

Letter of Comment No: 21
File Reference: 1200-400
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-----Original Message-----

From: arudselvi velnambi [mailto:arudselvi@yahoo.com]
Sent: Friday, March 19, 2004 8:11 PM
To: Director - FASB
Cc: dsatin@csuhayward.edu
Subject: File Reference 1200-400 (Accounting Changes and Error Corrections)

MP&T Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards, *Accounting Changes and Error Corrections, an Replacement of APB opinion No.20 and FASB Statements No. 3*

File Reference 1200-400

Dear Sir or Madam:

I am graduate student at California State University Hayward and I welcome the opportunity to comment on the Proposed Statement of Financial Accounting Standards noted above.

I have studied the Exposure Draft and prepared the attached comments.

Thanking you.

Sincerely,

Arudselvi Velnambi

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Attachment:

Re: Proposed Statement of Financial Accounting Standards, Accounting Changes and Error Corrections, an Replacement of APB opinionNo.20 and FASB Statements No. 3

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I think the change is good because under the provisions of APB Opinion 20, changes in the estimates reflect only the current and future periods. APB Opinion No.20 requires the most changes in accounting principle to be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. The advantage of the new proposed standard is that it requires retrospective application for other changes. In addition, the proposed standard enhances the comparability in the financial statements between different periods due to the same accounting policies used consistently from period to period. The consistency of financial statements helps prevent misconceptions that may arise from the application of different accounting policies in different periods. When a change in accounting policy is deemed to be appropriate, restatements of financial statements are necessary to maintain comparability.

If the Accounting Changes and Error Corrections exposure draft is adopted it may significantly improve the presentation of financial statements for an accounting period. Users of financial statements require information to understand the effects of such events in particular, changes in accounting policies, changes in estimates, and errors, which affect comparability of the financial statements.

The new exposure draft will increase the relevance and reliability of the financial statements because the statement would provide guidance for reporting the correction of an error in previously issued financial statements, a change in accounting estimate, a change in the reporting entity, and the reporting and disclosure of accounting changes in interim-period information. Also when an error is found due to a misinterpretation of the facts, mistake, oversight or fraud the most useful information to financial statement users is to restate the financial statements as if the error had never occurred. Accordingly, errors are corrected retroactively.

APB Opinion No.20 is merely an improved method of presentation identified in the current period since the application method implies that there was nothing wrong with the prior period information even though an error is corrected. But according to the new exposure draft the term "restatement" is used, instead of "application," to differentiate circumstances, which require prior period information to be corrected. Therefore it would help improve the transparency of companies' financial disclosure and would enhance investors' understanding of the application of companies' critical accounting policies. Under the new exposure draft the information is likely to be more useful since it's more relevant and, at the same time, remains reliable.

In addition if application of retrospective is complex in certain situations the proposed draft gives the benefit of applying the new accounting principle as of the earliest date suitable. Retroactive application will increase the relevance of

financial statements since the new proposed standards will give more information to users.

Further, according to the proposed statement change in depreciation, amortization, or depletion method are considered as changes in accounting estimate. Therefore the proposed draft would better reflect the fact that the accounting principles should be changed only if there are changes in the estimation of future benefits of the assets. Moreover, the proposed draft would promote international accounting standards as well as improve the quality of financial reporting by merging with proposed international financial reporting standards. Finally, retrospective application is viewed as a transition to new standards. Therefore the new proposed standard will improve the principle-based standard setting process.