

Letter of Comment No: 24
File Reference: 1200-400
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Dear director,

My name is Lifang Shen, a student in an accounting theory class at California State University, Hayward. I would like to give some of my thoughts for the exposure document with a file reference 1200-400.

Instead of recognizing most changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to a new accounting principle, the proposed statement requires retrospective application for changes in accounting principle. And when it is impracticable to determine the period-specific effects or cumulative effect of an accounting change, statement would require the new accounting principle to be applied from the earliest date practicable. I think this requirement of "earliest date practicable" sounds very flexible and it will be easier for firms to apply as compared with a fixed time frame. However I think this also opens up possibility for firms to apply new accounting principles from the date that will be more favorable to firms but not necessarily the "earliest date practicable". That is, firms are able to "decide" their earliest date practicable using all kinds of excuses. Using the same example of ABC Company's changing from FIFO to LIFO method, depending on the industry and economic environment, ABC may find that delaying the retrospective application to year 2002 will make its income appear more smooth and its financial position stronger or simply will reduce the costs of retrospective application. The firm may claim that records for the previous years are not complete although it could apply one year earlier. As I just mentioned, cost associated with the retrospective application can raise some problem, as my understanding is that the longer the history of a firm, the higher cost will occur when the firm want to apply a new accounting principle since the firm will spend longer time to do retrospective application for those years (providing they have all information available).

I think it makes sense to regard a change in depreciation method as a change in accounting estimate affected by a change in accounting principle rather than a change in accounting principle itself. The requirement of the change being accounted for prospectively will make disclosure of this change more informative to users. Users will find that financial information is more consistent so that comparisons among different accounting periods are easily made.

With the fast globalization of the firms, it is needless to repeat the importance of achieving more comparability in cross-border financial reporting. So I think this proposed statement will make accounting better. I agree with the board that the provisions of the statement would increase convergence with international financial reporting standards. It is expected that this statement will reduce the number of reconciling items and consequently the costs of a firm which is required to file a reconciliation. I believe the benefits will outweigh the costs. And I think this proposed statement will mainly benefit users for more disclosed information without additional costs to them, while existing and potential investors will bear the costs.

Sincerely yours,

Lifang Shen