## McGladrey & Pullen

**Certified Public Accountants** 

Letter of Comment No: 22
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June 27, 2005

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards, The Hierarchy of Generally Accepted Accounting Principles (File Reference No. 1300-01)

Dear Mr. Smith:

McGladrey & Pullen, LLP is pleased to submit written comments on the Exposure Draft for a Proposed Statement of Financial Accounting Standards, *The Hierarchy of Generally Accepted Accounting Principles*, dated April 28, 2005.

McGladrey & Pullen agrees with the proposed standard's objective of moving the GAAP hierarchy to the accounting literature. However we do have the following comments for your consideration.

The scope of this proposed standard includes nongovernmental enterprises. In Statement on Auditing Standards No. 69, *The Meaning of "Present Fairly in Conformity With General Accepted Accounting Principles,"* it is clear that a nongovernmental entity is considered to be an entity that is not a federal, state or local governmental entity. However, in this proposed statement, the distinction of nongovernmental GAAP hierarchy from the governmental GAAP hierarchy, is no longer present, and the term "nongovernmental" does not stand on its own. Therefore we believe this term should be clearly defined in this standard.

We do not understand the necessity of footnote 3 which states "An enterprise shall not follow the accounting treatment specified in the accounting principles for similar transactions or events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or event or indicate that the accounting treatment should not be applied by analogy." We do not believe there is confusion between paragraph 5 and existing accounting principles that prohibit analogous treatment.

Although outside the scope of this proposed standard, we do believe, however, that any time an accounting principle states that it should not be applied by analogy the reason for such distinction should be provided for in the accounting principle to facilitate understanding for such decision.

Paragraph A7 states that the Board's due process is the essential characteristic of category (a) accounting principles. It then further explains what is meant by due process. Because of its importance, we recommend that the Board's due process be formally described in paragraph 3 of the standard rather than in the appendix.

Paragraph A7 also acknowledges that certain Emerging Issues Task Force consensuses have been issued after being subjected to the Board's due process; however, the Board decided not to move such consensuses to category (a). We recommend that this decision be put in a footnote to paragraph 3.c.

We appreciate the opportunity to express our views on the proposed standard. If you have questions concerning these comments, please contact Jay Hanson (952.921.7785) or Jolene Hart (952.921.7735).

Sincerely,

McGladrey & Pullen, LLP

McGladry of Pullen, LLP