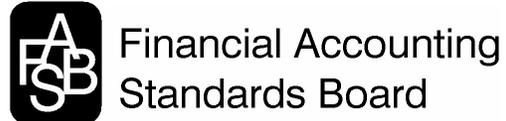


MINUTES



**To:** Board Members

**From:** Short-Term Convergence—Phase 1  
Varian (ext. 353)

**Subject:** Minutes of the November 3, 2004 Board Meeting      **Date:** November 9, 2004

**cc:** Bielstein, Smith, Leisenring, Swift, Polley, Gabriele, Intranet (email),  
Project Team (J. Johnson, McKenna, Varian, Vincent), McGeachin  
(IASB via e-mail)

*The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement or Interpretation.*

Topic: Inventory Costs and Nonmonetary Asset Exchanges

Basis for Discussion: Memorandum dated October 28, 2004

Length of Discussion: 10:30 a.m. to 10:50 a.m.

Attendance:

Board members present: Herz, Batavick, Crooch, Schieneman,  
Schipper, Seidman, and Trott

Board members absent: None

Staff in charge of topic: McKenna

Other staff at Board table: J. Johnson, Varian

Outside participants: Leisenring

Summary of Decisions Reached:

The Board discussed issues related to the proposed Statements on inventory costs and exchanges of nonmonetary assets. The Board made the following decisions:

1. The Board decided that the final Statement on inventory costs will be effective for costs incurred in fiscal years beginning after June 15, 2005. The Board also decided to permit earlier application of the Statement for inventory costs incurred in fiscal years beginning after the date the final Statement is issued.
2. The Board decided that the final Statement on exchanges of nonmonetary assets will be effective for nonmonetary asset exchange transactions occurring in fiscal periods beginning after June 15, 2005. The Board also decided to permit earlier application for nonmonetary asset exchange transactions occurring in fiscal periods beginning after the date the final Statement is issued.
3. The Board discussed a specific change proposed by an external reviewer to the proposed Statement on inventory costs and decided not to make the change.

Objective of Meeting:

There were two objectives of the Board meeting; first, to discuss issues related to the effective dates of the proposed Statements on inventory costs and exchanges of nonmonetary assets, and second, to discuss any possible revisions to the proposed Statement on inventory costs based on comments received through the external review process.

Matters Discussed and Decisions Reached:

1. Ms. McKenna stated that during redeliberations, the Board decided that the provisions of the final Statement on inventory costs would be effective for inventory costs incurred during fiscal years beginning after December 15, 2004. She stated that similarly, the Board decided that the provisions of the final Statement on exchanges of nonmonetary assets would be applied to transactions that occur in fiscal years beginning after December 15, 2004. She recommended that due to the quantity of Exposure Drafts and final Statements expected to be issued at the end of this year and during the first quarter of 2005 and that the final Statement on equity-based compensation is to be effective for public companies on June 15, 2005, the Board change the effective date of the final Statement on inventory costs to apply to inventory costs incurred during fiscal years beginning after March 15, 2005. She also recommended that the effective date of the final Statement on exchanges of nonmonetary assets be changed to apply to transactions that occur in fiscal years beginning after March 15, 2005.
2. Mr. Trott stated that a lot of the new Statements that are being issued at year end and in the first quarter of 2005 are not effective at year end; therefore, he did not agree that it was necessary to change the proposed effective dates. Further, the Statement on inventory costs is not expected to change practice significantly and therefore, for most companies, it should be easy to implement. He stated that delaying the effective dates of these two Statements would give entities 12 to 13 months to understand the provisions

of these Statements. Ms. McKenna clarified that another reason the staff is recommending the delay of effective dates is because the Statement on inventory costs will not be issued until November, and the Statement on exchanges of nonmonetary assets will not be issued until December. An effective date of December 15, 2004, would not give constituents much time between issuance date and effective date.

3. Ms. Seidman stated that she supports the staff recommendation. She stated that constituents are concerned about the quantity of new Statements and Exposure Drafts being issued. Ms. Seidman stated that constituents will also be dealing with the requirements of the Sarbanes-Oxley Act. She stated that constituents requested that certain accounting standards that are not as urgent as others be delayed, and she believes that inventory costs and nonmonetary asset exchanges fall under this category. She also stated that at the User Advisory Council meeting held in October, the user community specifically indicated that the effective dates of these two documents could be delayed without significant effect.
4. Mr. Batavick inquired about the size of the population of entities with March 31 year ends. He stated that he did not believe that the population was significant and therefore suggested that the effective for both Statements be moved to June 15, 2005.
5. Mr. Crooch stated that he understood why the effective date for the Statement on inventory costs would need to be extended because companies may have to change their systems even if the Statement is not expected to substantially change practice. However, he did not understand why the effective date for the final Statement on exchanges of nonmonetary assets would need to be extended because he did not believe that systems modifications were going to be necessary. Mr. Schieneman agreed. Ms. Seidman stated that she did not believe the need for additional time between issuance and the effective date of the final Statement on exchanges of nonmonetary assets was due to systems issues, but rather because this Statement may not have been closely

followed by constituents, there may be a need for extra time for education when the final Statement is issued.

6. Mr. Johnson stated that the Board has already deliberated many of these issues related to the effective dates of these particular Statements and decided on December 15, 2004 as an effective date. He clarified that the question for the Board today was given everything else that is going on (for example, issuance of other Statements, Exposure Drafts, and implementation of the Sarbanes – Oxley Act), should the Board reconsider the effective dates to provide constituents with additional time to absorb the provisions of these Statements?
7. Mr. Herz asked whether any Board members objected to the provisions of the final Statement on exchanges of nonmonetary assets being effective for nonmonetary asset exchange transactions occurring in fiscal years beginning after June 15, 2005. No Board members objected.
8. Mr. Herz asked whether any Board members objected to the provisions of the final Statement on inventory costs being effective for inventory costs incurred in fiscal years beginning after June 15, 2005. No Board members objected.
9. Ms. McKenna recommended that earlier application be permitted for inventory costs incurred during fiscal periods beginning after the final Statement on inventory costs is issued. All Board members agreed. Mr. Trott also recommended that earlier application also be permitted for nonmonetary asset exchange transactions that occur in fiscal periods beginning after the date the final Statement on exchanges of nonmonetary assets is issued. All Board members agreed.
10. Ms. McKenna stated that the external review was completed for the Statement on inventory costs by various comment letter respondents. She stated that a couple of respondents requested that the final Statement specify the point within the range of normal capacity that should be used to calculate inventory costs. She stated that the draft Statement provides flexibility so the

amount expensed will vary depending on whether a reporting entity uses a best point estimate of production or actual production to calculate ending inventory and cost of goods sold. She stated that these respondents also requested that the final Statement explicitly state that if production is below the range of normal capacity, the low end of normal capacity should be used to calculate cost of goods sold and ending inventory. Ms. McKenna recommended that the final Statement be finalized as drafted. She stated that if the Statement were to mandate using either actual or standard to calculate ending inventory or cost of goods sold, the Statement would inevitably change practice for some entities. She also stated that the manner in which the standard is currently drafted is consistent with IAS 2, *Inventories*. All Board members agreed to finalizing the Statement as drafted.

11. Ms. McKenna announced that the external review process for the proposed Statement on exchanges of nonmonetary assets is expected to be completed this week, and the staff will issue a preballot draft of the proposed Statement to Board members for their review shortly.

Follow-up Items:

None.

General Announcements:

None.