

## EITF ABSTRACTS

Issue No. 86-46

**Title:** Uniform Capitalization Rules for Inventory under the Tax Reform Act of 1986

**Date Discussed:** December 4, 1986

**References:** FASB Interpretation No. 1, *Accounting Changes Related to the Cost of Inventory*  
AICPA Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*  
APB Opinion No. 1, *New Depreciation Guidelines and Rules*  
APB Opinion No. 20, *Accounting Changes*

### ISSUE

The Tax Reform Act of 1986 established new rules for the capitalization of costs in inventories for tax purposes. The rules apply to the manufacture of inventories as well as to the purchase of goods for resale (for example, inventories of wholesalers and retailers). The rules require the capitalization of direct costs and a portion of indirect costs that benefit the inventory produced or acquired for resale. Most of those costs previously have been charged to expense for both financial reporting and tax purposes.

The issues are whether the types of costs that are required to be allocated to inventories for tax purposes would be capitalizable under generally accepted accounting principles and, if so, whether the new costing method is a preferable method for purposes of justifying a change in accounting principle.

### EITF DISCUSSION

The Task Force reached a consensus that the fact that a cost is capitalizable for tax purposes does not, in itself, indicate that it is preferable, or even appropriate, to capitalize that cost for financial reporting purposes. Task Force members indicated that certain of the additional costs that would be

required to be capitalized for tax purposes may also be capitalizable for financial reporting purposes, depending on factors such as the nature of the enterprise's operation and industry practice. That determination, however, can only be made after an analysis of the individual facts and circumstances.

## **STATUS**

No further EITF discussion is planned.