

FASAB

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**FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD**

Newsletter

September 1992

Issue 5

**ACCOUNTING FOR DIRECT LOANS AND LOAN
GUARANTEES**

On September 15, the Board issued its second Exposure Draft (ED), Accounting for Direct Loans and Loan Guarantees, for public comment. Copies were provided to heads of agencies, Chief Financial officers, members of the Federal Credit Policy Working Group, and some 700 others on the FASAB mailing list. The Board asks that recipients review the ED and provide written comments by November 15, 1992. After the comment deadline, the Board will schedule a public hearing, most likely in late January or early February 1993. Persons interested in receiving a copy of the ED should call (202) 504-3336 (512-7350 after October 23).

**ACCOUNTING FOR TANGIBLE PROPERTY
OTHER THAN LONG-TERM**

**Fixed Assets Held by Agencies of the
Federal Government**

The Board's third ED is fast approaching its release for public comment. At the September Board meeting members reached consensus on all remaining technical issues. It is expected that final editing will be completed soon. An ED should be issued in November.

The Board's decisions at the last meeting dealt with the following proposed standards:

Inventory Held for Sale

Include the latest acquisition cost as an acceptable method of valuing inventory held for sale. The Board reached this decision to satisfy the financial management requirements of the Department of Defense for their proposed method of accounting and reporting of holding gains and losses. But some Board members noted a difference between the Defense method and an alternative provided for discussion. The difference involved the treatment of the unrealized holding gains and losses as a component of operating results for the period. The Defense method would separately report the change in the unrealized holding gains and losses for the period.

Some Board members preferred to report the change in the unrealized holding gains and losses as a part of the cost of goods sold. They stated that this method would result in a cost of goods sold amount that approximates historical cost. The Board approved a request to present the alternative method and to ask for specific comments on it.

In addition, one Board member proposed that the standard cost method included in the ED be revised to allow for a replacement cost valuation. The current draft of the ED would permit the use of standard cost systems if the result were equivalent to that achieved under a historical cost method. The replacement cost alternative for standard cost also will be presented for comments.

Operating Materials and Supplies

During the discussion the Board members agreed that the consumption method is preferred over the purchase method for the accounting for operating materials and supplies. However, if the following criteria are met, the purchases method may be used in lieu of the consumption method:

- (1) the assets are not significant amounts,
- (2) the assets are in the hands of the end-user, and
- (3) it is not cost-beneficial to account for the assets under the consumption method.

The Board also considered substituting the term "material" for the term "significant" in the first criterion. But after a lengthy discussion, the members decided to continue using the latter term. The Board's decision hinged on the concept of materiality as an underlying concept for all standards. Thus, they believe that use of the term "significant" would result in increased awareness or closer understanding of an activity or operation.

Goods Held Under Price Support and Stabilization Programs

Include accounting for nonrecourse loans and purchase agreements in the

goods held under price support and stabilization programs (e.g., commodities) proposed standard. The proposed standard will provide for earlier recognition than under current accounting practice of potential losses on both nonrecourse loans and purchase agreements. The ED will specifically solicit comments on the cost of implementing this standard versus the benefit to be obtained.

USER NEEDS AND OBJECTIVES

Discussion at the September Board meeting helped advance the members' thinking on several issues. The discussion revolved around a draft statement of reporting objectives for the federal government.

Board members see accounting standards as contributing to the broad purposes of financial reporting. That's why financial reporting objectives will be the subject of the Board's first conceptual framework document. In the draft statement those objectives are framed around the ideas of budgetary integrity, operating performance, stewardship, and deterring fraud and abuse.

The Board realizes that accounting standards play only a supporting role in meeting some of these objectives. They will be met by a variety of reports, some of which will be more affected by accounting standards than others. Accounting standards on cost measurement could make a major contribution to reporting on operating performance. With respect to budgetary integrity, on the other hand, the role of accounting standards might be limited to providing accounting information necessary to support the budget.

The Board's discussion emphasized the importance of both internal and external users of financial reporting



information; both must be kept in mind.

The Board also discussed its role with respect to reporting on performance. It identified three aspects of performance reporting. As an example of performance reporting, for an airline the percentage of on-time flights would be a measure of performance. A benchmark specifying that 90 percent of flights should arrive within 15 minutes of their scheduled times would be a standard of performance. A third aspect of performance indicators might be called the qualitative characteristics-e.g., they should measure achievement of basic goals, be objective, and be linked with cost measures.

Board members agreed that performance standards are a function of management and the Congress, not of accountants. On the other hand, measurement of costs that enter the development of performance standards is a function of the accountant and the system of financial reporting.

The Board directed the staff to rewrite the draft for the October meeting.

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

The staff revised the draft Statement to include Board member comments from the August 19 Board meeting and circulated the draft to Board members for review. After incorporating Board comments on the revised draft, the final draft version of the Statement will be discussed at the October Board meeting.

ACCOUNTING FOR LIABILITIES AND FUTURE CLAIMS ON BUDGETARY RESOURCES

The staff has completed a draft ED for presentation to the Board. It defines liabilities and future claims, provides criteria for recognition and measurement, and applies the criteria to specific categories of liabilities.

The ED discusses a conceptual framework that provides a structure for relating liabilities to other accounting elements - such as assets, resources, expenses, etc. - and for conveying accounting information to users.

Two basic issues to be discussed at the October FASAB meeting are:

Whether the ED's liability definition and criteria are appropriate and useful. The staff has developed a detailed discussion of the liability criteria and then applied them to specific categories. These categories include probability, past transactions, and measurability.

Whether the ED's future claims on budgetary resources criteria and disclosure requirements are appropriate and useful. The staff is proposing a methodology for identifying and disclosing future claims based on available information.

OCTOBER MEETING AGENDA

Items on the agenda for the October meeting include topics in the following Exposure Drafts:

Statement of Recommended Accounting Standards No. 1.

Accounting for Selected Assets and Liabilities.

Accounting for Liabilities
and Future Claims on Budget-
ary Resources, and

User Needs and Objectives.

STAFF MOVE - DATE SET

The staff will finish the move to its new location at 750 First St., N.E. Monday, October 26. New telephone numbers will be in effect on that date and are listed below. (All numbers are in the 202 area code.):

Main Number (Receptionist and general information) 512-7350

Fax Number 512-7366

Ronald S. Young,
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REMINDER

The October 26 Board meeting will be held at 777 North Capitol St., N.E. in the Board Room (Washington Metropolitan Council of Governments), 3rd floor. Subsequent meetings are scheduled to be held at this location. The new meeting site is easily accessible to the Union Station stop on the Metro Red Line. This stop is a walk of three short blocks away from the meeting site.

Limited public parking is available in the indoor garage at 750 First St., N.E. at \$3.50 per hour or \$7.00 per day. Additional parking is available in the public parking garage at Union Station at \$2.50 per hour or \$8.00 per day. Union Station parking is about a 5-7 minute walk to the meeting site.

