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FASB
Technical Director

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RE: File reference no. 1300-001

I agree that the FASB should identify the sources and relative authority of generally accepted accounting principles (GAAP) rather than the AICPA. However, I believe that the Board, in this exposure draft, has ignored one of the most significant concepts presented in SAS 69. The Board equates fair with compliance with rules. The AICPA equates GAAP with fair presentation.

AU 411.04 states as its culminating description of fair presentation:

"...the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practical to attain in the financial statements."

This statement embodies the notion that we need to consider the "quality of the entity's accounting principle," not simply conformity with promulgated rules. (See AU 380.11).

For example, many items included in the financial statements are based upon estimates. We have bad debt and depreciation for valuing receivables and fixed assets, respectively. We have the use of estimated discount rates for determining the present value for a host of purposes: the present value of minimum lease payments for categorizing leases, the present value of debt instruments that are not marketable. We use modeling techniques for valuing stock options. And the list goes on. It is possible for an entity, through slight changes in estimate, to manipulate results and still be within the GAAP "rules."

In addition, I believe, contrary to paragraphs A9 and A10 of Appendix A of the exposure draft, that the FASB should allow for departures from the GAAP hierarchy. Granted the potential exceptions are rare. But when they do exist because fair presentation demands them, entities should not bear the stigma of having financial statements labeled as "not fair by GAAP."

Sincerely,
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