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From: Brad Dewey [mailto:BDewey@bbrcpa.com]

Sent: Friday, August 05, 2005 2:29 PM

To: Director - FASB
Cc: sboothe@aicpa.org

Subject: File 1300-001 (GAAP Hierarchy Proposal)

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Paragraph A10 of the Appendix to the Exposure Draft appears to conclude that financial statements will not be considered GAAP, unless the hierarchy of pronouncements is followed for all items of significance, even though the resulting financial statements become unfair or misleading in the circumstances. If I were a member of a jury, I would have a hard time buying into the idea that the issuance of misleading or unfair financial statements is a generally accepted accounting principal. To the contrary, in my opinion, the obligation to issue financial statements that are neither unfair nor misleading is the most fundamental and overriding accounting principal extant. The ability to use Rule 203 must be preserved. Here's an example, based on a real situation, of where Rule 203 could be applied:

An agricultural cooperative spends a lot of money in a single year developing new packaging for its products, the first such expenditure in more than 10 years. The total cost is deemed very significant. In that same year, near the end of the year, the cooperative's membership increased by approximately 30%, as the result of expansion into a new geographic area. Only two of the new members did any business with the cooperative that year.

None of the new packaging was actually used that year, as there was old packaging still to be consumed. Nevertheless, FAS 2 would require these development costs to be expensed that same year (the year in which incurred). This would be unfair to the pre-existing members and provide an unfair advantage to the new members. Any excess of revenues over expenses of the cooperative is distributed to its members as a patronage dividend in proportion to the amount of business each has done with the cooperative during the year. Thus, even though the cost of the new packaging represents a future benefit to the cooperative and all its members, only the old members (and to a small extent, two of the new members) would bear the cost. The new members would benefit from the new packaging, but would bear none of its cost. Clearly an unfair result, and a perfect opportunity to employ Rule 203.

SIDE COMMENT — Whoever was involved in saying in the Proposal's Summary that "This proposed Statement would not result in a change in practice." should be severely criticized. Most practitioners do not have a lot of unbillable time available for studying closely and reading the "fine print" of exposure drafts of pronouncements represented to have no effect on what they do. The proposed treatment of Rule 203 should have been mentioned in the title of the Proposal, as well as in the Summary. I would consider the loss of the ability to use Rule 203 a fundamental change in practice, even though that Rule may actually be employed only rarely. I credit *Accounting Today* with alerting me to this land mine. I suggest you publicize the existence of this "sleeper," and extend the time for comments accordingly.

SECOND COMMENT — It seems ridiculous to have one set of hierarchy rules for government entities and another for nongovernmental entities. It certainly doesn't simplify the supervision of members of the audit staff. Can't you delay issuance until you resolve your differences, and then issue a pronouncement that applies to both? (You will note that the proposed amendment to SAS 69, restricting its application to governmental entities only, retains the use of Rule 203.)

CC: Accounting Today

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