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From: Jian Zhang [mailto:jzhang6@horizon.csuhayward.edu]
Sent: Friday, March 19, 2004 4:48 PM
To: Director - FASB
Cc: dsatin@csuhayward.edu
Subject: File Reference 1200-400

To Whom It May Concern:

My name is Jian Zhang and I am an MBA student with concentration in accounting in California State University, Hayward. In our Accounting and Auditing Theory class, our professor introduced to us the exposure draft of "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3". After having studied this exposure draft, I found it is a very good try to align international accounting standards with GAAP in the United States and will improve the comparability in cross-boarder financial reporting as well. Therefore, I am in favor of this draft.

In recent years, the increased globalization and integration of economic activity makes a single set of high quality accounting standards more and more necessary and crucial. In particular, this globalization includes securities markets, with many corporations listed on stock exchange in two or more countries. Without internationally accepted accounting standards, multinational corporations have to prepare several sets of annual reports in compliance with the different regulations of those countries. Except the increase in the companies' work burden, this also reduces the comparability of the financial statements of different countries. Fortunately, we are glad to see that the FASB has begun to work closely with IASB, the international accounting standard setting body. This exposure draft is an good example of such cooperation.

The new exposure draft includes two major changes of APB Opinion 20. First, it changes the reporting method of changes accounting principles. APB Opinion 20 requires that most changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to a new accounting principle. Prior periods are not adjusted, but the companies need to disclose the pro-forma effect of retroactive adjustments. The proposed statement converges with IAS 8, which requires retrospective application of all comparative financial statements when reporting most accounting changes. IAS 8 proposed that when accounting for a change in accounting principle, prior periods should be restated and a cumulative adjustment is reported in the beginning retained earnings balance of the earliest period presented.

Under current rules, the effect of changes of accounting principles is reported below the bottom line on the income statement, and is often ignored by the investors and analysts. Hence, managers can choose their favorable accounting policies to make the reported earnings move in their desired ways. According to the proposed statement, prior period numbers are adjusted so that the investors can easily see through managers' tricks. Therefore, this change will not only improve the comparability of financial statements of different periods, but close a door of earnings management.

Second, the proposed statement reclassifies a change in depreciation, amortization, or depletion method as a change in accounting estimate instead of a change in accounting

principle. When making such a change, prior period are not adjusted and the new basis are used from the current year. This would better reflect better reflects the fact as an entity should adopt changes in its depreciation method only in recognition of changes in estimated future benefits of an asset, in the pattern of consumption of those benefits, or in the information available to the entity about those benefits. But my concern here is if it will open another door to earnings management.

In all, I think this exposure draft is a step towards the unified global accounting standards. It will improve the quality of financial reporting and provide more useful information to the users of financial statements. I appreciate your hard work and look forward more progress you make down the road.

Sincerely,
Jian Zhang