Letter of Comment No. 29
File Reference: 3-20PV
Date Received: 10/3/11

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Governmental Accounting Standards Board director@gasb.org

Project No. 3-20: *Recognition of Elements of Financial Statements and Measurement Approaches*
Comment on depreciation and interperiod equity

Dear Director of Research and Technical Activities:

The opportunity to comment to GASB regarding preliminary views on concepts is appreciated.

In the context of Economic Resources Measurement Focus, I do not understand how depreciation can provide interperiod equity as defined in Concept 4.

From my viewpoint --

Government is responsible to provide infrastructure over the long term. Economic forecasting models would include changes in population, technology, feasibility of plant sites and many other factors. Economic based measurements would attempt to provide relevant services under future conditions. Long term debt only would be used to finance projects providing such services.

The current environment of a crumbling infrastructure to be paid by future generations without benefit is due in part to the use in financial statements of cost accounting and depreciation. We have misled ourselves into believing that depreciation would provide interperiod equity. We are not preparing financial statements and most assuredly not economics statements.

Given the emphasis placed on economics in Project No. 3-20, wouldn't it now be appropriate to require economics credits to qualify for accounting degrees, licenses and certifications? Shouldn't accounting standards be developed by interdisciplinary boards that include recognized economists?

Depreciation is an accounting convention that is misleading as a source for financial statement reporting and contributes to the misallocation of resources.

Sincerely,

Caroline Walker

Caroline Walker, CPA, CFE

Appendix

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Appendix

Project No. 3-20: Paragraph 10, page 8:

For financial statements prepared using the economic resources measurement focus, interperiod equity is the concept by which outflows and inflows of resources might be considered applicable to a future period. Interperiod equity is defined in Concepts Statement 4 as:

> . . . [T]he state in which current period inflows of resources equal current period costs of services. For example, the burden of the cost of services is borne by present-year taxpayers and revenue providers. This burden is not shifted to future-year taxpayers or revenue providers through an increase in the level of borrowing, for example, and accumulated net resources are not used to provide current-period services. Interperiod equity is a relevant metric to assess accountability, rather than a goal that is expected to be met for any particular period of time. [paragraph 27]

Project No. 3-20: Paragraph 13, page 13:

13. The cost of current-year services described in the objectives of financial reporting traditionally has been viewed as a historical cost-based notion. When assets are acquired that will serve many periods, the cost of providing services during those future periods as it relates to these assets is a function of the acquisition price paid (or other initial value). Consequently, using initial amounts for assets that affect cost of services, such as capital assets and prepaid assets, would be consistent with this objective of financial reporting. Use of initial amounts for assets that affect cost of services also would be consistent with the concept of interperiod equity. With cost of services based upon initial amounts, taxes (and other revenues) provided by current-year taxpayers would be compared with cost of services, thereby reflecting the acquisition costs of the specific assets used in providing services. To meet this financial reporting objective, the initial amounts are allocated over the period when assets are used to provide services without taking into account opportunity costs or costs of future services.

Project No. 3-20: Paragraph 20, page 14:

… accounting conventions such as depreciation.