

VA Financial Policies and Procedures
Definition and Principles for Recognition of Liabilities

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0101 OVERVIEW

This chapter provides the Department of Veterans Affairs (VA) financial policies and procedures relating to accounting principles and standards for recognition of liabilities. As defined in the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, a liability for Federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events.

The proper recognition of liabilities is founded in FASAB's guiding principles, which include the proper accounting for various types of different events and transactions, as well as the need to make determinations on the probability of future outflows and the measurement of these outflows. Both FASAB and the Office of Management and Budget (OMB) provide guidance on financial reporting requirements for liabilities.

010101 DEFINITION AND RECOGNITION OF A LIABILITY. VA will establish the existence of a past event, to include transactions involving something transferred of value, when recognizing a liability in accordance with FASAB's SFFAS No. 5. The existence of a past event or transaction is essential for liability recognition.

A transaction may either be an exchange or a nonexchange transaction. An exchange transaction of value occurs when goods or services are received in return for a promise to provide money or other resources in the future. A nonexchange transaction occurs when one entity receives a transaction of value without directly giving or promising to provide money or another resource in the future.

An event may be an internal event occurring within VA or may be an external event involving interaction between VA and another entity, such as a transaction with another agency, an act of nature or an accident. External events involving the transfer of something of value may be further classified into either Government-related events or Government-acknowledged events. Government-related events are nontransaction-based events involving interaction between VA and other entities. Government-acknowledged events are nontransaction-based events of financial consequences because the Government chooses to respond to the event.

010102 MEASURABILITY AND PROBABILITY OF A LIABILITY. VA will recognize probable and measurable future outflows or other sacrifices of resources arising from past exchange transactions, Government-related events, Government-acknowledged events or non-exchange transactions. VA will recognize liabilities on the accrual basis of accounting in accordance with guidance promulgated by FASAB, OMB and the Department of the Treasury (Treasury).

010203 REPORTING OF A LIABILITY. VA will classify liabilities in its published financial statements as either intra-Governmental liabilities or public liabilities¹. VA will adhere to OMB Circular No. A-136, *Financial Reporting Requirements* and Treasury's Bulletin 2007-03, *Intra-Governmental Business Rules*, in reporting on its recognized liabilities.

0102 POLICIES

010201 DEFINITION AND RECOGNITION OF A LIABILITY. VA will define and recognize a liability as determined by the events and transactions.

A. VA will recognize a liability when an exchange transaction involving a transfer of something of value between two entities occurs. For Federal nonexchange transactions, VA will recognize a liability for any unpaid amounts due as of the reporting date.

B. VA will recognize a liability for a Government-related event similar to an exchange transaction, while a liability for a Government-acknowledged event is recognized only when the Government formally acknowledges financial responsibility for the cost.

010202 MEASURABILITY AND PROBABILITY OF A LIABILITY.

A. VA will assess the attributes associated with a liability to determine if the liability may be quantified in monetary units or will require reasonable estimates.

B. VA will assess the probability of a future outflow or other sacrifice of resources on the basis of current facts and circumstances and will recognize liabilities when they are incurred, regardless of whether they are covered by available budgetary resources.

010203 REPORTING OF A LIABILITY. VA will comply with the financial reporting requirements described in OMB Circular A-136, which requires classifying liabilities as covered or not covered by budgetary resources. Intra-Governmental and public liabilities will be separately classified on the balance sheet. VA will disclose significant accounting policies, including accounting principles and methods used to ensure a fair presentation of liabilities.

0103 AUTHORITY AND REFERENCES

010301 [Federal Accounting Standards Advisory Board \(FASAB\), Statement of Federal Financial Accounting Standard \(SFFAS\) No. 1, Accounting for Selected Assets and Liabilities](#)

¹ For more detailed information on both of these liability types, refer to Volume VI, Chapter 2, *Intra-Governmental vs. Public Liabilities*. Additional guidance is in Volume VII, Chapter 5, *Intra-Governmental Activity and Reconciliation*.

010302 FASAB, SFFAS No. 2, Accounting for Direct Loans and Loan Guarantees

010303 FASAB, SFFAS No. 5, Accounting for Liabilities of the Federal Government

010304 Office of Management and Budget (OMB) Circular No. A-11, Preparation, Submission and Execution of the Budget

010305 OMB Circular No. A-136 Revised, Financial Reporting Requirements

010306 OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements

010307 Treasury Financial Manual, Volume 1, Bulletin 2007-03, Intra-Governmental Business Rules

0104 ROLES AND RESPONSIBILITIES

010401 The Assistant Secretary for Management/Chief Financial Officer (CFO) oversees all financial management activities relating to the Department's programs and operations, as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309. Responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

010402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chiefs of Finance Activities, Chief Accountants and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

0105 PROCEDURES

010501 DEFINITION AND RECOGNITION OF A LIABILITY.

A. VA will establish the existence of a past event, to include a transaction which may be an exchange transaction or a non-exchange transaction.

1. Exchange Transactions.

a. VA will recognize an exchange transaction² as a liability, when goods or services are received in return for a promise to provide money or other resources in the future to an employee, another Federal entity or non-Federal entity in payment. For example, when a VA employee performs personal services for the Department, VA completes the exchange transaction by making payment and recording a payroll expense.

² Exchange transactions include intra-Governmental transactions with other Federal agencies.

b. VA will recognize the liability and related expense in the period the exchange occurs. The recorded liability and expense for an employee's salary would include unpaid salary amounts earned and the cost of future retirement benefits related to the current period services.

2. Non-exchange Transactions.

a. VA will recognize the liability, in the case of a non-exchange transaction, when it is expected to provide value without receiving value in return. For example, VA's various entitlement programs create liabilities determined by Federal law rather than through exchange transactions. For example, when a Veteran attends a training class offered as a result of a VA entitlement program, VA will complete the non-exchange transaction by providing a subsidy to the Veteran as payment for the educational institution sponsoring the course.

b. VA will recognize the liability for any unpaid amounts due as of the reporting date.

B. VA will recognize a liability for a Government-related event similar to an exchange transaction, while a liability for a Government-acknowledged event is recognized only when the Government formally acknowledges financial responsibility for the cost.

1. Government-Related Events.

a. VA will recognize the liability for a Government-related event with which it is involved on the same basis as those events which occur in exchange transactions. For example, VA recognizes a responsibility to provide cleanup services to eliminate a hazardous working condition caused by asbestos in a VA facility.

b. VA will recognize the liability for the events in the period specific to the event occurring when the future outflow or other sacrifice of resources is probable and the liability may be measured.

2. Government-Acknowledged Events.

a. VA will recognize the liability for Government-acknowledged events only when the Government formally acknowledges financial responsibility for the cost from the event and either an exchange or non-exchange transaction has occurred. For example, VA provides hospital care or medical services on a humanitarian basis to victims of a natural disaster, using special appropriated funds made available once the U.S. Government has acknowledged the event as requiring financial aid.

b. VA will recognize the liability and associated expense when the following criteria are met:

- Congress has appropriated or authorized resources; and

- An exchange occurs (e.g., when a contractor performs repairs) or non-exchange amounts are unpaid as of the reporting date (e.g., direct payments to disaster victims), whichever applies.
- c. VA will recognize a Federal exchange transaction as a liability for amounts payable when the goods are delivered or the work is complete.
- d. VA will recognize a Federal non-exchange transaction as a liability for any unpaid amounts due as of the reporting date.

010502 MEASURABILITY AND PROBABILITY OF A LIABILITY.

A. VA will assess the attributes associated with its liabilities to determine if they may be quantified in monetary units. In some cases, reasonable estimates may be necessary. VA will determine the proper measurement for the different attributes associated with its liabilities specified in various accounting standards. Because various acceptable ways of measurement exist according to accounting standards, VA will determine the proper measurement for the liability, e.g., fair market value, current cost, present value, expected value, settlement value or historical cost.

B. VA will assess the probability of a future outflow or other sacrifice of resources on the basis of current facts and circumstances, which includes the law providing general authority for Federal entity operations and specific budget authority to fund programs.

1. VA will recognize liabilities, including those related to cancelled appropriations, when they are incurred regardless of whether they are covered by available budgetary resources.

