

**DEFERRAL OF THE EFFECTIVE DATE OF  
MANAGERIAL COST ACCOUNTING STANDARDS  
FOR THE FEDERAL GOVERNMENT IN SFFAS NO. 4**

**Statement of Recommended Accounting Standards  
Number 9**

***October 1997***

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## **THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

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The Board communicates its recommendations by publishing recommended accounting standards after considering the financial and budgetary information needs of Congress, executive branch agencies, and other users of Federal financial information. The Board also considers comments from the public on its proposed recommendations, which are published for comment as "exposure drafts." The officials who established the Board then decide whether to adopt the recommendations. If they do, the standard is published by OMB and the General Accounting Office and then becomes effective.

Additional background information is available from the FASAB, including: (1) the "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" and (2) the "Mission Statement of the Federal Accounting Standards Advisory Board."

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## EXECUTIVE SUMMARY

- I. This statement is issued to amend the effective date of the standards in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, issued in July 1995. The original effective date was for reporting periods beginning after September 30, 1996. The amended effective date is for periods beginning after September 30, 1997.
- II. In July 1997, the Federal Accounting Standards Advisory Board (the Board) received a request from the CFO Council for a two year deferral of the effect date of the managerial cost accounting standards to fiscal year 1999. The CFO Council representatives stated that many agencies have not been able to implement the managerial cost accounting standards during the two years since SFFAS No. 4 was issued, due to the following reasons: (a) the Joint Financial Management Improvement Program (JFMIP) has not issued its Managerial Cost Accounting System Requirements, (b) the CFO Council has not issued its managerial cost accounting guide, and (c) most agencies do not have adequate cost accounting systems in place. After considering the CFO Council's request, the Board reluctantly agreed to propose deferring the effective date of the managerial cost accounting standards for one year to fiscal year 1998 and issued an Exposure Draft (ED) for public comments. Most responses to the ED were in favor of the proposal.
- III. After reviewing the comments to the ED, the Board decided to recommend the one year deferral. At the same time, it reemphasizes the importance of managerial cost accounting to Federal program and financial management. The Chief Financial Officers Act of 1990 requires the development of cost information and the systematic measurement of performance. Reliable and relevant cost information is indispensable for implementing the requirements of the Government Performance and Results Act of 1993. The Board urges Federal entities and their CFOs to give priority to implementing the requirements in SFFAS No. 4.

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## INTRODUCTION

- 1 This statement is issued to amend the effective date of the managerial cost accounting standards prescribed in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government,<sup>1</sup> which was issued in July 1995. The standards in SFFAS No. 4 were effective for reporting periods beginning after September 30, 1996. The amended effective date is for reporting periods beginning after September 30, 1997.
- 2 In August 1997, the Board issued an exposure draft (ED)<sup>2</sup> in which it proposed a deferral of the effective date of managerial cost accounting standards. The ED was issued after considering a request presented to the Board by the CFO Council. (See Attachment: Letter from the CFO Council, dated June 26, 1997.) In their request, the CFO Council representatives stated that most agencies were having difficulties in implementing the cost accounting standards because (a) the Managerial Cost Accounting System Requirements have not yet been issued,<sup>3</sup> (b) the CFO Council has yet to issue a managerial cost accounting guide,<sup>4</sup> and (c) most agencies do not have adequate cost systems in place. The CFO Council representatives requested that the effective date of SFFAS No. 4 be deferred for two years to reporting periods that begin after September 30, 1998. They also requested that "relevant portions" of SFFAS 7, Accounting for Revenue and Other Financing Sources, be delayed to that same date.

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<sup>1</sup>In addition to managerial cost accounting standards, SFFAS No. 4 also contains managerial cost accounting concepts which provide general guidance for managerial cost accounting but do not constitute specific requirements. The effective date does not apply to those concepts.

<sup>2</sup>The ED was published in FASAB News issue No. 45, August 1997.

<sup>3</sup>In April 1997, JFMIP issued an Exposure Draft on Managerial Cost Accounting System Requirements, which is yet to be finalized as of this date.

<sup>4</sup>The CFO Council's Governmentwide Cost Accounting Work Group issued an Exposure Draft of the Managerial Cost Accounting Implementation Guide on June 30, 1997, which has not been finalized as of this date.

- 3 After considering the reasons presented by the CFO Council, the Board reluctantly proposed a one year delay for SFFAS No. 4, to reporting periods beginning after September 30, 1997, and issued the ED for that proposal. No delay was proposed for any part of SFFAS No. 7, which is effective for reporting periods beginning after September 30, 1997. The Board noted that cost accounting is required by the Chief Financial Officers Act of 1990 (the CFO Act), and reliable cost information is necessary for implementing the Government Performance and Results Act (GPRA) of 1993. The Board also observed that the cost accounting standards allow Federal entities without a sophisticated cost accounting system to use cost studies or cost finding techniques to meet the requirements of the cost accounting standards. The Board further observed that during the past two years since SFFAS No. 4 was issued, most agencies should have had sufficient time to develop at least the basic cost accounting processes as described in paragraph 71, SFFAS No. 4.
- 4 The Board received 26 responses to the ED. Most respondents supported the Board's proposal for a one year deferral of the cost accounting standards in SFFAS No. 4 to fiscal year 1998. After considering the comments, including those opposed to any delay and those favoring a two year delay, the Board decided to recommend the one year deferral to the FASAB principals.

