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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

Newsletter

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ACCOUNTING FOR DIRECT LOANS AND LOAN GUARANTEES

The Board's second Exposure Draft, Accounting for Direct Loans and Loan Guarantees, is in the final stages of production and will be released for public comment by the end of September. This ED introduces the use of present value accounting concepts for recognizing the cost of subsidizing loans and guarantees and for loan valuation purposes that are consistent with the budgeting requirements of the Credit Reform Act of 1990. The accounting concepts proposed in the document go beyond those practiced in the private sector.

Copies of the ED will be provided to Newsletter readers. Your careful review and comments will be appreciated, particularly in view of the proposed present value accounting standards, which represent a new approach to accounting for loan programs in the federal government and which may find their way into other programs in the future. The FASAB is likely to hold a public hearing on the ED later this year.

STATEMENT OF RECOMMENDED ACCOUNTING STANDARDS NO. 1, ACCOUNTING FOR SELECTED ASSETS AND LIABILITIES

At the August 19 meeting, the Board members reviewed a draft Statement of Recommended Accounting Standards No. 1, Accounting for Selected Assets and Liabilities (Statement No. 1). The recommended standards were proposed in the Board's first ED, issued in November, 1991. During the review the Board members proposed changes to harmonize the draft with the major reporting objectives identified by the Board in a prior meeting and to be further discussed at the September meeting. It was the consensus of the Board that as soon as these changes are made to the draft Statement No. 1, it should be sent to the Principals as a set of recommended standards.

During the review some members suggested that the Statement not be issued until the Board completes its user needs and objectives project. However, most members favored its issuance with some modifications. They viewed the standards as basic accounting standards and could envision no fundamental conflict with the basic objectives they have developed. The Board decided to recommend that the standards be effective for fiscal year 1994 reporting, with earlier application encouraged.

The Board members concluded that although the recommended standards may refer to the concepts of "financial resources" and "funded liabilities," the Statement should refrain from formally defining these terms at this time. Instead, it was the view of most members that the items labeled "financial resources" and "funded liabilities" in the ED are well understood by the financial community as components of assets and liabilities. Consequently, the title of the Statement has been changed to Accounting for Selected Assets and Liabilities instead of Selected Financial Resources and Funded Liabilities.

Board members also decided that the document should acknowledge that, although the present focus of its standard setting efforts is on financial statements of government component units, the standards should be assumed to be applicable to consolidated statements as well unless otherwise stated by the Board. The members recognized that some of the assets and liabilities, such as "Funds Held with Treasury" and "Investments in Treasury Securities", are intragovernmental in nature and are eliminated upon consolidation. The members wanted the Statement to identify, wherever possible, intra-governmental accounts.

The Board also discussed specific issues related to accounts receivable and investments in securities. The Board reaffirmed its previous decision that initial estimates of losses due to uncollectible amounts should be made and recognized when receivables are recorded. The recognition of losses in receivables should not be made dependent on the occurrence of specific events related to individual accounts. The Board's reasoning is that government receivables (and loans) are inherently high risk transactions and there is a high probability of loss when viewed as a group.

The Board also decided that in view of the fact that government entities mostly invest in par-value nonmarketable Treasury securities, investments in securities should be valued on an amortized cost basis. However, the market value of marketable securities that are not held to maturity should be disclosed.

ACCOUNTING FOR TANGIBLE PROPERTY OTHER THAN LONG-TERM FIXED ASSETS HELD BY AGENCIES OF THE FEDERAL GOVERNMENT

Board members continued in their progress toward preparing an ED for public comment. The staff was directed to make certain changes and to work with the Department of Defense on guidance to be incorporated in the ED for implementing the "latest acquisition cost" method for valuing inventory. The Board will discuss the revised draft and consider any remaining issues at the September meeting. The ED is nearing completion and should be ready for release this fall.

The Board's discussion at the August meeting dealt with a number of changes to the ED concerning accounting standards for the following areas:

Inventory

The Board discussed three alternatives for valuing inventory: historical cost, standard price and latest acquisition cost. The latter two alternatives had been included as methods applicable primarily to the Department of Defense. The Board decided to drop the standard price alternative, electing to leave the latest acquisition cost method as the single recommendation for Defense inventory accounting. The method values inventory at the latest price paid for an item. This value represents its current utility value. Their reasoning for dropping "Standard Price" was based upon the fact that the "Standard Price Approach" was too complicated because of the many forecasts and cost allocations that would be required, and, from a practicality standpoint, it would not likely be used by the Department of Defense. Furthermore, the FASAB members saw no advantage to the "Standard Price" approach over the "Latest Acquisition Cost" approach, provided this approach was properly implemented.

