Letter of Comment No: 4
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Stacey Sutay

Subject: FW: File Reference 1200-400

-----Original Message-----
From: zheng gao [mailto:z_gao@yahoo.com]
Sent: Friday, March 19, 2004 2:39 AM
To: Director - FASB
Cc: dsatin@csuhayward.edu
Subject: File Reference 1200-400

Dear FASB Directors,

My name is Zheng Gao; I am a MBA student with accounting option at California State University at Hayward. Please see attached file regarding my comments on the Exposure Draft of Accounting Changes and Error Corrections; the file reference is 1200-400.

Sincerely,

Zheng Gao

Zheng Gao
College of Business & Economics
California State University, Hayward
25800 Carlos Bee Blvd
Hayward, CA 94542

March 14, 2004

Director of Major Projects and Technical Activities
File Reference No. 1200-400
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Directors,

I am a MBA student in California State University of Hayward; current I am taking the Seminar in Accounting and Auditing Theory class. Recently I am reading the exposure draft of Accounting Changes and Error Corrections regarding a replacement of APB Opinion No. 20 and FASB Statement NO. 3. I am in favor of this draft and thought it is very necessary for the global business and the global securities market; the changes in this proposed statement would improve the quality of financial reporting and achieve more comparability in cross-border financial reporting through a single set of high-quality accounting standards.

I studied APB opinion 20 in my financial accounting class two years ago; in that class I learned the accounting profession has identified three different types of accounting changes: change in accounting estimate, change in accounting principle, and change in reporting entity. The correction of an error in previously issued financial statements is not an accounting change. In the United States, there was a significant amount of diversity in the way that companies accounted for the effects of a change in accounting. Just because of the diversity of practice and the resulting difficulty in understanding the financial statements, the Accounting Principle Board (APB) issued Opinion 20. The APB opinion 20 requires that most changes in accounting principle are recognized as cumulative effect and no restated financial statements; there are the differences between the U.S. approach to accounting changes and error corrections with the international approach found in IAS 8. Under IAS 8, the recommended approach for both an accounting change and an error correction 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. In order to achieve more comparability in cross-border financial reporting, the FASB and the International Accounting Standards Board (IASB) made a commitment to converge the accounting standards through a long-term convergence plan.

This proposed Statement would require retrospective application for change in accounting principle, unless it is impracticable to determine either the cumulative effect or the period specific effects of the change. It would improve comparability of financial information between periods presented by requiring retrospective application of all comparative financial statements when reporting most accounting changes. This change would also reduce some possibility of the earnings management. Under APB Opinion 20, the changes in accounting principle is reported as a number as cumulative effect. Management might make some reserve at the bad time to increase net income in the future periods. But under the proposed statement, the retrospective application will be used to record changes in accounting principle. Then it will be more difficult and less space for management to manage earnings.

Another big change in this proposed Statement would require that a change in depreciation method be accounted for as a change in accounting estimate and not as change in accounting principle. This change would better reflect the fact that an entity should adopt changes in this depreciation, amortization or depletion method only in recognition of changes in estimated future benefits of an asset. I thought reclassifying the change in depreciation method makes more sense in the real life. This proposed Statement would carry forward the guidance contained in Opinion 20 for reporting a change in accounting estimate, a change in the reporting entity and the correction of an error in previously issued financial statements. In addition, this proposed Statement would increase convergence with the proposed international financial reporting standards in accordance with the Board's goal of promoting the international convergence of accounting standard concurrent with improving the quality of financial reporting.

I totally agree with FASB that although the costs involved in retrospective application related to accounting changes, the benefits of more comparable information for comparative financial statements will outweigh any effort that would be required on the part of preparers. Further, this statement will reduce the number of reconciling items between U.S. GAAP and IFRS. I also believe the proposed standard will fill the significant need by investors, creditors and users of financial information; they all will be benefit from improvements in financial reporting, thereby facilitating the functioning of markets for capital and credit and the efficient allocation of resources in the economy.

I am appreciate you will spend some time on my letter and thank you for your hard working!

Sincerely,

Zheng Gao