

FASAB

Telephone 202 512-7350
Fax 202 512-7366

750 1st ST NE,
Room 1001
Washington, DC
20002

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**FEDERAL ACCOUNTING STANDARDS
ADVISORY BOARD**

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Newsletter

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**BOARD ISSUES FIRST SET OF
RECOMMENDED STANDARDS**

The Board closed 1992 with a flourish by issuing its first set of recommended accounting standards. It also produced two other documents, one on accounting for inventory, and one on the objectives of federal financial reporting. The following three articles discuss each document in greater detail.

**STATEMENT OF RECOMMENDED ACCOUNTING
STANDARDS, NUMBER 1: ACCOUNTING
FOR SELECTED ASSETS AND LIABILITIES**

The Board sent this first Statement of Recommended Accounting Standards to its principals in December. Once approved by the three principals, OMB and GAO will issue the standards. The Board recommended that the standards become effective for fiscal years ended September 30, 1994 and thereafter.

The Statement includes accounting standards for cash, fund balance with Treasury, accounts receivable, interest receivable, advances and prepayments, investments in Treasury securities, accounts payable, inter-

est payable, and "other liabilities."

The Statement is based on the Board's first Exposure Draft entitled Financial Resources, Funded Liabilities, and Net Financial Resources of Federal Entities.

**EXPOSURE DRAFT: ACCOUNTING FOR
INVENTORY AND RELATED PROPERTY**

This exposure draft was released on January 8, 1993. Comments are requested by March 8, 1993.

In this document the Board proposes accounting standards for inventory, operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs, including nonrecourse loans and purchase agreements. FASAB undertook this project because the magnitude of federal inventory and related property makes it a critical area for accountability and cost management. Due to the high dollar amount involved (over \$300 billion), substantial savings may be available

through improvements in inventory management.

**EXPOSURE DRAFT: OBJECTIVES OF
FEDERAL FINANCIAL REPORTING**

This document focuses on the uses, user needs, and objectives of federal financial reporting. The exposure draft was developed with wide participation from both the federal and nonfederal community. Senior staff members from several congressional committees and senior level federal executives participated in focus group sessions to identify user needs. Interviews were conducted with federal program managers to identify their needs for financial information. A task force of individuals from the private sector, academia, and federal agencies was established to provide general advice on establishing user needs. Additionally, a task force chaired by Ed Mazur of OMB, and composed of several Board members, Chief Financial Officers, and representatives from the budget and audit communities developed recommendations to the Board on reporting objectives.

The exposure draft asserts four major objectives along with several subobjectives. The major objectives are:

1. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the government's legally adopted budget and related laws and regulations.

2. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity, the manner in which these efforts and accomplishments have

been financed, and the management of the entity's assets and liabilities.

3. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.

4. Federal financial reporting should assist report users in understanding whether adequate financial management systems and internal controls are in place.

Copies of the exposure draft will be available on request from the FASAB until March 15, 1993. A public hearing to present views on the exposure draft is scheduled for April 21 and 22.

**ACCOUNTING FOR LOANS AND LOAN
GUARANTEES**

At the January meeting the staff presented a summary and analysis of the 36 comments received on the Exposure Draft on accounting for loans and loan guarantees. The Board also heard a presentation from a GAO representative who gave highlights of a GAO report titled Agencies Had Serious Problems Meeting Credit Reform Accounting Requirements. He stated that major problems stemmed from the lack of data and from the deficiency in the capability of the agencies' accounting systems. With regard to pre-credit reform loans and loan guarantees, the GAO report points out certain advantages of restating them on a present value basis.

The Board members first discussed the issue on present value account-

ing for post-credit reform loans and loan guarantees.

Most Board members recognize the fact that agencies must budget for credit reform loans and loan guarantees at present value to comply with the law. They believe present value accounting will assure that financial reports are compatible with the budget.

The Board then discussed the issue related to the measurement of modification costs. Most Board members upheld the ED's proposal that the cost of modification should be calculated using the interest rate applicable to the time of modification. They believe that the current rate is most relevant to the modification action and should be used to measure the modification cost.

Finally, the Board discussed the issue on pre-credit reform loans and loan guarantees. The Board agreed that the standard should be revised to the effect that while it does not require restating pre-1992 loans and loan guarantees at present value, it "permits" such a restatement by an agency, if the agency finds the restatement to be feasible and beneficial. Agency comments to the Exposure Draft did not favor restatement.

Although the Board decided that a public hearing was not necessary, the staff was directed to meet with major credit agencies to discuss their concerns and to obtain additional information on the cost impact of implementing the standards. The staff met with the agencies and will present the results of the discussions to the Board at the February meeting.

