## PRICEWATERHOUSE COOPERS @

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April 7, 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

File Reference No. 1200-100

Letter of Comment No: File Reference: 1200-100 Date Received: 4/7/04

Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, *Inventory Costs – an amendment of ARB No. 43, Chapter 4.* 

We support the issuance of guidance to clarify and converge the provisions of International Accounting Standard IAS 2, *Inventories*, and portions of ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*, Chapter 4, *Inventory Pricing*, relating to inventory costs.

We also support the goal of achieving convergence with International Financial Reporting Standards. Adoption of the IAS 2 language ensures that items such as idle facility expense, excessive spoilage, double freight and rehandling costs are consistently classified as current period charges. However, we believe that the new text implies that volume variances for production overheads in periods of low production should be expensed. This is contrary to the historical cost principle. We believe the new text should support the historical cost principle and reinforce the rule that when a standard costing convention is used, only abnormal variances, such as those due to idle facility and excessive spoilage, should be recorded as period costs. All other variances from standards should be capitalized into inventory.

The prospective application transition guidance should be clarified. It is unclear whether the provisions should be applied to all inventory produced after the proposed statement's effective date or to the first balance sheet date subsequent to the effective date. We believe that application should be required for the first inventory produced after the effective date.

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We appreciate the opportunity to express our views on the proposal. If you have any questions regarding our comments, please contact Marvin A. Thomas (973-236-4989) or Michael Gallagher (973-236-4328).

Sincerely,
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PricewaterhouseCoopers LLP