Stacey Sutay

Director - FASB

From: Sent:

Monday, March 22, 2004 7:12 AM

To:

Stacey Sutay

Subject:

FW: my opinion about the exposure draft- accounting changes and error corrections.

Letter of Comment No: 22

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Date Received:

Importance: High

----Original Message----

From: lianna [mailto:lianna.wu@comcast.net] Sent: Saturday, March 20, 2004 8:11 PM

To: Director - FASB

Cc: dsatin@csuhayward.edu

Subject: my opinion about the exposure draft- accounting changes and error corrections.

Importance: High

March 19, 2004

Dear Officer:

This is Lihua Wu, and I am a graduate student majoring in Accounting in CSUH. My instructor in Accounting Theory class asked me to read this Exposure Draft about Accounting Changes and Error Corrections and wrote a letter to you. I went through this exposure draft several times and the following is my opinions about it.

From my point of view, this exposure draft is a really great one to improve the quality and efficiency of financial statement, especially for investors; while it would bring more responsibilities and costs to companies. It makes some changes for the opinion 20, in which it required that most of changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle.

First of all, in this proposed statement, it divides those changes into five separate categories: correction in error, change in estimate, change in accounting principle, change in the reporting entity and change in accounting principle in interim period. In each part, it provides detailed provision how to report and disclose this kind of change. It is one of the great points I appreciate this proposed statement comparing with opinion 20. Opinion 20 is too vaque to treat different cases in the same way. That kind of financial report provides less information to financial report users.

Second, this proposed statement requires retrospective applications for the changes which could force companies to provide as much information as they could. It is much beneficial to investors who need more information to help them make decisions.

Last but not least, this proposed statement requires companies to disclose the nature, justification and the reasons for the changes in accounting principles, which could give financial statement users more sense why companies change the accounting principles and how these changes work.

But I do think there is still some spaces which management can use to manipulate the financial statements, such as impracticable and preferable.

For the term "impracticable", when the cumulative effects of changes in accounting principles on certain entity are impracticably to be determined, it requires the new accounting principle to be applied as if it were made prospectively from the earliest date practicable. We should say, in most cases, retrospective application requires significant estimates as of prior periods, and it is hard to objectively determine whether those information used to develop those estimate would have been available at the time the affected transactions or events would have been recognized in the F/S or whether information arose subsequently. Then cumulative effects on the changes in accounting principles are quite difficult to be determined. In these cases, management can choose the best time to retrospect the financial statements of prior periods based on their own interest instead of the earliest date practicable.

For the term "preferable", a reporting entity shall not make a change in accounting principle unless it can justify the use of an alternative acceptable accounting principle on the basis that the alternative principle is preferable. Here, I do think preferable is a tricky word. It is always easy for management to find certain excuses to support this preferable and help them change the accounting principles which could benefit in reporting financial statements. So, preferable gives a chance to management to manipulate the financial statements.

However, there are many tighter requirements and provisions about reporting the changes in accounting principles. These provisions maybe impossible to totally eliminate the manipulation in financial report, but it could reduce the change and increase the difficulty to manipulate. That is why I still believe this proposed statement is a great one which is beneficial for investors but much costly for companies.

Sincerely

Lihua Wu Graduate Student majoring in Accounting California State University, Hayward