

Letter of Comment No:

File Reference: 1200-100

Date Received: 4/5

April 5, 2004

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

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Dear Ms. Bielstein:

The Accounting Principles Committee of the Illinois CPA Society (Committee) appreciates the opportunity to provide our perspective on the Exposure Draft of a Proposed Statement of Financial Accounting Standards, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. The organization and operating procedures of the Committee are reflected in the attached Appendix A to this letter. These recommendations and comments represent the position of the Illinois CPA Society rather than any members of the Committee or of the organizations with which the members are associated.

While we recognize the primary reason for this statement is to improve the quality of financial reporting by converging the language of FASB and IASB standards, the proposed wording changes may produce unintended results. Under current GAAP, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs are considered product costs and capitalized as part of inventory under full absorption costing. Under the proposed language, however, double freight, rehandling, and excessive spoilage costs require treatment as a current period charge rather than as a part of inventory cost. This is a marked departure from current GAAP, which would expense these items as a current period charge only if considered abnormal. In eliminating the wording inconsistency, U.S. GAAP is changed in this respect and there is no discussion in the background information and basis for conclusion as to why the change is preferable. In addition, the exposure draft deletes reference to idle facility expense that appears in ARB 43, Chapter 4 paragraph 5 which may create confusion over the future treatment of such costs, whether abnormal or not. Additional language should be inserted to clarify the treatment of idle facility expense.

The Illinois CPA Society appreciates the opportunity to express our opinion on this matter. We would be pleased to discuss our comments in greater detail if requested.

Sincerely.

Laurence A. Sophian, Chair Accounting Principles Committee

ILLINOIS CPA SOCIETY ACCOUNTING PRINCIPLES COMMITTEE ORGANIZATION AND OPERATING PROCEDURES 2003 - 2004

The Accounting Principles Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from industry, education, government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of accounting standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint,

Current members of the Committee and their business affiliations are as follows:

Public Accounting Firms:

Large (National Firms):

Jacquelyn K. Daylor, CPA James L. Fuehrmeyer, Jr., CPA

Brian L. Heckler, CPA

Alvin W. Herbert, Jr., CPA Steven C. Johnson, CPA

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Medium (more than 40 employees):

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Laurence A. Sophian, CPA Small (less than 40 employees)

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Illinois CPA Society