*FASAB* Federal Accounting Standards Advisory Board

# DEFERRAL OF PARAGRAPH 65.2 -- MATERIAL REVENUE-RELATED TRANSACTIONS DISCLOSURES

**Amending SFFAS No. 7**
***Accounting for Revenue and Other Financing Sources***

**Statement of Federal Financial Accounting Standards Number 13**

***January 1999***

## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Federal Accounting Standards Advisory Board (FASAB or "the Board") was established in October 1990 by the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General. The nine-member Board was created to consider and recommend accounting principles for the Federal Government.

The Board communicates its recommendations by publishing recommended accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and other users of Federal financial information. The Board also considers comments from the public on its proposed recommendations, which are published for comments as "exposure drafts." The Board's sponsors then decide whether to adopt the recommendations. If they do, the standard is published by OMB and GAO and then becomes effective.

The following documents related to the establishment and mission of the Board are 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"

- "Mission Statement: Federal Accounting Standards Advisory Board"

**Background**

1. Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources* including paragraphs 65.2 became effective for fiscal year 1998. It included detailed provisions that apply to entities collecting taxes on behalf of the Federal Government.

2. Paragraph 65.2 of SFFAS No. 7 states:

> Entities that collect taxes and duties should disclose:
> 65.2 **Material revenue related transactions.** Revenue-related transactions affecting the beginning and end-of-period balances of accounts receivable, accounts payable for refunds, and the allowance for uncollectible amounts should be disclosed. All material types of revenue transactions which relate to the custodial responsibilities of the collecting entities should be disclosed. The disclosure should be comprehensive enough to include as a minimum: self-assessments by the taxpayers (or importers); assessments by the entity; penalties; interest; cash collections applied to taxpayer accounts and unapplied collections; refunds, refund offsets, and drawbacks; abatements; accounts receivable written off during the reporting period as uncollectible; and provisions made to the allowance for uncollectible amounts.

3. Because of difficulties in preparing the information and questions as to its usefulness, the Board agreed to consider deletion of paragraph 65.2. Ultimately, the Board agreed that more study of the issues was needed. Accordingly, it agreed that the requirement should be deferred.

## Statement of Standards

4. Paragraph 65.2 of SFFAS No. 7 is deferred three years; it will be effective for periods beginning after September 30, 2000.

### Effective Date

5. This amendment is effective for fiscal periods beginning after September 30, 1998. Earlier implementation is encouraged.

6. Experience gained by IRS and GAO while attempting to implement the provisions of SFFAS No. 7 provided greater insight into the difficulties of preparing, analyzing, and communicating the information described in paragraph 65.2 than was available when SFFAS No. 7 was approved. Based on that additional experience and insight, the Board proposed that subparagraph 65.2 should be rescinded. An exposure draft to accomplish this was published in November 1998. The exposure draft included the alternative view of one Board member. He believed that subparagraph 65.2 should be retained, albeit possibly with some modification.

7. The responses received by the Board which expressed an opinion on the proposal were approximately evenly divided. Respondents supporting the deletion indicated that the requirements were calling for more detailed analysis than generally found in accounting standards, were not cost beneficial, and were potentially misleading because assessments and associated abatements are often substantially overstated. Respondents opposing the deletion indicated that the requirements were essential for proper management and oversight, necessary to overcome the limitations of the modified cash basis of accounting for tax revenues, and helpful in ensuring that systems support evaluations of activity during the year.

8. After reviewing the comment letters and redeliberating, the Board agreed that the primary question was the degree to which the information would be relevant. Some members believe the information would be relevant to users and that it, or similar information, is needed to address the objectives of federal financial reporting. Other members believe that the information presented by IRS and the GAO staff responsible for auditing the financial statements of IRS calls into question the

Board's prior conclusion that the information is relevant. Responses to the exposure draft that proposed deletion of subparagraph 65.2 did not resolve this issue. Therefore, the Board agreed that it should conduct further study regarding the relevance of the items of information discussed in subparagraph 65.2.

9. The Board concluded that the effective date for subparagraph 65.2 should be deferred three years; from fiscal year 1998 to fiscal year 2001. The Board expects to complete the study before the new effective date.

Board Approval

10. The Board approves this recommendation by a vote of eight members approving its issuance and one member opposing its issuance.

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