A version of the latest acquisition cost approach is currently in use in Defense. The Board believes that additional detail and guidance is needed in the draft concerning the computation and accounting for holding gains before the members are ready to endorse it.

Stockpile Material

One Board member suggested that the proposed standard for stockpile materials be expanded to include potential write-offs for wasting items such as nuclear materials. Currently, the Department of Energy writes down the value of nuclear materials as they deteriorate. Provisions for the continuation of this practice will be added to the ED.

Seized and Forfeited Property

The Board adopted a proposal, based on information provided by the Department of Justice, to report seized monetary instruments on the face of the financial statements with an offsetting liability pending forfeiture. (The information from Justice had recommended that "seized cash" be recognized. However, the Board decided to use the broader term "seized monetary instruments" because (1) there is a high level of stewardship required, (2) there is a certain valuation, (3) the items are fungible, and (4) the probability of forfeiture is high.)

Further discussion on forfeited property involved the timing of revenue recognition. One Board member believed that revenue should be recognized at the time that the government obtains ownership of the asset. This approach would be more consistent with conventional notions of realization. However, for forfeited property, the valuation is far from certain. Therefore, the Board concluded that revenue should be deferred until the property is disposed of.

Foreclosed Property

With regard to foreclosed property, the Board concluded that net present value is the appropriate valuation method for post-1991 property. However, net realizable value is to be proposed for pre-1992 property since it is not subject to Credit Reform budgeting and measurement requirements. Further, it was concluded that any property that is held for use in meeting programmatic objectives (e.g., not held simply to recover the loan or guarantee amount) should be reclassified. The valuation of these properties will be the subject of a later ED.

Goods Held Under Price Support and Stabilization Programs

The Board decided to use the lower of cost or net realizable value method for valuing commodities. Also, the Board decided that the amount of commodities subject to potential surrender under nonrecourse loans and the estimated amount of commodities to be donated be disclosed.

BOARD'S SEPTEMBER AGENDA

Topics to be discussed at the September meeting include the initial draft ED on User Needs and Reporting Objectives, the revised Statement of Recommended Accounting Standards No. 1, the inventory project (including tangible and other personal property), and future Board projects. The Staff has prepared a draft paper on Accounting for and Reporting of Liabilities and Future Claims on Budgetary Resources; however, the other issues are expected to require the full time of the Board at the September meeting. This topic will be considered at the October meeting.

PROJECT DIRECTORS

For the benefit of Newsletter readers, here is a list of the staff project directors with the projects they manage. These staff members are available for any project-related questions or comments readers may have:

-Robert Bramlett, 202-504-3340

User Needs and Objectives:

The purpose of this project is to produce a written statement of the objectives of federal accounting. The draft statement describes the federal environment, lists uses and user needs for federal financial reporting and concludes with a proposed statement of objectives for federal accounting. The draft document will be published and circulated for comment later this year.

-Richard Mayo, 202-504-3343

Statement of Recommended Accounting Standards No. 1, Accounting for Selected Assets and Liabilities:

This Statement presents these recommended accounting standards for assets and liabilities: Cash, Fund Balance with Treasury, Accounts Receivable, Interest Receivable, Advances and Prepayments, Investments, Accounts Payable, Interest Payable, and Other Liabilities.

Accounting for Direct Loans and Loan Guarantees:

This ED discusses a proposed standard for direct loans and loan guarantees. The proposed standard would require the use of the present value method for measuring and recognizing the subsidy cost of direct loans and loan guarantees made after October 1, 1991.

-Richard Wascak, 202-504-3341

Accounting for Tangible Property Other than Long-Term Fixed Assets Held by Agencies of the Federal Government:

This ED addresses inventory (i.e. items held for sale), operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs.

STAFF MOVE UPDATE

Planning for the upcoming staff move to 750 1st St., N.E. is going forward. Space on the 10th floor is now being readied for staff occupancy. While a firm date has not been established for the move, the originally set time period of the latter part of October continues to hold firm. As more information becomes available, especially the new telephone numbers, we will immediately inform you in this newsletter.

REMINDER

The October Board meeting, scheduled for Monday, October 26, will be held in the Board Room, 3rd floor, 777 North Capitol St., N.E. All subsequent Board meetings are also scheduled to be held at this location.