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TO: Financial Accounting Standards Board
FROM: Stephen Johannessen
DATE: December 8, 2002
SUBJECT: Comments regarding the proposal to adopt a principle-based approach to the U.S. standard setting.

I am sophomore accounting major at Providence College. As a requirement, my intermediate accounting class has been asked to prepare a memo concerning the proposed adoption of principle-based accounting standards. I have mixed feelings, as many other people have expressed, regarding this proposal. I believe that the specific rules that regulate the accounting world today do a disservice to the investor. However, a strictly principal based approach forces accountants to make too many judgment calls. One of the objectives of financial reporting is to provide information that is "comprehensible to those who have a reasonable understanding of business and economic activities". It seems to me that this objective is not being followed. Because it is not being followed, I am in support of the Board's proposal for a change. As the accounting world becomes more and more complex, so do the rules that govern it. These complex rules make it difficult for an average investor to read and compare financial statements. Hopefully a more principally based system would make accounting information easier to comprehend for the investor.

However in the present state of the accounting industry, I feel uneasy giving accountants the ability to make more judgment calls. In the wake of the recent accounting scandals we have seen that many accountants are more interested in their own personal gain than showing the true profitability of a company. This greedy nature makes it hard for me to believe that giving accountants the opportunity to make more professional judgments can be beneficial. Principal-based accounting will do just that and therefore could be extremely detrimental to the accounting industry. For this reason, I am not sure that principal-based accounting standards are the answer to the industries woes.

A principal-based approach to the U.S. accounting setting will carry mixed results. I feel that the transparency of financial accounting and reporting will improve. It would make financial information more comprehensible to investors and other users. This would also allow investors and other users to make more educated financial decisions. However, I feel the quality of financial accounting and reporting may suffer. Some in the accounting

profession have shown the inability to make ethical accounting decisions. Consequently, putting those people in a position to make conclusions using their own judgment may not be prudent.