

**Department of Veterans Affairs
Washington, DC 20420**

**VA Directive 4668
Transmittal Sheet
March 18, 1997**

LIABILITIES

- 1. REASON FOR ISSUE:** To issue accounting policy for liabilities of the Department of Veterans Affairs (VA).
- 2. SUMMARY OF CONTENTS/MAJOR CHANGES:** This Directive describes the events that require the recognition for liabilities, and includes the accounting standards for different types of liabilities recorded by VA activities.
- 3. RESPONSIBLE OFFICE:** The Accounting Policy Division (047GA1) of the Office of the Deputy Assistant Secretary for Financial Management (047) is responsible for the material in this Directive.
- 4. RELATED HANDBOOK:** None.
- 5. RESCISSION:** None.

CERTIFIED BY:

**BY DIRECTION OF THE
SECRETARY
OF VETERANS AFFAIRS**

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LIABILITIES

1. PURPOSE. To provide the accounting policy for the definition, identification, and recordation of liabilities of the VA.

2. POLICY

a. VA activities will recognize liabilities in the period events occur that result in a future probable and measurable outflow or other sacrifice of resources. Liabilities arising from "exchange" transactions should be recognized when one party receives goods or services in return for a promise to provide money or other resources in the future. Liabilities arising from "nonexchange" transactions should be recognized for the value of any unpaid amounts due as of the reporting date. A nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return, i.e., there is a one-way flow of resources or promises.

b. Liabilities will be recorded in the period goods and services are accepted by the VA or progress in work is actually made by a contractor and accepted by the VA.

c. The exact amount of goods and services owed or accrued under contractual agreements or other arrangements governing the transactions will be recorded as a liability. In instances where the amount of the liability is not definitely established, the VA will record the best estimate and make adjustments when definite information becomes available.

d. All valid liabilities of the Department will be accounted for and reported regardless of the availability of funds. Only valid transactions based on documented vendor invoices, receiving reports, or other approved documentation will be recorded.

e. Liabilities will be classified in different categories for full disclosure in the Department's financial reports. The liabilities of the VA will be classified as follows:

(1) Intragovernmental Liabilities. These liabilities are claims against the VA by other federal entities.

(2) Governmental Liabilities. These liabilities are claims against the VA by nonfederal entities.

3. RESPONSIBILITIES: Administration heads, fiscal officers, and accounting chiefs within the Department are responsible for

ensuring that liabilities are recognized, classified, recorded, and reported in accordance with the Department policy set forth in this directive.

4. REFERENCES:

a. GAO Glossary of Terms Used in the Federal Budget Process.

b. Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government.

c. Statement of Federal Financial Accounting Standards No. 2, Accounting for Direct Loans and Loan Guarantees.

d. OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements.

e. Financial Management Letter, F-96-07, "Accounting for Pensions and Other Retirement Benefits," Office of Personnel Management.

5. DEFINITIONS:

a. **Actuarial Assumptions.** Conditions such as demographics,

economics, and other factors used to determine the present value of future payments.

b. **Capital Leases.** Leases that transfer substantially all the benefits and risks of ownership to lessee.

c. **Event.** A happening of financial consequence to an entity.

d. **Executory Cost.** Those costs such as insurance, maintenance, and taxes incurred for leased property, whether paid by the lessor or lessee.

e. **Lessee.** The person or company securing the right to possess and use property owned by another entity.

f. **Lessor.** The person or company owning property and granting a lease.

g. **Liability.** A probable future outflow or other sacrifice of resources as a result of past transactions or events.

h. **Measurable.** Reasonably estimable.

i. **Operating Leases.** An agreement conveying the right

to use property for a limited time in exchange for periodic rental payments.

j. **Present Value.** The value now of a future sum or sums discounted, assuming compound interest.

k. **Probable.** That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven.

l. **Remote.** The chance of the future event or events occurring is slight.

ACCOUNTING STANDARDS FOR LIABILITIES OF THE VA

1. **General.** This appendix discusses accounting standards for the most common types of liabilities recognized in the VA.

2. TYPES OF LIABILITIES.

a. VA activities will record a liability when a payment is received in advance of performing a service or delivering goods.

When advance fees or payments are received, such as large-scale, long-term projects, revenue should not be recognized until costs are incurred from providing the goods and services. The liability will be recorded in the period in which the payment is received.

b. Liabilities resulting from construction or manufacturing contracts will be recorded based on an estimate of actual performance progress and the costs incurred in the accounting period. The unpaid portion of the constructions progress payment claims for which the estimate of actual progress has been certified by the contractor and approved by the VA will be recorded as a liability.

c. A contingent liability is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Contingent future outflows or other sacrifices of resources as a result of past transactions or events may be recognized, disclosed, or may not be reported at all, depending on the circumstances.

(1) Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or other sacrifice of resources is measurable.

(2) Contingent liabilities should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred.

(3) Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

(4) In some cases, contingencies may be identified but the degree of uncertainty is so great that no reporting (i.e., recognition or disclosure) is necessary in the general purpose federal financial reports. Specifically, contingencies classified as remote need not be reported in general purpose federal financial reports, though law may require such disclosures in special purpose reports.

d. **Loan Guarantees.** VA activities will record the present value of estimated net cash outflows of the loan guarantees outstanding as a liability.

e. **Capital Leases Liability.** VA activities will record a liability for each capital lease at the present value of the sum of rental payments for the entire secured term of the lease.

This amount will exclude that portion of the payments representing executory cost to be paid the lessor. If this amount exceeds the fair market value of the leased property at the inception of the lease, the VA will record the liability at the fair market value of the property. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.

f. **Accrued Liabilities.** VA activities will record an accrued liability for goods and services received and accepted but unpaid at the end of an accounting period. An accrued liability will also be recorded for salaries and wages earned but unpaid at the end of an accounting period.

g. **Leave Liability.** A liability for unfunded accrued annual leave will be recorded at the close of each fiscal year for leave earned and payable to the employee.

h. **Insurance Programs.** VA activities must recognize a liability for unpaid claims incurred, resulting from insured events that have occurred as of the reporting date. Life insurance programs should recognize a liability for future policy benefits in addition to the liability for unpaid claims incurred.

i. **Liabilities Determined on Actuarial Basis.**

(1) The VA will recognize a liability for the unpaid claims for benefits as of the date of financial statements.

(2) Liabilities for future program benefits will be accrued at the end of the reporting period when payment is reasonably certain and the amount can be estimated.

(3) The liability for the VA's future compensation amounts will be recorded based on statistical calculations and actuarial assumptions. Amounts pertaining to future pensions will also be based on statistical calculations and actuarial assumptions and the amounts disclosed in the notes to VA's financial statements. The VA will recognize its share of the cost of providing pension benefit expense to eligible employees using cost factors prescribed by the Office of Personnel Management.

(4) The VA will recognize a liability for the Federal Employees Compensation Act (FECA) amount computed for the VA by the Department of Labor. The amount of the liability is to be reported in the Departmental financial statements.