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April 13, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
File Reference 1200-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: /3 File Reference: 1200-100 Date Received: 4//3/04

Dear Ms. Bielstein:

BDO Seidman, LLP is pleased to offer comments on the Proposed FASB Statement, *Inventory Costs*.

We recommend that the FASB not issue the Proposed Statement. In our opinion, the Proposed Statement is inferior to existing U.S. standards and is, therefore, contrary to the stated objective of harmonizing with the IASB with standards that are equivalent, or superior, to existing U.S. GAAP. Instead, we recommend that the FASB leave existing standards in place until it can undertake a comprehensive consideration of accounting for inventory costs.

The Notice for Recipients asserts that ARB 43, Chapter 4 has the same intent as the proposed provisions of IAS 2. We do not believe the intents are the same.

Suppose a manufacturer has a factory for which normal production volumes vary from 80,000 to 120,000 per year, with an average of 100,000. Under ARB 43 and existing practice, fixed overheads are allocated to inventory if production falls in the normal range. Only if production falls below the normal range and abnormal excess capacity exists would a portion of fixed overheads be charged directly to expense. By contrast, the Proposed Statement requires a portion of fixed overheads to be charged directly to expense whenever annual production falls below 100,000. We believe the approach in the proposed Statement, which treats normal favorable and unfavorable volume variances differently, is inappropriate. In addition, from a due process perspective, we believe that the significance of the proposed change in accounting was not adequately communicated to constituents.

We also are concerned that the proposed language could be read to support allocation of 100% of fixed overheads in a depressed industry in which excess capacity has become



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normal. For example, if a plant has been operating at 25% of capacity for several years, and the entity expects that situation to continue for the foreseeable future, 25% of capacity might be viewed as "normal." Under ARB 43 and current practice, we believe that utilization so low would be considered abnormal.

We would be pleased to discuss our comments with the Board or staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP