

# FASAB NEWS

Suite 1001 750 First St. NE Washington DC 20002 Telephone (202) 512-7350 Fax (202) 512-7366

## PRINCIPALS APPROVE STATEMENT OF RECOMMENDED ACCOUNTING STANDARDS NO. 3 - INVENTORY AND RELATED PROPERTY

The three Principals have approved the Board's Statement of Recommended Accounting Standards No. 3, Accounting for Inventory and Related Property, dated July 30, 1993. There are now 16 accounting standards issued by the Board. Both this Statement and Statement No. 2, Accounting for Direct Loans and Loan Guarantees, should be issued by the Office of Management and Budget as Statements of Federal Financial Accounting Standards (SFFAS) and be available through the Superintendent of Documents, Government Printing Office, for general distribution by the end of December.

## BOARD PLANS FOR IMPLEMENTATION OF NPR RECOMMENDATIONS

In line with the President's stated "goal to make the entire federal government both less expensive and more efficient", the Board is supportive of the National Performance Review's (NPR) recommendations, particularly those pertaining to FASAB. These recommendations are that the Board (1) issue a set of cost accounting standards for all federal agencies by the end of 1994, and (2) issue within 18 months a comprehensive set of credible accounting standards for the federal government. At its October meeting the Board discussed specific ways by which it can speed up the Board's work to meet the NPR requirements and timetables.

The Executive Director summarized the Board's progress, highlighting the fact that 16 accounting

standards have been recommended by the Board and approved by the Principals. In discussing the status of pending projects, he recommended a number of actions on resources and operational changes which would expedite the Board's work.

A key recommendation was to develop a general concepts statement which would bring together concepts that have evolved from the Board's work to date with other concepts needed for future standards. Such a statement would not only facilitate the Board's deliberations but would permit the staff to provide more finished products to the Board for discussion. The Board directed the staff to develop a preliminary concepts statement for consideration.

The general schedule discussed by the Board would have exposure drafts completed covering a comprehensive set of standards by September 1994. Final recommended standards incorporating public comments would be issued by March 1995 in accordance with the NPR schedule.

## OBTAINING INTERPRETATION OF STANDARDS

During the process of developing recommended accounting standards, the Board welcomes and actively solicits comments on proposed standards. After the recommended standards have been approved by the Principals and issued by OMB as a Statement of Federal Financial Accounting Standards (SFFAS), OMB will issue interpretations. Before issuing interpretations, OMB will consult with the other principals and the FASAB staff. FASAB staff members are also available to agencies to discuss any issues on an informal basis. OMB's Circular A-134 on Financial Accounting Principles and Standards establishes the policies to be followed by Executive

Branch agencies in seeking and providing interpretations related to accounting standards. Requests for obtaining an interpretation of an existing SFFAS should be forwarded to OMB, attention of the Office of Federal Financial Management.

### COST ACCOUNTING CONCEPTS

At the October meeting, two presentations were made to the Board on cost accounting. The first presenter was Morgan Kinghorn, the Chief Financial Officer of Internal Revenue Service. Mr. Kinghorn described the methodology used to establish activity-based costing at an IRS service center. The Center's business process was analyzed to define activities. The resource costs accumulated through the traditional financial accounting system were assigned to various activities within the business system. The activity costs were further assigned to output units, such as processing tax returns or installment payment agreement.

Mr. Kinghorn stated that the major advantages of an activity based cost management system are (1) to have an accurate cost assessment of each process or output, and (2) to know the cost of each activity and its contribution to value. Relying on the system, managers can improve work processes, efficiency, and the use of resources.

With regard to FASAB, Mr. Kinghorn recommended the Board provide for flexibility in cost accounting standards and leverage existing federal experience as standards are developed. He also indicated a need for accounting standards for capital purchases, depreciation, and the allocation of overhead costs.

The second presenter was Dale Geiger, Assistant Professor of Accounting at the California State University, San Marcos, California. Dr. Geiger discussed the research on cost accounting he has done at the Examinations Division of the IRS Boston District. In his study, Dr. Geiger first compiled costs by activities. He then distributed costs of similar activities to tax audit groups on the basis of causal cost drivers. Indirect costs were distributed using a level of effort analysis. A "return on investment" (ROI)

figure was calculated for each audit group dividing the cost of the group into the tax revenues produced by the group. A "ROI" was also calculated for branches and divisions. Using the ROI as a performance indicator, performance variations among audit groups or branches were compared and analyzed to find causes of variations in performance.

Dr. Geiger concluded in his study that management cost accounting develops a cost awareness among managers, promotes organizational interface, and facilitates performance evaluation.

Dr. Geiger believes that there are limitations in prescribing cost accounting standards. It is unlikely that any one standard would meet the needs of various applications in various organizations. He suggested that cost accounting standards should establish a basis of accountability and provide certain basic tools for using cost information.