2. VA will determine whether a future outflow or other sacrifice of resources meets the probability test, even if VA does not have budget authority. If budget authority has not been determined, the future outflow or other sacrifice of resources may still meet the probability test if the following apply:

- It is directly related to ongoing VA operations; and
- It is of a type for which budget authority is routinely provided to VA.

010503 REPORTING OF A LIABILITY.

A. VA will prepare financial statements in accordance with OMB Circular No. A-136 and will report liabilities according to the guidance.

1. VA will classify liabilities as either covered by budgetary resources or not covered by budgetary resources. VA will combine the liabilities on the face of the balance sheet, but will disclose the liabilities not covered by budgetary resources in footnotes.

2. VA will classify intra-Governmental and public liabilities separately on the face of the balance sheet.

B. VA will summarize significant accounting policies in the financial statements, including the accounting principles and methods that management has concluded are appropriate and fairly present liabilities.

C. VA will include management's explanation of significant variances in the different types or amounts of liabilities in the Management's Discussion and Analysis,³ submitted annually with the financial statements.

0106 DEFINITIONS

010601 Accrual Accounting. A basis of accounting that records the effects on a reporting entity of transactions and other events and circumstances in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by the entity.

010602 Event. A happening of financial consequence which is of importance or significance to an entity.

010603 Exchange Transaction. A transaction arising when one party receives goods or services in return for a promise to provide money or other resources in the future.

010604 Financial Operations. Activities associated with processing, recording and reporting of revenues, receipts, disbursements, expenditures, assets, liabilities and other financial transactions; reconciling asset and liability accounts, such as accounts or loans receivable, with subsidiary records and with external data, such as Treasury cash records; and preparing financial statements.

010605 Funded or Covered by Budgetary Resources. Liabilities for which VA has received authority to cover the related expenditure or expense. Budgetary resources include not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.

010606 Government-Acknowledged Events. Non-transaction-based events involving a financial consequence to the Federal Government because it chooses to respond to the event. The Federal Government has broad responsibility to provide for the public's general welfare and has established programs to fulfill many of the general needs of the public, often assuming responsibilities for which it has no prior legal obligation.

010607 Government-Related Events. Non-transaction-based events involving interaction between the Federal Government and its environment and may be beyond

³ Refer to Volume VII, Chapter 8, *Management's Discussion and Analysis* for more information on the content of this report.

the control of the Federal entity. Government-related events may include cleanup from Federal operations resulting in hazardous waste the Federal Government is required by statute and/or regulation to clean up, accidental damage to non-Federal property caused by Federal operations, or other damage to Federal property caused by such factors as Federal operations or natural forces.

010608 Intra-Governmental Business Rules. A standard set of regulations providing Federal entities official guidance with recording and reconciling fiduciary transactions and intra-Governmental exchange activity.

010609 Intra-Governmental Liabilities. A claim against VA by other Federal entities. These liabilities are reported separately from claims against VA by non-Federal entities.

010610 Liability. A probable future outflow or other sacrifice of resources as a result of past transactions or events. A liability can represent assets owed for goods received, services received, assets acquired, construction performed (regardless of whether invoices have been received), amounts received but not yet earned, or other expenses incurred but not paid.

010611 Management's Discussion and Analysis. A section of VA's Performance and Accountability Report addressing VA's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.

010612 Measurable. Reasonably estimable.

010613 Nonexchange Transaction. A transaction that arises when one party to a transaction receives value without giving or promising value in return, i.e., there is a one-way flow of resources or promises.

010614 Probable. That which may reasonably be expected – or is believed to be more likely than not – on the basis of available evidence or logic.

010615 Public Liabilities. A claim against VA arising from transactions with non-Federal entities.

010616 Recognize. The process of formally reporting a dollar amount on the face of the basic financial statements.

010617 Unfunded or Not Covered by Budgetary Resources. A liability for which the Federal entity has not received authority to cover the related expenditure or expense.

010618 Valid Transactions. Transactions which involve something of value based on documented vendor invoices, receiving reports or other approved documentation.

0107 RESCISSIONS

0107 VA Directive 4668, *Liabilities* [To be rescinded after all chapters on liabilities are completed]

0108 QUESTIONS

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Accounting Policy (Outlook)