



**Financial Accounting Standards Board**  
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**For Immediate Release**

**FASB Issues Accounting Standard That Converges with the IASB's  
Accounting Standard on Inventory**

**Norwalk, CT, November 24, 2004**—The Financial Accounting Standards Board (FASB) has issued FASB Statement No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. The amendments made by Statement 151 will improve financial reporting by clarifying that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and by requiring the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities.

Statement 151 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of high-quality accounting standards. The FASB and the IASB noted that ARB 43, Chapter 4 and IAS 2, *Inventories*, are both based on the principle that the primary basis of accounting for inventory is cost. Both of those accounting standards also require that abnormal amounts of idle freight, handling costs, and wasted materials be recognized as period costs; however, the Boards noted that differences in the wording of the two standards could lead to inconsistent application of those similar requirements. The FASB concluded that clarifying the existing requirements in ARB 43 by adopting language similar to that used in IAS 2 is consistent with its goals of improving financial reporting in the United States and promoting convergence of accounting standards internationally.

The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The provisions of Statement 151 should be applied prospectively.

The Statement may be accessed from the FASB's website at [www.fasb.org](http://www.fasb.org).

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### **About the Financial Accounting Standards Board**

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information. For more information about the FASB, visit our website at [www.fasb.org](http://www.fasb.org).

### **The Financial Accounting Standards Board**

*Serving the investing public through transparent information resulting from high quality financial reporting standards, developed in an independent, private-sector, open due process.*

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