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Regarding: The General Framework of General Purpose Financial Statements
Phase I- Exposure Draft Due 6-15- 2011

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Colleagues,

I welcome the opportunity to critique the General Framework of General Purpose Financial Statements. Details follow:

Background

The accrual basis of accounting is the model which reflects transaction recognition upon occurrence. The guidance seeks to elicit comments on the role, authority and objectives of reporting. Faithful representation is a higher order goal than reliability. Materiality of the transaction is also a consideration in the review process. Statements are to be complete, neutral and free from error. Nonetheless, is the presentation itself reliable vis-a-vis the expectations of readers of the financial statements who rely ?

The primary users of the financial statements are service recipients and resource providers. pp. 24
In addition, the legislature is the primary user of the general purpose financial statements. Faithful reprresentation depicts the substance of a transaction over its legal form. Sec. 3.1 / pp. 29

Comparability is the goal which consistency helps to keep or attain.

Critique:

Generally, I concur except that reliability can be a more important goal in certain scientific applications . Accrual does reflect transaction recognition in a more realistic way. i.e. upon occurrence Faithful representation is the chosen higher order goal; however, reliance may be more important in specific circumstances where management cannot be wrong or where government regulators cannot be wrong. i.e. The public interest or public welfare is at stake.

For instance, the BP oil spill involved running the engineering equipment beyond capacity or at or near 110% of normal capacity. Faithful representation will have examined the process of running the equipment and not the act of running the equipment beyond the design capacity. The recent Daiichi Nuclear Power Plant disaster happened because the engineering design could not withstand a 9.0 earthquake; therefore, radiation spills happened which would not have been the case if the engineering tolerances had never been reached.

What happens beyond "normal" use can be a matter of life or death literally. What is normal use? Normal use is the intended use of the equipment for the purpose it was designed and not for an unanticipated application which may occur in some distant outlier point statistically.

Who knows or has reason to know about outlier points in the design of engineering equipment? The answer is the design engineer in the department of engineering. This is the resident expert who fully understands how the engineering applications operate under normal circumstances, as well as

unusual or abnormal circumstances.

Both the BP oil spill application and the Daiichi Nuclear Power Plant application deal with circumstances which undermine the ongoing concern assumption in a random but very material way.

Reliability can apply to the statistical analysis done on a drug approval submission to the FDA. If the anticipated reliability is highly accurate, then the drug will be approved in all likelihood assuming that the relevant parameters have been weighted fairly and consistently.

Reliability may be gleaned by a community of experts in an artificial intelligence system which gives advice based upon polling a community of experts on the knowledge base. The advice rendered by the artificial intelligence system is a superior massaging of a concensus of opinion unobtainable by polling each expert individually.