

Letter of Comment No: 54  
File Reference: 1125-001  
Date Received: 12/11/02

**From:** Mike Hayes [mailto:mhayes05@postoffice.providence.edu]

**Sent:** Wednesday, December 11, 2002 12:16 AM

**To:** director@fasb.org

**Cc:** mruggier@providence.edu

**Subject:** File Reference 1125-001

To: Financial Accounting Standards Board

From: Michael Hayes

Date: December 10, 2002

Subject: Comments on proposal to adopt a principles-based approach to the U.S standard

I am a sophomore at Providence College, majoring in accounting. As an assignment for my intermediate accounting class, I have been asked to prepare a memo regarding the proposed adoption of principle based accounting standards. The proposed principle based accounting standards would require accountants/auditors to use their own judgment (which hasn't been sharp) to determine whether transactions are recorded properly. Financial statements would become less reliable and less comparable, if specific rules were replaced with broader principles that required an accountants' interpretation. I firmly believe that implementing the new principle-based approach would cause more confusion amongst investors, and lower ethical standards amongst the accounting industry.

It is argued that principle-based accounting standards would be cut and dry, however, implementing them would require that there be a few rules attached, that accountants could interpret in their "unique" manner. An example of this is the principle which states: all entities that control another entity must consolidate the assets, liabilities, and equity of the other entity. According to the tax code this principle did not apply to a

certain company because of their size, and location (latitude and longitude). Principle based standards are not clear as people think, and exceptions to these principles do exist.

A principle- based system will decrease the reliability and comparability of financial statements. Rule-based standards provide detailed instructions as to how one should record a certain transaction, but principle-based standards need to be interpreted through the accountants/auditors own judgment. As a result of all the accounting scandals that have occurred, (Enron, Tyco, etc) the last thing we need is to let accountants and auditors use their own judgment. Another effect of accountants using their judgment in recording transactions is that different statements for companies within similar industries may be incomparable. If 2 accountants interpret a principle differently, their information may be unreliable, and/or it may cause difficulty in comparing in comparing financial statements.

Adopting a principle-based approach to accounting would not improve the accounting standards. The principles are ambiguous, and require professionals to use their judgment in making decisions. Because these principles would require interpretation, statements would not be comparable, and information may be un-reliable. I appreciate your interest in my comments, and invite you to write back if you would like more input on the subject