costs identified, particularly double freight and rehandling, would now be considered period costs. AcSEC believes that these costs may potentially be included as inventory costs and questions whether that was the Board's intent.

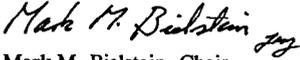
Furthermore, AcSEC questions whether the concept of "normal capacity" is sufficiently clear as it is based on "production expected to be achieved" under "normal circumstances." Some AcSEC members are concerned that, without an independent definition of normal circumstances, normal circumstances may be interpreted as the foreseeable production levels based on current demand, which is arguably the production expected to be achieved. The concern is that if existing demand is well below the plant's operating capacity, that low level of production will reset the "production expected to be achieved" under "normal circumstances" to a very low number causing capitalized overhead to be unreasonably high under the proposed Statement. Although the lower of cost or market rule will limit this effect in some circumstances, under cost-plus contracts, a manufacturer may be able to assert that there is no lower of cost or market issue as the price charged to the customer (which constitutes the market price) includes overhead capitalizable under the contract.

AcSEC also believes that the transition provisions should make clear that "prospectively" means the proposed Statement would apply to costs incurred after the date the proposed Statement is first applied. AcSEC notes that paragraph 5 of International Accounting Standard (IAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, provides a definition of "prospective application" that may be useful guidance.

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We appreciate the opportunity to comment on the exposure draft. Representatives of AcSEC would be pleased to discuss our comments with the Board members or staff.

Sincerely,



Mark M. Bielstein, Chair
Accounting Standards Executive Committee



D.J. Gannon, Chair
Short-Term International Convergence Task Force