

Stacey Sutay

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-----Original Message-----
From: chen bi [mailto:ellenbchen@yahoo.com]
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To: Director - FASB
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Subject: File Reference 1200-400

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File Reference No. 1200-400
Financial Accounting Standards Board
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March 18, 2004

To Whom It May Concern:

My name is Bi Chen and I am a MBA student concentrate in accounting of California State University, Hayward. This quarter I am taking a course titled Seminar in Accounting and Auditing Theory. Recently I am studying your exposure draft of "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3." I am in favor of the draft and believe it will improve the quality of financial reporting, achieve more comparability in cross-border financial reporting, and make accounting better.

FASB and IASB are the two most important accounting standard setters in the world. Under different standards, the same accounting event will be treated differently. This makes the financial statements of different countries less comparable and makes the investors frustrated in current global economy. This draft is a very good start to converge the two set of accounting standards into a single set of high-quality one. It achieves more comparability in cross-border financial reporting in the area of reporting of accounting changes and it is good for all the investors of the global security market.

The accounting profession has identified three main categories of accounting changes: change in accounting estimate, change in accounting principle, and change in reporting entity. 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. Under IAS 8, the recommended approach for accounting for a change in accounting principle is that results from prior periods should be restated; a cumulative adjustment is reported in the beginning retained earnings balance of the earliest period presented. This proposed statement requires retrospective application of all comparative financial statements when reporting most accounting changes. It is clear that this draft converge the IAS 8 and would improve comparability of financial information between periods as well.

This change will also reduce some ways of earnings management. Under APB Opinion 20, most change in accounting principle would be reported as a one-time number as cumulative effect of change in accounting principle. Management might make some reserve at the

same time to increase net income in the future periods. But under the proposed statement, retrospective application would be used to record change in accounting principle. Then there will be less space for management to take bath.

Another big change in this draft is that a change in depreciation method be accounted for as a change in accounting estimate and not as a change in accounting principle. It also is consistent with IAS 8 and 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. I think classifying change in depreciation method into the category of change in accounting estimate makes more sense.

I think this exposure draft is very good at improving the high quality of financial reporting as well as converging two set of GAAPs, and will benefit all the investors, creditors, and financial statement users. I am very appreciated for your hard working.

Best regards,
Bi Chen

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