August 26, 2021

Alan Skelton, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: May 20, 2021 GASB Proposed Statement, *Accounting Changes and Error Corrections [Project No. 32-1]*

Dear Mr. Skelton:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the efforts of the Board to provide guidance to enhance accounting and financial reporting requirements for accounting changes and error corrections and to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. While TIC agrees with many aspects of the Proposed Statement, there are several aspects which we believe should be modified to better align the standard with the objectives of providing relevant and understandable information to users.

Change to or within the Financial Reporting Entity

While TIC mostly agrees the examples of changes to or within the financial reporting entity as presented in paragraph 9 are useful, we believe that inclusion of changes in the fund presentation as major or nonmajor should be removed.

Entities already are required to evaluate funds for major and non-major classification each year. The addition of a disclosure requirement related to this information may give users the false impression that there was an error in previous classifications. As this disclosure would only be the result of following a standard accounting policy which is applied consistently in each year, TIC believes that this disclosure potentially would result in confusion among users of the financial statements.

TIC acknowledges that there is value in users understanding changes in which funds are considered major and nonmajor in each period; however, the existing disclosure requirements contained in GASB Statements 34 and 38 already require annual disclosure of which funds are major and non-major, which sufficiently achieves this objective.

TIC also is aware that the Board has noted in B10 of the Proposed Statement that inclusion of the fund status in this definition addresses a practice issue. While TIC recognizes that the Board has more information on existing practice issues at their disposal than TIC, we do not see the inclusion of this disclosure as a solution to a practice issue related to determination of which funds are major and nonmajor, rather, that determination is made based on a set of criteria that exists outside of the Proposed Statement and would be better addressed with practitioners through educational outreach as opposed to a requirement to include additional disclosures for all entities.

In order to address this concern, TIC suggests the following modification to paragraph 9:

> 9. Changes to or within the financial reporting entity result from:
>   a. The addition or removal of a fund that results from the movement of resources within the primary government, including its blended component units;
>   ~~b. A change in the fund presentation as major or nonmajor~~
>   c. Except as described in paragraph 10, the addition of a component unit to the financial reporting entity or removal of a component unit from the financial reporting entity;
>   d. A change in the presentation (blended or discretely presented) of a component unit.

Reclassification in the Financial Statements Resulting from a Change in Accounting Principle or an Error Correction

The discussion of reclassifications in the Proposed Statement is limited to a change in accounting principle (par. 29) and an error correction (par. 30) that does not have an effect on beginning net position, fund balance, or fund net position. TIC believes there are other situations in which a reclassification may exist but would not be considered a change in accounting principle or correction of an error. For example:

> In the prior year, an entity included one line item on the statement of financial position for accounts payable and accrued expenses. In the current year, the entity has decided to disaggregate the accounts payable and accrued expenses line item into two separate line items. This change would be made retrospectively.

TIC believes the example described above would not be considered an error correction or a change in accounting policy and entities should disclose the change as a reclassification.

TIC agrees that a general disclosure on reclassifications is not appropriate and the disclosure should include a more detailed description of the changes that have been made, such as the following:

> Reclassifications
>
> We have reclassified amounts which were included in one line item labeled Accounts Payable and Accrued Expenses in the prior year to two separate line items to conform with the current year presentation. This change had no effect on the change in net position, fund balance, or fund net position.

TIC asks that the Board consider the situation above and clarify in the Proposed Statement if such reclassifications are appropriate and may be disclosed without being considered error corrections or changes in accounting principle.

Required Supplementary Information and Supplementary Information

TIC requests that the Board provide additional guidance on the location of disclosures when there is an error correction. The following scenario illustrates TIC's concern that the Proposed Statement does not include sufficient guidance to allow entities to understand the extent and location of disclosure for comparative information that is only reported within required supplementary information and/or supplementary information:

> A government may report summarized comparative information in a Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for each fund, including nonmajor funds. If a restatement related to an error correction is required in one or more nonmajor governmental funds' comparative information columns, is disclosure required to show the magnitude of the restatement on each financial statement line item of prior periods? If disclosure is required, where should that level of detail be disclosed? TIC does not believe it would be appropriate to include the detail of error corrections for individual nonmajor funds within the notes to the basic financial statements since the comparative information is not part of the basic financial statements.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Bryan Bodnar

Chair, On Behalf of the PCPS Technical Issues Committee