

Letter of Comment No: 29
File Reference: 1200-400
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To: Director of Major Projects and Technical Activities
Financial Accounting Standards Board <mailto:director@fasb.org>

From: Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants

Date: March 25, 2004

Re: File Reference 1200-400
Proposed Statement of Financial Accounting Standards, Accounting Changes and Error Corrections

The Accounting Principles and Auditing Standards Committee of the California Society of Certified Public Accountants (the Committee) has discussed the above referenced exposure draft (ED) and is providing to provide our comments.

The Committee is the senior technical committee of our state society. The Committee is comprised of 45 members, of whom 9% are from national CPA firms, 58% are from local or regional firms, 22 percent are sole practitioners, 7% are in industry and 4% are in academia.

While our Committee was in substantial agreement with most aspects of the ED, we believe that certain changes would provide a better understanding by practitioners, and that the cost of following one its provisions outweighs its cost of application. We are providing the following comments with regards to those areas of the ED which we found to be potentially problematic.

- We recommend that the statement include additional guidance similar to that included in Accounting Principles Board Opinion No. 20 as follows:
 - A discussion of the effects of materiality on the application of the standards similar to that provided in APB 20, paragraph 38.
 - Guidance for presenting historical summaries of financial information similar to that provided in APB 20, paragraph 39.
 - The inclusion of examples similar to those provided in the Appendices to APB 20.
- The Committee is unclear of the meaning of “change in accounting estimate effected by a change in accounting principle” as defined at paragraph 2.e. and discussed in paragraph 17. Our conclusion was that this type of change would be limited to methods of depreciation, amortization and depletion. If this is the case, the statement should make this clear. If there are other changes which might be included within this category, the statement should provide further examples.
- The provisions contained in paragraph 9 require a retrospective application of a change in inventory valuation from FIFO to LIFO as of the earliest date practicable.
 - The Committee believes that the burden that this requirement imposes would often be outweighed by the cost of its application. The guidance provided by footnote 1 suggests that it should be considered practicable to make retrospective application whenever the necessary records are available, regardless of the cost.

- Furthermore, the requirement will result in varying application because that which might be considered practicable by some would be considered impracticable by others.
- Finally, we believe the application of the adoption of LIFO should be prospective because a base year is required in any case, and the year of adoption is as good a base year as any other.

We thank you for the opportunity to comment on the exposure draft. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

David P. Tuttle, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants