

March 18, 2004

Director,
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 16
File Reference: 1200-400
Date Received: 3/18/04

Dear Sir/Madam,

This letter is in response to the Proposed Statement of Financial Accounting Standards Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3. File Reference 1200-400.

I am a graduate student at Cal State Hayward. I studied the new exposure draft and believe that it has many advantages and some disadvantages. The draft will change the way depreciation, amortization or depletion are treated.

Now it is proposed that a change in depreciation method be accounted for as a change in accounting estimate and not as a change in accounting principle. Under change in estimation approach, when a company change accounting principle, for instance from double declining to straight line method, then the results from prior periods should be restated and a cumulative adjustments is reported in the beginning retained earnings balance of the earliest period presented. On the other hand, under change in accounting principle, when a company change depreciation method from double declining to straight-line method, such changes are recognized by including the cumulative effect as of the beginning of the year, net of tax in the current year's income statement. This amount is based on retroactive computation of changing to new accounting principle. The effect on net income due to change in accounting principle were disclosed as a separate item following extraordinary items in the income statement. So now with the new draft the investors can expect the following benefits:

Advantages of the proposed statement:

- **Comparability:** The proposed statement improves comparability. Users can easily compare the data between the periods.
- **Less earnings impact:** The income statement will show the impact of only change in the current year's figures. The cumulative effect of all the previous years will not appear in it, thereby reducing the substantial shift in the numbers as would happen with the change in principle method. Proposed statement will not have any impact in the income statement.
- **Less leeway to manipulate earnings:** As a result of the facts mentioned in the previous point, under the proposed statement, management will have less room to manipulate the earnings. For instance, if a company is expecting a loss in the current year, they will have less leeway to manipulate that loss into a profit just by changing their valuation method.
- **Convergence with international accounting standards:** This draft if enacted will converge FASB policies in this particular regard with those of the international accounting standards board's. This international convergence will make it possible for investors to compare companies internationally.
- **Decrease debt-covenant violation:** Using this method, firms will not be able to dramatically change their incomes in the current year and as a result the incentive to change the accounting method just to escape the debt covenant will be taken away.
- **Increase relevancy and transparency:** The proposed statement would more relevant as the companies are required to restate prior and future financial reports when they adopt a new valuation method and it also increases the transparency.

Drawback

- It is expensive to restate all the previous years' financial statements.

Considering the above pros and cons of the proposed statement, it is clear that benefits of the proposed statement far outweigh the costs. Thus, the retrospective application of a voluntary change in accounting policies instead of cumulative effect would make the accounting better.

Thanking you,

Sincerely,

Vatsala Rajamani.