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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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

PP&E ED RELEASED FOR PUBLIC COMMENT

The FASAB's proposed Statement of Recommended Accounting Standards for Accounting for Property, Plant, and Equipment is currently being distributed for comment. The proposed standards would have significant effects on the balance sheet, operating statement, and other aspects of general purpose financial reports of federal reporting entities. The Board believes that the proposed accounting standards would enhance the usefulness of these general purpose financial reports. For example, the Exposure Draft (ED) calls for recognizing:

-property, plant and equipment (PP&E) used in providing general government goods and services as an asset on the balance sheet;

-the expense associated with using up PP&E to provide general government goods and services;

-any expenditures to acquire certain types of PP&E that serve unique purposes such as national defense, preservation, or heritage on the operating statement (i.e., off-balance sheet or "stewardship" reporting for these assets); and

-the operating expense and liability associated with cleanup of hazardous materials and waste (e.g., decommissioning of nuclear facilities).

he ED also addresses reporting on deferred maintenance of PP&E.

The Board strongly encourages comments from a variety of sources to aid in making federal financial reports more useful and meaningful. People with different perspectives will naturally have different ideas about accomplishing this. Commenting on the ED, either in writing or by appearing at the public hearing we plan to schedule in May, is an effective way to help in this endeavor. The address for responses and for requests to appear at our hearing is provided in the ED. To request a copy of the ED please call (202) 512-7350.

MANAGERIAL COST ACCOUNTING PROJECT

At the February Board meeting, the Board discussed the major issues identified through responses to the Managerial Cost Accounting Exposure Draft (ED). These major issues were based on the 66 responses to the ED; 48 federal and 18 non-federal responses. FASAB staff provided the Board members with a statistical summary of the 47 written responses received on the exposure draft. The remaining 19 responses were presented by commentators at the public hearings held in November and January.

In general, a majority of the commentators expressed favorable opinions on the exposure draft. Based on the comments received and concerns expressed by some Board members in previous meetings, staff developed a major issues paper for the Board to consider. The Board's discussion of these issues resulted in changes to the proposed standards which are described below.

The Board concluded that, although the exposure draft was originally designed as a statement of standards, it necessarily contains some information that is conceptual in nature. Since this material is essential to the understanding of cost accounting, the final document will be a hybrid statement consisting of concepts and standards. The information concerning the relationship between cost accounting and financial and budgetary activities will be retained as concepts. This includes the use of a common data source and the need for reconciliation of cost information to financial and budgetary data.

The Board changed the standard requiring cost accounting systems. The standard will now require the accumulation and reporting of costs on a regular basis through the use of either formal cost accounting systems or systematic cost finding techniques.

The Board decided to modify the standard on responsibility segments to indicate that cost accounting may be performed at the entity level so long as costs and outputs are accumulated for each responsibility segment. In effect, this leaves the decision to management as to whether cost accounting will be performed in a centralized or decentralized manner. The standard on full costing will also be modified to reflect this clarification.

Inter-entity costing will remain as a standard; however, additional clarification will be added to ensure that emphasis is placed on the usefulness of the data to top level management and external users. In addition, rewording of the section will emphasize that the standard does not call for the recognition of minor or immaterial costs.

The Board decided to retain the standard concerning costing methodology. However, it will be strengthened by providing a ranking preference to the cost assignment principles. These are, in order: (1) direct tracing, (2) assigning costs on a cause-and-effect basis, and (3) allocating costs on a reasonable and consistent basis.

The standard requiring the measurement of unused capacity costs will be deleted from the final statement and will not be recommended as a concept or a standard. Board members believe that most federal agencies will have enough difficulties satisfying other standards with their limited resources without adding the burden of capacity costing at this time.

Finally, the Board decided that the effective date will be delayed by one additional year. The standards will become effective for fiscal periods beginning after September 30, 1996, with earlier implementation encouraged.

Staff are now rewriting the document in accordance with the Board's decisions. A revised listing of the standards is planned for Board review at the March meeting.

REVENUE AND OTHER FINANCING SOURCES

In February the Board discussed a working draft of the ED on Revenue and Other Financing Sources. The Board resolved several minor issues and nine larger ones.

Issue 1: What should be the required level of reporting on major budget accounts in the Statement of Budgetary Resources?

> The Board concluded that this information should be required as supplemental information.

Issue 2: Should losses on long term contracts be recognized in full as soon as they become probable and measurable, or pro-rata over the life of the contract?

> The Board agreed that a loss should be disclosed in notes when a loss is probable and measurable, but the loss should be recognized proportionally over the life of the contract.

Issue 3: Should the ED include special guidance or

..eriality to assure that materiality is assessed in terms of the net costs of individual programs?

> The Board decided not to include special guidance on materiality in this regard.

Issue 4: What guidance should the ED provide for accounting for uncollectible amounts of exchange revenue?

> The Board agreed that the ED should explicitly exclude revenues of programs covered by SFFAS 2, Accounting for Direct Loans and Guarantees. Under Credit Reform, the subsidy is computed net--the gross figures are not significant. In contrast, for exchange transactions in general, it is important to show the gross cost, the exchange revenue, and the net cost of the program. Also, the ED should require, rather than merely permit, separately reporting the amount of the provision for uncollectible accounts that is analogous to "bad debt" but that will be accounted for as a reduction of revenue.

Issue 5: What should be the general effective date, and should another date be provided for certain provisions?

> The Board decided that the ED should propose a general effective date for periods beginning after September 30, 1996; certain supplemental information should be required for periods beginning after September 30, 1997.