## THE AMENDED EFFECTIVE DATE

- 5 The effective date of the managerial cost accounting standards provided in paragraph 30, SFFAS No. 4, is amended as follows:  
  
"The managerial cost accounting standards prescribed in SFFAS No. 4 shall be effective for fiscal periods beginning after September 30, 1997. Earlier implementation is encouraged."



## BASIS FOR CONCLUSIONS

### Reasons for the delay

- 6 After considering the CFO Council's presentation and the responses to the ED, the Board is convinced that as of the end of fiscal year 1997, most agencies were not ready to produce cost information as required in the cost accounting standards. As described in CFO Council's request and in the responses to FASAB's ED, many agencies need more time and guidance to define responsibility segments and to develop procedures for accumulating and assigning costs. They also said that they need more time to upgrade or expand their accounting systems, and to promote the use of cost measures among program and financial managers.
- 7 Most respondents stated that the one year delay should not significantly affect implementation of the Government Performance and Results Act of 1993 (GPRA). With regard to the GPRA requirement that Federal agencies measure and report outputs, outcomes, and related costs by segments for fiscal year 1999 and thereafter, the respondents stated that with the one year deferral of the cost accounting standards, agencies will have time to align their cost accounting structures with the GPRA measures.
- 8 Under these circumstances, the Board concluded that a one year deferral would be appropriate. The deferral would provide the Federal entities with an opportunity to engage top-level agency officials, budget analysts, and program and financial managers in the processes of developing, collecting and using cost information.
- 9 Several respondents reiterated the CFO Council's original request for a two year delay to fiscal year 1999, on the grounds that their systems would not be ready within fiscal year 1998. The Board cannot agree with this request. It believes that cost accounting capability must be developed in time to fully support the GPRA reporting. The Board thus urges Federal entities to give implementation of SFFAS No. 4 a high priority and take immediate actions to define and

structure responsibility segments and develop costing methodologies.

- 10 Several respondents said that, after the effective date, Federal entities should be given a transitional period in which they could have flexibility to develop and improve their cost accounting systems and procedures gradually. The Board disagrees with this approach for two reasons: (a) such a transitional period would add uncertainty to the required implementation, (b) a degree of flexibility for developing cost accounting systems and procedures is already built in the standards, and thus a transitional provision is not necessary.
- 11 The Board notes that the standards already provide a sufficient degree of flexibility to Federal entities. For example, paragraph 70, SFFAS No. 4, provides that managerial cost accounting processes can be accomplished through the use of a cost accounting system or the use of cost finding techniques or other cost studies and analyses. Paragraph 266 further provides that "Federal agencies can take a gradual approach to the development of cost systems, if necessary, while developing basic cost information through other means in the short run." Federal agencies are expected to refine and improve their costing procedures, methods, and systems, as they gain experience in using cost information (paragraph 24, SFFAS No. 4). Those who are not familiar with the criteria of implementation should review the standard on "Requirement for Cost Accounting" in paragraphs 67 through 76, SFFAS No. 4.
- 12 Several respondents were opposed to any deferral. They pointed out that the original effective date was more than two years after SFFAS No. 4 was issued, and it provided enough lead time for agencies to implement the cost accounting standards. They stated that if the delay in implementing the standards was caused by a lack of action, a mere deferral could only cause continued inaction. The Board recognizes that many agencies have made significant progress in improving general accounting and financial reporting. The Board anticipates that the one year deferral will bring similar progress in implementing the cost accounting standards.

