



LETTER OF COMMENT NO. 116

**From:** Andy Hodulik [mailto:agh@hm-pa.net]  
**Sent:** Tuesday, April 14, 2009 12:59 PM  
**To:** Director - FASB  
**Subject:** Discussion Paper - File Reference No. 1630-100

Technical Director  
Financial Accounting Standards Board

Discussion Paper -  
Preliminary Views on  
Financial Statement Presentation  
File Reference No. 1630-100

Dear Technical Director:

Thank you for the opportunity to submit comments on the Discussion Paper - "Preliminary Views on Financial Statement Presentation" ("Discussion Paper"). The comments provided herein are based upon not only concerns for financial statement presentation and the users of such statements, but also considers the effects of these proposed financial statements on the audit process. Also please note this respondent has applied only a limited review of the Discussion Paper prior to submitting this response.

Let me begin by indicating, generally, the overall concept presented in the Discussion Paper would certainly seem to improve the information provided in financial statements. Currently, as many users agree, the financial statements are often times virtually indecipherable, and very often just plain confusing.

In direct response to the question specific to the FASB, (page xii, No. 27), there can also be improvement in the reporting of financial statements for nonpublic entities and having two separate financial reporting models might generate more confusion, than attempting to develop a simpler method for nonpublic entities.

As a general comment, with respect to the audit process, a most critical aspect of auditing and a very important component of the financial statements, is cash. It appears the Discussion Paper is in agreement particularly with the focus on cash flows and the direct method of cash flows. With the advent of computers, and the development of information processing systems, the accounting systems encountered today are often complex. What can be troubling is the method by which general ledger's are maintained, which has made it at times difficult to review the financial information being processed. Currently, practically every entry in an accounting system is a journal entry. Separate cash journals and general journals are not the focus in these systems.

With the current structure of these information processing system, the Discussion Paper might very well require most entities to revise their systems or run two systems concurrently in order to comply or in order to be able to present the financial information as proposed.

Therefore, as the Discussion Paper in reality amounts to a seminal change in processing and reporting, it is this respondent's suggestion that the financial statements begin or be based originally upon a cash basis. Then, much like the reconciliation statements that are included in the Discussion Paper, the financial statements (the balance sheet and income statement) would include the accruals that are recorded to bring the financial statements to the accrual method of reporting (somewhat similar to GASB 34 and the conversion from fund financial statements to government-wide financial statements). In this manner, rather than attempting to disaggregate information, the user will immediately be able to ascertain cash position, the cash activity included in the statements, and finally the accruals that are considered for reporting at the end of each period. It is this respondent's belief this approach would make the statements even more illuminating than the Discussion Paper's presentation, would provide for a clearer understanding of the entities financial activity than what is presented in the reconciliation schedules, eliminate the need for a statement of cash flows, and provide much needed focus on amounts being accrued. Imagine knowing what is being accrued to income from period to period.

Some other thoughts include; 1) Taking a page each from not-for-profit and governmental accounting with some revision, the component of property, plant and equipment within retained earnings, should be displayed separately as "investment in net assets", of course, net of any related debt. 2) The term "comprehensive income" does not provide the user with any added level of information or understanding. The numerous individuals I speak to about *financial statement reporting are humored by the term "comprehensive"*. As in, is there a time when income is not included? 3) Reporting for income taxes must be revised, to be based upon what is actually paid. The problem with the current reporting for income taxes is made clear by the current requirements of FIN 48. 4) As the financial statements often times are virtually incomprehensible, so too are the notes to the financial statements. The information that is piled into the notes to financial statements is voluminous and unreadable. To the extent information is required, this respondent suggests utilizing supplementary schedules that can be referenced to the notes if necessary. These supporting schedules would be easier to comprehend, reduce the clutter that currently exists *within the notes to financial statements, making financial reporting that much more transparent, and could be covered with the "taken as a whole" auditor's report paragraph.* 5) A revision to the financial statement presentation model should also focus on reducing the amount of duplicative information currently presented. As it stands now, virtually the same information will be presented in

management discussion and analysis, it will be incorporated in certain financial statements, and will also be contained in the notes of financial statements. This over-reporting increases cost and does very little to improve the overall clarity of information provided to the user of financial statements.

Other responses:

Discussion Question 11:

The benefits of a classified statement of financial position are often overridden by the accompanying confusion (having to add to lines presented to arrive at the actual account balances).

Discussion Question 20:

There is no doubt additional costs will be incurred, both initially and on-going. Revising the presentation model as suggested above would serve to reduce some of these costs.

Discussion Question 23:

Please see above with respect to the notes to financial statements.

Thank you for the opportunity to provide these responses. Should you have any questions, please feel free to contact me.

Sincerely,

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