Issue 6: How should the ED treat the reporting of transactions that Treasury conducts on behalf of the government as a whole rather than the Treasury Department as an operating agency? In particular, should general tax revenues of the United States Government be reported in the Statement of Changes ...t Position of the Treasury Department, or only in the consolidated statements for the government as a whole?

> The Board agreed that the ED should state: (1) that government-wide reports may require different formats and standards than those used for reports by component units of the government and (2) that the ED does not prescribe the format of government-wide reports.

Issues 7 and 8: Should the ED contain a description of Trust Funds and related disclosure requirements?

> The Board agreed to develop and consider a possible further explanation of the nature of trust funds that might be added to Entity and Display and a disclosure standard that might be added to Revenue and Other Financing Sources.

Issue 9: Should the ED specify that the Social Security Trust funds should recognize as revenue the amounts collected on their behalf by IRS (and transferred to them), in those cases where records maintained by SSA do not identify the specific participants?

> Based on the information presented at the meeting, the Board agreed that conceptually the amounts received should be recognized as revenues rather than payables because the chance of SSA ever returning them was remote. The ED will be written in this way, but the issue will be addressed again in light of legal developments.

The Board will continue its deliberations on Revenue and Other Financing Sources in March.

STEWARDSHIP REPORTING

The Board continues to work toward finalizing the Exposure Draft (ED) on Stewardship Reporting. At the March meeting, the draft ED will again be discussed and it is expected that it will be approved. If approved, the ED would be distributed in early spring.

ENTITY AND DISPLAY STATUS

The Entity and Display Statement is currently undergoing final editing. After the Board has reviewed it for fatal flaw and approved it for sending to the principals, the CFO Council will be briefed on the Concept Statement.

FASAB AND TREASURY SIGN PARTNERSHIP AGREEMENT FOR FINANCIAL MANAGEMENT TRAINING

At the February 16 Board meeting, FASAB and the Treasury Department's Financial Management Service (FMS), through its Center for Applied Financial Management (the Center), entered into a partnership agreement to perform financial management training. By collaborating on training related to FASAB standards, FASAB and the Center will be able to meet customers' requests for training on implementing new accounting standards--including the practical aspects of day-to-day accounting operations.

The partnership agreement is consistent with the National Performance Review's recommendations encouraging good customer service and the sharing of federal agency expertise. FASAB and the Center believe that this collaboration will effectively combine the strengths of both entities to provide training critical to successful implementation of FASAB standards.

As the customer, the entire federal financial community can expect many important benefits. Among these benefits are a comprehensive and well-documented curriculum for the standards and a training development schedule which parallels standards development.

ROLES

As envisioned under the recently announced agreement, each of the two entities FASAB and the Center will play the following roles in the partnership:

FASAB will:

-provide accounting standards expertise (supplemented by OMB and FMS as required);

-provide assistance in developing training techniques; and

-provide instructors at least through pilot stages and training of the Center's prospective instructors.

The Center will:

-provide financial-management expertise to supplement FASAB, as appropriate, in order to develop high quality training;

-provide instructional expertise for determining the optimum training approach and developing training materials;

-secure appropriate CPE accreditation and maintain requisite records;

-be the repository of all training materials, schedule classes, and mail self-instruction materials as appropriate;

-provide liaison through its partnership agreement with the Office of Personnel Management to assure optimum accessibility of training nationwide; and

-conduct all administrative actions related to training courses, including registration, billing, and accounting.

FUNDING ARRANGEMENTS

Training provided under this agreement will be funded by student tuition. Tuition will be set to recover all costs of developing and delivering the training; including instructor salaries, travel, facility rental, course development costs, student materials, administrative handling, and other related costs.

COMPLETION OF CORE STANDARDS EXPECTED BY EARLY FALL

It is anticipated that the body of all core FASAB standards will be completed by early fall of 1995.

FASAB STAFF TO PRESENT AT AGA IN JULY

FASAB staff members will conduct a training session at the July AGA Professional Development Conference in San Diego. The day- long session will be on Monday, July 3. It will address all FASAB standards issued to date.

FASAB WELCOMES DETAILEE FROM FMS

Christine Chang of Treasury's Financial Management Service (FMS), Financial Information Division, has joined FASAB staff for a three month detail. We welcome Christine to FASAB!

MARCH BOARD AGENDA

The Board will hold a two-day meeting this month--March 15 (1:00 to 4:30) and March 16 (9:00 to 4:00) in Room 7C13 of the General Accounting Office, 441 G St., N.W. Washington, D.C. Projects to be addressed include Stewardship, Revenue Recognition, [illegible]lities, and Managerial Cost Accounting.

BOARD MEETING SCHEDULE

The schedule for remaining Board meetings during 1995 is as follows (unless otherwise noted, the scheduled times are 9 a.m. to 4 p.m.):

April 26 (1:00-4:00)
April 27

May 25
June 15
July 20
August 17
September 21
October 19
November 16
December 14

STATUS OF FASAB EXPOSURE DRAFTS

Entity and Display, issued 8/5/94, has been revised and is awaiting fatal flaw review by the Board. Publication is expected this spring.

Accounting for Liabilities of the Federal Government, issued 11/7/94, comments were due 1/31/95 and are now being analyzed. Board approval is expected this spring.

Managerial Cost Accounting Standards for the Federal Government, issued 10/7/94, comments were due 1/31/95 and are now being analyzed. Board approval is expected this spring.

Accounting for Property, Plant, and Equipment, issued 2/28/95, comments are due 4/28/95.