**The Status of Interpretation No. 2**

- 13 In January 1997, FASAB issued Interpretation No. 2, Accounting for Treasury Judgment Fund Transactions. The Treasury Judgment Fund was established by Congress to pay, in whole or part, the court judgments or settlements negotiated by the Justice Department on behalf of Federal agencies. Interpretation No. 2 requires that if a loss in litigation is probable and estimable, the reporting entity in the litigation should recognize an expense and liability for the full amount of the estimated loss, although the loss may be paid by the Treasury Judgment Fund. The Interpretation reflects the cost principle in SFFAS No. 4, and is based on the principle of recognizing contingent liabilities in SFFAS No. 5, Accounting for Liabilities of the Federal Government. The Interpretation was made effective for reporting periods beginning after September 30, 1996, the same as SFFAS No. 4 and No. 5.
- 14 The ED raised a question: If SFFAS No. 4 were deferred as proposed, should Interpretation No. 2 be deferred as well? Some respondents believed that Interpretation No. 2 should be deferred to fiscal year 1998. They were concerned with difficulties in collecting reliable information to estimate the probable litigation losses. Other respondents, however, did not believe that Interpretation No. 2 should be delayed for the following reasons: (1) the recognition of litigation losses and liabilities is not dependent on cost accounting capabilities, and (2) the recognition of contingent liabilities and losses is required by SFFAS No. 5, which is not deferred.
- 15 The Board agrees with the view that Interpretation No. 2 is based on the principle provided in SFFAS No. 5 of recognizing contingent liabilities, and that its implementation should not be deferred. As with all matters in litigation, the data should come from agencies' management and their legal offices and the Department of Justice. Deferring the Interpretation is not a positive solution to the data gathering problem.

**The Status of SFFAS No. 7**

- 16 Those respondents who preferred a two year delay for SFFAS No. 4 also reiterated the CFO Council's original request to defer certain cost-related portions of SFFAS No. 7, Accounting for Revenue and Other Financing Sources to fiscal year 1999. While no specific paragraphs were mentioned, they were concerned with the requirements for matching costs with revenues by sub-organizations (equivalent to responsibility segments). (See, for example, paragraphs 116 through 126, SFFAS No. 7.) They stated that they are modifying their systems to accommodate those requirements, but their systems work could not be completed in fiscal year 1998.
- 17 With the effective date of SFFAS No. 4 deferred to fiscal year 1998, the cost accounting standards should be implemented and the necessary cost information should be accumulated to support implementation of SFFAS No. 7 for that year. Thus, the Board is not convinced that SFFAS No. 7 needs to be deferred. The Board believes that it is highly important to relate SFFAS No. 4 and No. 7 to measuring program performance and results. While the standards in SFFAS No. 4 provide more detail in cost concepts, procedures, and methodologies, SFFAS No. 7 brings cost information into focus in measuring the net results of programs and activities. The integrated implementation of those two statements is crucial for meeting the objectives of financial reporting by Federal entities and for implementing the GPRA requirements.

**ATTACHMENT: LETTER FROM CFO COUNCIL**

The CFO Council's letter is reprinted on the next two pages.

**United States Government  
Chief Financial Officers Council**

JUN 26, 1997

Mr. Dave Mosso, Chairman  
Financial Accounting Standards Advisory Board  
441 G Street, N. W.  
Washington, D.C. 20548

Dear Mr. Mosso:

The Chief Financial Officers Council (CFOC) recognizes the importance for Federal agencies to move forward and implement the Statement of Federal Financial Accounting Standards (SFFAS) No.4, Managerial Cost Accounting Concepts and Standards for the Federal Government. We believe this standard, effective for reporting periods after September 30,1996, is essential to support the cost effectiveness of mission performance and to provide full accountability to taxpayers over our resources.

The Council is concerned, however, over the impediments and difficulties most agencies are having in implementing this standard. These difficulties exist due to the following:

- o The Managerial Cost Accounting System Requirements have not yet been issued;
- o The Managerial Cost Accounting Guidance, which will help agencies in implementing SFFAS No.4, will not be issued until later this Summer;
- o Adequate cost Systems are not in place to meet the requirements of the Results Act to provide program cost and performance information in an agency's annual performance report. Agency Performance Reports required under the Results Act are not due until March 2000. It will be several years before agencies will have the necessary cost systems in place.

For the above reasons, the Council requests FASAB to change the effective date for SFFAS No.4, and in relevant portions of its companion, SFFAS No. 7, Accounting for Revenue and Other Financial Sources (effective for reporting periods after September 30,1997), to the "revised effective date" for reporting periods after September 30, 1998. Given that the systems and cost accounting guidance needed by agencies have not been issued and only 4 months remain in this fiscal year, we feel this request is justified. Additionally, this request is further supported by the fact that the Results Act Performance Report requirements are not statutorily required until FY 1999.

While we recommend a change in the effective implementation date, we fully acknowledge and support the critical importance of the cost and revenue standards. Based on the importance and usefulness of anticipated cost information for internal agency management and other purpose, in addition to the significant benefits that are often derived from early implementation of Federal accounting standards, we nevertheless encourage Federal agencies to implement these standards as soon as practicable based on the capabilities of agency systems and the maturity of agency cost accounting practices. While such early, voluntary implementation is encouraged, the Council requests that the Board change the mandatory implementation date to fiscal periods after September 30, 1998.

Specific questions regarding this request may be directed to Frank M. Sullivan, Chair, CFOC Cost Accounting Committee, at (202) 273-5504 or via E-Mail at 'fs@mail.va.gov'.

Sincerely,

Arnold G. Holz  
Executive Vice-Chair  
Chief Financial Officers Council