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TO: The Financial Accounting Standards Board
FROM: Allison A. Thomas (Providence College)
SUBJECT: Principal-Based Approach
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I am a student at Providence College and as an assignment for my accounting course I was asked to reflect on my opinion on the principle-based proposal in accounting standards. I strongly feel that the principle-based approach should be used in the accounting industry. After studying this topic and other similar topics through out the semester in my accounting class, it is my opinion that the principle-based approach should be enforced for the good of the accounting industry. It is obvious within the many recent scandals that have been occurring, that the current approach is not working. I think it is time for a change and a move to a different direction. I think a more "ethical" approach will prove to be for the better of the accounting industry, as well for the users of financial statements. I think that by using a principal based approach relevance will be projected more successfully, by allowing professional expertise over written rules.

I think that by using a principle-based approach it will allow accountants to rely more on their professional judgment rather than rules. The problem with rules is that there are too many techniques of getting around them without actually breaking them. As a result I feel that this has allowed accountants to focus more on economical techniques as opposed to achieving accounting objectives. Accountants' top priority should be working toward making the financial statements as transparent as possible, while keeping the key qualitative characteristics in mind. The rules have often allowed accountants to hide behind them not using their better judgment, and blaming it on the way the rules are written. The rule-based approach has steered many away from the primary qualitative characteristics of financial reporting which include relevance and reliability. I feel that what is always within the limits of the rules, is not always necessarily ethical. Remaining ethical is key in financial reporting so that creditors, investors, and potential investors are

not misled as a result. With the current state of the economy and the lack of investor confidence within the market, I feel it is time for a change to a more ethical approach. Changing to a principle-based approach in my opinion will improve the transparency of the financial statements and be for the better of the user of financial statements.