**MINUTES**

Financial Accounting Standards Board

**To:** Board Members

**From:** Convergence Team (Nesta, ext. 330)

**Time Code:** A/Conv

**Subject:** Minutes of the December 18, 2002, Board Meeting

**Date:** December 20, 2002

**cc:** Bielstein, Leisenring, Petrone, Smith, Swift, Polley, Project Team, Thompson, Allen (GASB), Bean (GASB), FASB Intranet (e-mail), Vincent (2), Sutay, Gabriele

| | | |
|---|---|---|
| Topic: | Voluntary changes in accounting principle and changes in depreciation method | |
| Basis for Discussion: | Staff memoranda dated December 5, 2002 | |
| Length of Discussion: | Starting Time: | 10:30 a.m. |
| | Concluding Time: | 11:00 a.m. |

Attendance:

| | |
|---|---|
| Board members present: | Herz, Crooch, Foster, Schieneman, Schipper, Trott, and Wulff |
| Board members absent: | None |
| Staff in charge of topic: | J. Johnson |
| Other staff at Board table | Bielstein, Cassel, Coburn, Nesta, Tovey |
| Outside participants | Henry Rees and Anne McGeachin (IASB, via phone) |

## MATTERS DISCUSSED, DECISIONS REACHED, AND FOLLOW-UP ACTION

Mr. Johnson opened the discussion by stating that the staff would like the Board to decide whether to converge with the IASB's positions on voluntary changes in accounting principle and changes in depreciation methods.

### Voluntary Changes in Accounting Principle

Mr. Johnson stated that APB Opinion No. 20, *Accounting Changes*, generally requires that a voluntary change be accounted for by retrospective application, with no restatement of prior periods. The cumulative effect of the change on all prior periods is included in the calculation of net income in the period of the change. Notable exceptions to the general requirement include a change from the LIFO method of inventory accounting to the FIFO method and a change in accounting for long-term construction contracts. Those changes are accounted for by restating the financial statements of prior periods.

He added that a proposed revision to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, would require a voluntary change in accounting principle to be accounted for using a retrospective restatement approach. An adjustment to the beginning retained earnings balance in the earliest period presented would be made to record the effect of the accounting change on all prior periods not presented. All prior periods presented would be restated as if the newly adopted accounting policy had always been used.

Mr. Johnson then stated that the staff wanted the Board to decide whether it should amend Opinion 20 to require that all voluntary changes in accounting principle be accomplished by restating prior periods. Mr. Johnson also added that the staff had distributed comments received by the IASB on its proposed retrospective restatement requirement for voluntary changes and that the comments generally supported the requirement.

The Board decided to adopt the IASB position that voluntary changes in accounting principle should be accounted for retrospectively and all prior periods should be restated as if the newly adopted accounting policy had always been used. The Board noted that the change to Opinion 20 results in the obvious benefit of convergence. In addition, the Board noted that the retrospective restatement approach would provide financial statement users with more useful information than is currently derived from cumulative effect adjustments. The Board also believes that the restatement of financial statements as if the newly adopted accounting principle had always been used results in greater consistency among periods, which the Conceptual Framework describes as one of the important qualitative characteristics of accounting information.

The Board also decided that the restatement should be supplemented by additional disclosures that would allow comparisons between original and restated information, an indication of whether the restatement was made because of a voluntary change in accounting principle or because of a correction of an error, and a description of the reasons for the restatement. The Board believes that it is important for users to evaluate both the cause of the restatement and its effect on the financial statements.

The Board then directed the staff to research whether exceptions should be allowed for certain voluntary changes in accounting principle where it is impracticable or inappropriate for an entity to retrospectively apply the new accounting policy.

**Changes in Depreciation Method**

Mr. Johnson then introduced the topic of changes in depreciation method. Mr. Johnson stated that IFRS and U.S. GAAP differ concerning whether a change in depreciation method constitutes a change in accounting estimate or a change in accounting principle. Opinion 20 lists a change in depreciation method for previously recorded assets as a change in accounting principle. In contrast, Paragraph 24 of the Exposure Draft of the revised IAS 8 states, "Estimates may be required, for example, of bad debts; inventory obsolescence; the fair value of financial assets; or the useful lives of, or *expected pattern of consumption of the future economic benefits embodied in*, depreciable assets," (emphasis added). He noted that under the revised IAS 8 a change in depreciation method from straight-line to double-declining balance would be treated as a change in estimate and be accounted for prospectively. The same change in depreciation method under U.S. GAAP would be deemed a change in accounting principle and would require retrospective application with a cumulative-effect adjustment recorded in the period of change. Mr. Johnson stated that the staff wanted the Board to decide whether to adopt the IASB approach that a change in depreciation method should be accounted for as a change in estimate.

The Board decided to converge with the IASB position that a change in depreciation method is a change in accounting estimate that is effected by a change in accounting principle. As a result, a change in depreciation method would be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. The Board noted that the revision to Opinion 20 would need to clearly indicate that a change in depreciation method would need to be supported by sufficient evidence that the new method more accurately reflected the pattern of consumption of the asset's benefits.

**GENERAL ANNOUNCEMENTS**

None

**SUMMARY FOR ACTION ALERT**

The Board discussed whether to converge with the IASB position on the accounting for voluntary changes in accounting principles. The Board decided to adopt the IASB position that voluntary changes in accounting principle should be accounted for retrospectively and all prior periods should be restated as if the newly adopted accounting policy had always been used. The Board decided that the restatement should be supplemented by additional disclosures that would allow comparisons between certain original and restated information. The Board directed the staff to research whether exceptions should be allowed for certain voluntary changes in accounting principle where it is impracticable for an entity to retrospectively apply the new accounting policy.

The Board also decided to converge with the IASB position that a change in depreciation method is a change in accounting estimate that is effected by a change in accounting principle. As a result, a change in depreciation method would be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both.