

January 2, 2003

Letter of Comment No: 106 File Reference: 1125-001 Date Received: 1/3/03

Financial Accounting Standards Board File Reference No 1125-001 E Mail: Director@fasb.org

Re Principles Based Approach to U.S. Standard Setting

Dear Sirs:

First, let me thank the Board and staff for its work in developing this proposal. My comment focuses on the rewrite proposed for Statement #34 in attachment B of the proposal.

I believe that any principles based standard should provide for stronger language that eliminates the application, sometimes routinely, of standards with complex computations that allow capitalization of cost where expensing is a simpler, and more transparent alternative. A perfect example of this is capitalization of interest to manufactured and produced inventory items, including land inventories. I would have written the last sentence of the 4th paragraph of page 17 of the proposal as follows:

"....is generally not required allowed."*

(Footnote) * Generally, normal resale, manufacturing, producing or subdividing activities do not qualify for capitalization under the cost-benefit principle. However, one possible reason to capitalize interest for inventory items may be the uniqueness of the item being sold, manufactured, produced or developed, such that it also becomes a "discrete" project, outside normal operations. In this instance, there would appear to be a compelling reason to measure the additional cost of borrowing as part of the cost of inventory. Another reason may be that the purchaser has contracted to reimburse the interest costs of the seller.

I believe there is a significant difference in how financial statement preparers interpret "not required" versus "generally, not allowed", along with guidance for the few exceptions. I hope to see a more prevalent use of this approach in defining the scope of any "principles" based pronouncements.

Sincerely,

William A. "Bill" Haycraft, CPA

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