

Accountants and  
Management Consultants  
The US Member Firm of  
Grant Thornton International  
National Office  
175 West Jackson Blvd.  
Chicago, IL 60604-2615

Letter of Comment No: 12  
File Reference: 1200-100  
Date Received: 4/13/04

Grant Thornton 

April 13, 2004

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

File Reference No. 1200-100

We are pleased to respond to the Proposed Statement of Financial Accounting Standards, *Inventory Costs—an amendment of ARB No. 43, Chapter 4*.

Although we support issuance of the proposed Statement and believe it will improve consistency in inventory pricing, we believe the guidance could be improved in a manner that would promote consistent application. We question whether the guidance pertaining to “approximates normal” and “low production” can be applied consistently in practice. Some entities assume fairly substantial variances can be encompassed within the concept of normal. We believe application would be more consistent if known accounting concepts were used, such as the following: the actual level of production may be used if it is not materially different from normal capacity.

We also recommend including in the final Statement the following implementation guidance:

- definitions of the terms *double freight* and *rehandling costs*
- further guidance pertaining to *normal capacity*, such as observing that recent historical experience should not be used to determine normal capacity if the general business environment, industry activity, and/or the geographic region in which the entity operates is affected by a cyclical recession. In contrast, if a structural change has occurred, such as a shift by customers to production overseas, causing contraction of the domestic market, what constitutes normal needs to be reconsidered.

April 13, 2004

Page 2

We appreciate the opportunity to comment on the proposed Statement and would be pleased to discuss our comments with Board members or the FASB staff. Please direct your questions or comments to Joseph Graziano at (732) 516-5560 or Lailani Moody at (212) 542-9823.

Very truly yours,

Grant Thornton LLP