



Federal Accounting Standards Advisory Board

Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations

Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources

Statement of Federal Financial Accounting Standards No. 22

October 2001

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General in October 1990. It is responsible for promulgating accounting standards for the United States Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standard is published in an Exposure Draft for public comment. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. The Board publishes adopted standards in a Statement of Federal Financial Accounting Standards.

Additional background information is available from the FASAB:

- *"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," Amended October 1, 1999.*
- *"Mission Statement: Federal Accounting Standards Advisory Board"*

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EXECUTIVE SUMMARY

- a. Statement of Federal Financial Accounting Standards (SFFAS 7) 7, *Accounting for Revenue and Other Financing Sources*, requires a reconciliation of budgetary and financial accounting information. The reconciliation explains the relationship between budgetary resources obligated by the entity during the period and the net cost of operations as derived from the entity's proprietary accounting system.
- b. This standard amends SFFAS 7 by deleting a requirement regarding an element of the reconciliation. SFFAS 7, paragraph 80, requires increases and decreases in receivables from the public related to exchange revenue to be reported as a nonbudgetary resource. This standard deletes this requirement and makes other necessary conforming changes.
- c. The effect of this change is that the location of this reconciling item is no longer specified by the standard.

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INTRODUCTION

1. Statement of Federal Financial Accounting Standards (SFFAS 7) 7, *Accounting for Revenue and Other Financing Sources*, paragraphs 80-82, requires a reconciliation explaining the relationship between budgetary obligations incurred by the entity during the period and the net cost of operations. Paragraphs 95-102 in the concepts section of SFFAS 7 presents the statement of financing (SOF) as the vehicle for reporting the reconciliation.
2. Paragraph 80, SFFAS 7, requires, among other things, increases and decreases in receivables from the public related to exchange revenue to be reported as nonbudgetary resources. The Board is deleting, by means of this amendment, the sentence in paragraph 80 that requires such reporting, and making other conforming changes.
3. The effect of this change is that the location of this reconciling item in the statement of financing is no longer specified by the standard.

Materiality

4. The provisions of this accounting standard need not be applied to immaterial items.

Effective Date

5. This amendment is effective for periods beginning after September 30, 2000.

ACCOUNTING STANDARD**Changes for SFFAS 7**

6. SFFAS 7 is amended as follows:

Delete the following sentence from paragraph 80:

Further, it should include decreases (increases) in receivables from the public related to exchange revenue when only the cash amount is included in budgetary resources.

Other conforming changes:

- Delete the following sentence from paragraph 97:

This amount would also include decreases (increases) in receivables related to revenue accrued from the public because, while the cash collected for exchange revenue is a budgetary resource, the accrual amount is not.

- Delete the following line item from Appendix 1-G, Example Financial Statements Formats, Statement of Financing

Exchange revenue not in the budget

APPENDIX A: BASIS FOR CONCLUSIONS

7. This appendix summarizes some of the considerations deemed significant by the Board in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.

8. As stated in previous sections, the Statement of Federal Financial Accounting Standards (SFFAS 7) 7, *Accounting for Revenue and other Financing Sources*, requires budgetary obligations incurred by the entity to be reconciled with the entity's net cost of operations.¹ The concept section of SFFAS 7 presents the statement of financing (SOF) as the vehicle for reporting the reconciliation.² A primary objective of the Board in creating the SOF is that readers of the financial statements are able to understand the difference between obligations, as reported in the budget, and the net cost of operations as reported in the statement of net cost.³

9. The Board issued an exposure draft in April 2001 proposing to delete the requirement in SFFAS 7, paragraph 80, that "decreases (increases) in receivables from the public related to exchange revenue" be reported as a nonbudgetary resource on the SOF. There are instances where reporting the change in "receivables from the public related to exchange revenue" as a resource, as is currently required by SFFAS 7, may be inappropriate. This amended standard would permit flexibility.

10. The effect of this change is that the location of this reconciling item in the statement of financing is no longer specified by the standard.

Respondents' Comments

11. The respondents' comments are summarized below. The Board does not rely on the number of respondents in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considers the arguments in each response and weighs the merits of the points raised.

¹ SFFAS 7, paragraphs 80-82.

² SFFAS 7, paragraphs 95-102. See the *Implementation Guide to Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources*, pars. 72-95 for a discussion and illustrations of the statement of financing.

³ *Implementation Guide for SFFAS 7*, par. 72.

	Federal	Non-federal
Users, academics, others	1	3
Auditors	2	1
Preparers and financial managers	7	

12. Nine respondents either said they agreed with or had no objection to the amendment. One respondent agreed with the change but disagreed with the decision to issue the standard allowing flexibility. Four respondents reviewed the exposure draft but chose not to comment or offered a comment beyond the scope of the issue addressed by the exposure draft. Respondents made the following individual comments:

- a) placement of the line item should be made mandatory now, rather than allowing flexibility
- b) optional presentations reduce understandability
- c) adding a brief discussion of the alternative presentations to the basis for conclusions would make the amendment more understandable
- d) a reference to the discussion of the SOF in the FASAB's *Implementation Guide to SFFAS 7* (April 1996) would be helpful
- e) the SOF is useful; encourage further improvements
- f) the title of the SOF should include the word "reconciliation"
- g) consider making the SOF supplementary information
- h) users would use either budgetary or accrual information, not both, so a reconciliation of obligations and net costs as in the SOF is not useful

Conclusion

13. In light of the comments received from respondents, the Board believes there is support for proceeding with this amendment. The Board considered the comments from several respondents that the basis for conclusions contain a brief discussion of alternative SOF presentations, but continues to believe that such a discussion must be postponed until a fuller review of the statement of financing is undertaken. The SOF is complex, and the narrative and illustrations necessary to present a full discussion of and rationale for the alternatives should be undertaken during a comprehensive updating of the implementation guidance.

Vote for Approval

14. All members of the Board approved this statement.

APPENDIX B: Paragraphs 80 and 97 of SFFAS 7***The current paragraphs are as follows:***

80. Budgetary and financial accounting information are complementary, but both the types of information and the timing of their recognition are different, causing differences in the basis of accounting. To better understand these differences, a reconciliation should explain the relationship between budgetary resources obligated by the entity during the period and the net cost of operations. It should reference the reported "obligations incurred" and related adjustments as defined by OMB Circular A-34. It also should include other financing sources not included in "obligations incurred" such as imputed financing, transfers of assets, and donations of assets not included in budget receipts. Further, it should include decreases (increases) in receivables from the public related to exchange revenue when only the cash amount is included in budgetary resources. The total of these items comprises obligations and nonbudgetary resources.

97. **Nonbudgetary resources** represent the net amount of resources received by the entity that are not included in budgetary resources. These items could include donations of assets, transfers of assets from (to) other federal entities, and financing imputed for cost subsidies. This amount would also include decreases (increases) in receivables related to revenue accrued from the public because, while the cash collected for exchange revenue is a budgetary resource, the accrual amount is not.

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