August 5, 2014

File Reference No. 2014-220

Dear fellow Americans and FASB,

It is a great honor to have an opportunity to engage in the discussion of the removal of extraordinary and unusual items from the income statement and its replacement. The purpose of extraordinary items is to identify activities not in the normal and routine operations of a business, i.e. activities that are infrequent in occurrence and unusual in nature. Through FASB’s Simplification Initiative, the proposal’s intent is to reduce the cost and complexity of standards while maintaining or improving the usefulness of information provided to users. As an aspiring philosopher of accounting, I provide my thoughts and opinions as follows.

Question 1: Should the concept of extraordinary items be eliminated from GAAP?

In consideration of the proposed replacement for extraordinary items, extraordinary items should NOT be eliminated from GAAP. I agree that an event matching the criterion of unusual and infrequent, combined, is rare in operations in the United States and some industries. The criterion causes complications for some stakeholders as they would be required to have a higher-level understanding and to conduct critical analyses of the frequency of past events along with the usual business nature of the reporting entity. Whether these complications should have weight on justifying its elimination from GAAP is a separate issue.

But if we include unusual or infrequent, we should also include unusual and infrequent. With a line item for unusual operations and a line item for infrequent operations, unless immaterial and aggregated, how should we classify items that are unusual and infrequent? It could go in either unusual or infrequent! In light of this analysis, the concept of extraordinary items should not be replaced by the proposed changes of separate line items of unusual or infrequent items. The following is an illustration:
Alternatively, unusual and infrequent items could be aggregated in its entirety as one line item. But, the quality of information would be sacrificed in its simplification by creating uncertainty of what would be an unusual recurring event and what would be an unusual infrequent event.

Perhaps this project should be moved from the FASB Simplification Initiative to an improvement in financial reporting standards yielding benefits in the short-term by separating unusual, infrequent, and extraordinary items from continuing operations.

**Question 2:** Should the proposed Update be applied prospectively to extraordinary items occurring after the date of adoption?

Under FASB Authoritative Literature, the proposed Update should be applied retrospectively in consistency with a change in accounting principle. But it’s not like prospective application will roll over graves. Perhaps accounting needs to be more flexible for the sake of practicability. This is a tough ethical dilemma. In my opinion, the update should have retrospective application per change in accounting principle. If extraordinary items are as rare as some stakeholders claim to be, its impact should be minor for the US GAAP reporting community as a whole. This is where a stakeholder-wide survey would come in handy.

**Questions 3:** Should the proposed Update be effective in annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoptions permitted? Should there be a delay in the effective date for entities other than public business entities?

Early adoptions should not be permitted. As this is a change in accounting principle, it would be better to remain conservative for comparability, regardless of how improbable worst-case scenarios may seem.

Sincerely,

/s/Alan J. Pan/s/
Lecturer of Accounting
Prince Sultan University

*This letter expresses solely the author’s opinion and in no way represents his institution as a whole.*