

Letter of Comment No: 57
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From: KENNETH STONE [KSTONE@cmsu1.cmsu.edu]
ent: Tuesday, April 13, 2004 12:27 PM
o: Director - FASB
Subject: Comments: File1200-400, Accounting Changes and ErrorCorrections

Dear FASB Members,

I generally agree with this ED (Accounting Changes and Error Corrections, File 1200-400); however, I disagree with treating a change in depreciation, amortization, or depletion method as a change in estimate for the following reasons.

1. The depreciation method selected by management is basically an arbitrary cost allocation procedure. In many cases the selection is based on the financial reporting objective that management wants to achieve in the financial statements.
2. A change in depreciation, amortization, or depletion method can be accounted for separately from a change in estimated life or estimated salvage value. The new principle can be applied to the old estimates in prior years, and the new principle can be applied to the new estimates in current and future years.
3. To some degree other changes in principle also effect changes in estimates. For example a change in inventory cost flow assumption (say from FIFO to weighted average) effects a change in the estimation of inventory valuation and cost of goods sold. If you are going to make the exception for depreciation, depletion, and amortization, why not make the exception for all changes in principle because they all have some effect on a change in estimate?
4. Accounting standards need to be consistent and free from arbitrary exceptions. Arbitrary exceptions weaken the quality of accounting standards and leave them subject to criticism.

In my opinion, in order to be consistent with other changes in principle as recommended in the ED, a change in depreciation, amortization, or depletion method should be accounted for retrospectively.

An alternative, consistent approach would be to account for all changes in principle and estimate in current and future years; however, I would not recommend this approach because of the problem of comparability with statements of prior periods.

Sincerely,

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