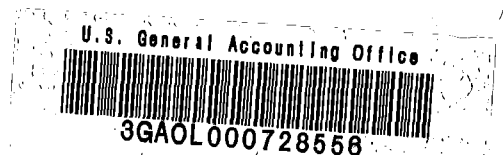
Board members asked both presenters to what level of detail FASAB should prescribe cost accounting standards. In response, Mr. Kinghorn and Dr. Geiger suggested that FASAB provide conceptual guidance and leave to agency managers the task of designing their own cost accounting systems.

The Board decided that a set of cost accounting concepts should be developed as the first stage of the project. Those concepts would guide the project at later stages.

### CAPITAL EXPENDITURE PROJECT

The physical property subgroup is continuing in its work to identify appropriate capital consumption charges for various types of physical property and to define deferred maintenance reporting requirements.

The subgroup concluded that measurement of expense is not complete without including a cost of consuming or 'using up' physical property. The subgroup explored several ways to measure the cost of capital consumption: historical cost depreciation, current cost



iation, renewals accounting with forward-looking accruals, and market-based rent.

Historical cost depreciation will not always provide a relevant capital consumption cost due to changes in the purchasing power of the dollar and in the cost of similar assets over time. For example, the cost of a building constructed twenty years ago is not likely to have a bearing on a manager's decisions today. Therefore, the subgroup has discussed three alternative measurement approaches in order to identify a more relevant measure.

The subgroup believes that a forward-looking renewals accounting approach for long-lived assets to be maintained in perpetuity (e.g., federal buildings of historical significance) and a current cost depreciation approach for assets with an estimable useful life would be more relevant. However, the subgroup believes that historical cost depreciation will be adequate for short-lived assets. The staff is currently researching these measurement approaches and attempting to develop a basis for distinguishing between long- and short-lived assets.

The subgroup reviewed input on deferred maintenance from agencies actually measuring this activity as a part of their facilities management and budget justification process. The Department of Energy, National Aeronautics and Space Administration, and the Department of Navy each employ standard measurement processes for deferred maintenance. Based on reviews of the practices, the subgroup believes that disclosure requirements should be developed for deferred maintenance. Presently, they are not recommending that deferred maintenance be accrued in the financial statements.

This conclusion was reached due to the diversity in measurement practices and concern that accruals would lead to overstating cost. Despite these measurement issues, the subgroup believes that the cost of deferred maintenance is significant and that it should be eventually addressed as a cost of government operations. To highlight the unrecognized and direct readers to an appropriate footnote, the

subgroup suggested that a line item be placed on the operating statement with a reference to the footnote.

## LIABILITIES

### Liabilities

At the October meeting Mr. Harry Ballantine, Chief Actuary, and Mr. Steve Schaefer, Director, Financial Policy, from the Social Security Administration, presented an overview of the Social Security Program. Mr. Ballantine said that, from his experience and from the legislative record, Congress clearly wanted the program to be pay-as-you-go. According to Mr. Ballantine, the goal is for the system to be "self-balancing," but not to be funded in advance. The latter concept is applicable to private pension plans.

The Board also considered an alternative approach for reporting social insurance whereby a "minimum liability" would be reported on the Statement of Financial Position. The minimum liability would represent the present value of future benefits to those currently eligible for certain social insurance programs. The primary position in the draft liability standard takes a different approach. One of the problems with the minimum liability approach is that it might be interpreted to indicate that only those currently eligible for benefits have a legitimate claim against the government. Both approaches are to be included in the exposure draft for public comment.

The value of a future claim statement for reporting social insurance programs was discussed. One member said social insurance programs are so important that they warrant a highlighted treatment. Another member said that, since social insurance programs seemed to be unique, a separate social insurance statement with extensive narrative may be appropriate. Mr. Schaefer said that SSA's annual report has five pages of disclosure on the Social Security Trust Fund. A member said the statement should be limited to social insurance because these programs are unique.

The alternative minimum approach for social...

insurance programs will be included as a question for respondents when the proposed liability standards are issued for public comment.

Pension and OPEB Accounting

The Board discussed pension and other postemployment benefits (OPEB) recognition and measurement options. Staff presented information regarding how the agencies and the plan managers report pension and OPEB costs for the Budget and Accounting Procedures Act of 1950 - Pension Plans (P.L. 95-595) as well as for their statements of financial position and operating statements.

Many of the Board members agreed that federal programs should be charged the full cost of benefits. The difficulty of charging programs the full cost of benefits but not providing any funding to cover the

costs was discussed. The Board concluded that the full cost of pensions and OPEB should be charged to program agencies and that the projected benefit obligation (PBO) should be used to measure the liability. (The PBO includes actuarial projections of future salaries.) Also, the Board asked the staff to review calculation methods to see if there is a way to smooth out actuarial fluctuations.

DETAIL ASSIGNMENT TO FASAB

The Board staff is looking for individuals at the GS-9 to 11 level for detail to the Board for periods of three to six months. The assignments would involve research in capital expenditures, cost accounting and other areas. A detail assignment would be ideal as a part of a developmental program for early career accounting professionals. Accounting managers or interested individuals should contact Ron Young at 202-753-7350.