LIABILITIES PROJECT

The Board has developed a definition of "Liability" and identified liability categories at the November and December meetings. At the January meeting discussion focused on operating statement costs associated with the liability categories. Under the category of means-tested social insurance programs, the cost captured for the operating statement would be the annual expenditures plus the change in the year end accrual for unpaid items. The liability would be the year end accrual. There would be no actuarially determined future claims for this category.

For contributory social insurance programs, the cost captured in the operating statement would be the annual expenditures plus the change in the year end accrual for unpaid items. The liability would be the year end accrual. Actuarially determined future claims beyond the year end accruals would be reported in a separate accountability statement. The Board discussed the need for a new term such as "social contracts" for actuarial obligations being reported on an accountability statement to distinguish them from liabilities reported on a balance sheet report.

For federal employee pensions and benefits, the cost captured in the operating statement would be based on changes in actuarial calculations of the liability (closed system). The actuarial liability would be reported on the balance sheet.

In the above cases the Board chose to use actuarially determined liabilities and associated costs for employee pensions and benefits but not for contributory social insurance. The importance of measuring the costs of delivering government

services is a key reason for such a distinction. Employee pensions and benefit costs were considered to be an important part of the costs of providing services. On the other hand, the Board considered the cost of items in the social insurance category such as social security to be the service itself rather than the costs of providing the service. Accordingly, the Board chose to include such future claims on an accountability statement and limit the costs on the operating statement to annual expenditures and year end accruals.

REPORTING MODEL PROJECT

The Board decided to move ahead with a project to develop a federal financial reporting model. The Board agreed to appoint a task force to study the federal financial reporting model issue. Ed Mazur, the U.S. Controller, will take responsibility for forming the task force, which will include representatives from throughout the Executive and the Legislative Branches. FASAB staff will also be included on it. The model is the set of reports used to communicate information about an entity called for in the Reporting Objectives.

At the same time, it is the mechanism for summarizing the processes of accounting. The model can be thought of as the link between the processes of accounting and the people who use information derived from those processes. It is important because it influences decisions made by those who recommend accounting policy as well as those who use financial information.

At a prior meeting the Board agreed in concept to consider different ways of reporting and displaying in-

formation as it goes about the standard-setting process. This was due, in part, to the fact that the federal government is a unique, complex entity. Previous concepts have been found inadequate or inappropriate, and FASAB is reviewing them from the ground up. Meeting the objectives and subobjectives of federal financial reporting and communicating the results may require some new tables, displays, and statements.

This agreement also grew from the belief that standards for specific items in a given report must be congruent with those for other items in the report so as to add up to a result that answers larger questions. In other words, consideration of standards for individual items can be influenced by the context in which the items will be reported.

Now that the Board has published an exposure draft on the Objectives of Federal Financial Reporting, it is time to consider the related implications for the reporting model. The Task Force on reporting model will assist the Board in this endeavor. The issues that the Task Force will address have not yet been fully defined, but may include such questions as:

- how to define federal reporting entities, both at the component and at the government-wide level,
- the nature and format of "basic" or core financial statements for these entities, and
- in general terms, what types of supplemental information should accompany the basic financial statements in general purpose financial reports.



INVESTMENTS PROJECT

At the January meeting, the Board discussed undertaking a project to study investments. The term "investments" is being considered broadly in order to address both tangible and intangible items. The Board is open to the possibility that investments may include expenditures on intellectual and human capital (e.g., education and training, and research and development) as well as physical capital.

The Board discussed the possibility that this broad group of investments could be subdivided into meaningful categories. Different categories could then be afforded different accounting treatments. For example, some investments may be subject to traditional asset accounting (e.g., capitalized and depreciated) while other investments may not. The financial reporting objectives are to be carefully considered in developing accounting standards for those items ultimately identified as investments.

The Board will be discussing this project at the February meeting and will, at that time, decide how to proceed on this project.

PUBLIC HEARING ON REPORTING OBJECTIVES AND INVENTORY ISSUES

A public hearing has been scheduled for April 21 and 22 on issues related to the exposure drafts on federal financial reporting and inventory and related property. It will be held in room 7313 of the GAO Building, 441 G St., N.W. Individuals interested in presenting their views should contact the Executive Director, Ronald S. Young, by March 1.

CONTACT POINT FOR EDs AND HEARING

Address responses and requests for additional copies of Exposure Drafts or to appear at the public hearing to:

Ronald S. Young
Executive Director
Federal Accounting Standards
Advisory Board
750 First Street NE, Suite
1001
Washington, DC 20002

NEWSLETTER ISSUANCE

The previous edition of the Newsletter was in November. The current issue covers activity for December and January. There were none for December or January.



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