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ACCOUNTING MANUAL FOR FEDERAL CREDIT UNIONS

NEW REVISED EDITION

A recent change in the statute governing credit union financial reporting has necessitated and hastened this revision to the existing *Accounting Manual for Federal Credit Unions*.

Section 201(a) of the Credit Union Membership Access Act (CUMAA), Public Law 105-219, 112 Stat. 918 (1998), added a new subsection to section 202(a)(6) of the Federal Credit Union Act (FCUA), 12 U.S.C. 1782(a)(6)(C). Subsection (C) addresses accounting principles, generally requiring credit unions having assets of \$10 million or more to follow generally accepted accounting principles (GAAP) in all reports or statements filed with the NCUA Board. 12 U.S.C. 1782(a)(6)(C). The NCUA Board, and State credit union supervisors under applicable statutes, are given the authority to require credit unions having less than \$10 million in assets to follow GAAP. 12 U.S.C. 1782(a)(6)(C)(iii).

In the Federal Register: July 29, 1999 (Volume 64, Number 145), the NCUA Board published a final rule revising §741.6 implementing the statutory mandate that Call Reports filed by credit unions having assets of \$10 million or more must be consistent with GAAP. 12 U.S.C. 1782(a)(6)(C)(i).

As a result of the statutory change and the implementing rule, **credit unions under \$10 million in assets are provided this Manual as a guide in accounting for financial transactions and reporting in accordance with the regulatory-basis of accounting prescribed herein.** Of course these credit unions also have the option of following generally accepted accounting principles (GAAP).

Credit unions with \$10 million or more in assets should seek the advice of an independent accountant to gain a full understanding of GAAP.

PURPOSE AND USE AS A PRESCRIBED SYSTEM

This manual sets forth comprehensive procedures for the maintenance of accounting records by federal credit unions with under \$10 million in assets. It also contains accounting guidelines and requirements for accounting topics of interest such as investments in credit union service organizations, interest method of amortization, securities, repossessed property, share drafts, credit cards, etc.

This Manual is not incorporated by reference in the NCUA Rules & Regulations (R&Rs). However, adherence to the accounting principles and standards in Section 200 of this Manual will ensure compliance with the full and fair disclosure requirements of the R&Rs which:

- Define the required level of disclosure needed on financial statements;
- Require federal credit unions to select an accounting basis that is described in this Manual; and
- Instructs credit unions to prepare financial statements in the manner prescribed in this Manual or its equivalent financial statements.

The remainder of the Manual is intended to provide guidelines to credit union officials and employees with information on recommended procedures and practices.

For the most part, the manual adheres to generally accepted accounting principles (GAAP) except for certain permissible accounting practices which are less stringent GAAP.

The manual may be adopted by federally insured, state chartered credit unions under \$10 million in assets at the option of the credit unions and their state supervisor.

LOOSE-LEAF SYSTEM - PERIODIC REVISIONS

The manual is designed as a loose-leaf system to facilitate updating. When revisions become necessary, revised pages will be issued, accompanied by appropriate explanations and instructions for updating your manual.

ELIMINATION OF THE RECOMMENDED CREDIT UNION CHART OF ACCOUNTS

Credit unions are required to file periodic (quarterly or semi-annual) call reports with the National Credit Union Administration (NCUA). The credit union's accounting system and its supporting chart of accounts must facilitate reporting on the call report. Consequently, it is NCUA's contention that the call report reporting format and requirements should drive the credit union's financial reporting mechanism rather than the *Accounting Manual* chart of accounts, though familiar to credit unions. Trying to keep the two NCUA systems uniform, compatible and current was administratively unworkable. Accordingly, the recommended and

familiar *Accounting Manual* chart of accounts is being eliminated in favor of a charting system of the credit union's own design which best facilitates its compliance with the current and existing call reporting requirements.

CREDIT UNION OPERATIONS GOVERNED BY LAWS, BYLAWS AND REGULATIONS

Federal credit unions are corporations organized and operated under the provisions of the Federal Credit Union Act (Act). They are corporations with powers limited to those granted by their charter and the Act. They are governed by their bylaws and the regulations issued by the National Credit Union Administration (NCUA). All directors, officers, and committee members should have a general knowledge of these laws, bylaws, and regulations, and a specific knowledge of the duties required of the particular office held.

ACCOUNTING PRINCIPLES AND STANDARDS -- PURPOSE AND SCOPE

Accounting by federal credit unions serves many internal and external purposes. Comprehensive and accurate financial information is essential so that credit union management can make sound decisions concerning the operation of the credit union. Management must also account for its actions to members, creditors, the National Credit Union Administration in its supervisory capacity, and others having valid financial interests.

Financial information provided to management is summarized in credit union financial statements which are intended to present fairly the financial position of the credit union at a given date, and the results of its operations for a given accounting period. The financial information so presented must be supported by accounting records maintained in conformance with principles and standards designed to provide full and fair disclosure of all material information relating to the credit union's operations.

The principles and standards of federal credit unions have been designed to follow practices in use by other financial and lending institutions and are

generally based on generally accepted accounting principles (GAAP) as developed by the accounting profession. Use of these principles by credit unions for their accounting and financial reporting will provide for full and fair disclosure of financial information.

Many of the principles and standards require the exercise of judgment by credit union officials where optional courses of action are available or where estimates are required for application of a particular principle. Also, direction is necessary under the doctrine of materiality (See Section 200) in order to evaluate the need for applying a particular principle to specific transactions or situations. Subject to these qualifications, the principles and standards in this section of the Manual must be followed to comply with the full and fair disclosure requirements of the Rules and Regulations.