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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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FASAB NEWS

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

FASAB RECOMMENDS 6 NEW STANDARDS AND FEDERAL REPORTING OBJECTIVES

The Board voted to recommend to the principals, the Secretary of the Treasury, the Director of OMB, and the Comptroller General, a Statement on Objectives of Federal Financial Reporting and 6 new standards on Accounting for Inventory and Related Property. When approved, these standards, plus the standard on accounting for loans and guarantees voted out last month and the 9 standards included in the approved statement No. 1 will amount to 16 individual accounting standards issued by the Board. After the principals approve the reporting objectives document, there will be a set of clearly established objectives of reporting for both individual governmental component units and for the federal government as a whole. This represents the first time the federal government has had a comprehensive reporting policy.

For a better understanding of the impact of these 16 accounting standards that have either been completed, or are near completion by the Board, a few statistics might be of interest:

- These standards cover roughly \$612 billion in consolidated federal assets. (Of the remaining federal assets of approximately \$782 billion, \$594 billion covers fixed assets and is being addressed in the Board's current project on investment-type expenditures.)

- These standards cover roughly \$370 billion in consolidated federal liabilities. (Of the remaining federal liabilities of approximately \$4.5 trillion, the Board is addressing pensions

(\$1.2 trillion), post employment benefits (\$410 billion) and other actuarial liabilities (\$239 billion) in its current project on liabilities and future claims. The Board will also address public and agency debt of approximately \$2.6 trillion.)

- Because of the direct loan and loan guarantee standard, the liability for guaranteed loan losses of approximately \$46 billion will now be reported in the financial reports.

OMB ISSUES STATEMENT OF RECOMMENDED ACCOUNTING STANDARDS NO. 1

The Board's Statement of Recommended Accounting Standards No. 1, Accounting for Selected Assets and Liabilities, dated December 15, 1992, has been issued by the Office of Management and Budget as its first Statement of Federal Financial Accounting Standards (SFFAS). OMB has made arrangements for copies of the document to be obtained at \$4.00 each from the Superintendent of Documents, Government Printing Office, Washington, D.C., 20402-9325. Request document S/N 041-001-00403-3.

OBJECTIVES OF FEDERAL FINANCIAL REPORTING

At its June meeting the Board reviewed a draft of the conceptual statement on Objectives of Federal Financial Reporting that reflected changes agreed on in May. These changes were influenced by responses to the exposure draft and comments at the Board's public hearing in April. After making minor revisions, the Board approved the draft. The substance of the

objectives remains unchanged from the exposure draft published in January, but some wording has been modified. For example, the heading for the fourth objective has been changed from "Deterring Fraud, Waste, and Abuse" to "Systems and Control."

The recommended statement on concepts will be prepared for publication and forwarded to the Board's principals for their approval in July. After approval, the Statement will be published by OMB and GAO.

GOVERNMENT CORPORATIONS

At the June Board meeting, David Hanna, formerly of GAO, presented the results of a survey he conducted of 10 government- owned or sponsored corporations. The survey was designed to analyze the adequacy of generally accepted accounting principles (GAAP) issued by the Financial Accounting Standards Board (FASB) in meeting the financial statement reporting needs of government corporations. The survey also addressed the potential role of the FASAB in meeting those needs.

Tom Armstrong, Counsel for FASAB, presented the results of a review of enabling legislation for corporations defined by the Government Corporation Control Act. This review identified 3 avenues by which the Board and its sponsors might influence the corporations' selection of accounting standards: (1) direct agency supervision; (2) agency participation on the corporation board; and (3) receipt of appropriated funds.

The Board discussed these reports and what would constitute a desirable hierarchy for GAAP for federal corporations. The Board is considering that such units should follow FASB GAAP unless: (1) the FASAB recommends a different standard for a specific transaction or other reporting issue for a specific government corporation or class of corporations; and (2) the Board's sponsors act affirmatively on that recommendation. The Board is discussing preparing a draft policy along these lines.

ACCOUNTING FOR INVENTORY AND RELATED PROPERTY

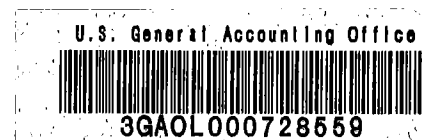
The draft Statement of Recommended Accounting Standards No. 3, Accounting for Inventory and Related Property, was approved at the June Board meeting. During the two day meeting the Board discussed minor revisions to the standard. These include describing the accounting responsibilities of the entities who seize property and clarifying the handling of receipts and disbursements during the holding period for post-1991 foreclosed property.

After discussion of these changes, a Board member reiterated his concern that the determination of cost of goods sold should be based on the replacement cost, not the historical cost as provided in the proposed standards. Other Board members noted that information can be approximated because the latest acquisition cost method provides for reporting the components necessary to arrive at a more current cost of goods sold.

A majority of the Board members voted to issue the Statement after incorporation of the revisions agreed to at the meeting. The final Statement, containing 6 discrete accounting standards, is expected to be signed by Chairman Staats and submitted to the principals for approval by the end of August.

LIABILITIES AND FUTURE CLAIMS ON BUDGETARY RESOURCES

At its June meeting, the Board reviewed the liability definition and criteria and their application to illustrative federal program categories such as social insurance, employee benefits, and government-created injuries. The Board also discussed underlying concepts and a possible definition for future claims on budgetary resources ("an existing commitment giving rise to a probable future outflow of resources not disclosed as a liability"). Stewardship reporting options were discussed as was an outline of a government-wide stewardship statement.



The Board identified several issues to be resolved before an exposure draft can be finalized. The future exposure draft will include, in the basis for conclusions or supplemental information, a discussion and an illustrative example of how the definition and criteria of a liability would be applied. The issues and reporting alternatives will be further discussed at the July Board meeting.

INVESTMENT-TYPE EXPENDITURE PROJECT

In connection with its investment-type expenditure project, the Board welcomed to its June meeting Mr. John Cherbini, a Partner at Coopers and Lybrand, and Mr. Jay Gremillion, his associate. Messrs. Cherbini and Gremillion are currently working on a contract to revise accounting policy for the Department of the Army. They briefed the Board on the progress and initial findings of the project.

The Department of the Army contracted with Coopers and Lybrand to develop an accounting policy proposal to value and account for its military equipment. How to value and account for equipment is also being considered under the Board's investment-type expenditure project. The accounting policy to be developed under the Army contract is one that would best meet its internal information needs while enabling it to produce audited external financial reports.

Highlights of the initial progress on the contract related to accounting for equipment using historical or current selling price, accounting for the costs of refurbishing existing equipment, accounting for government furnished equipment, whether it makes sense to depreciate equipment or assign it some type of condition code, and whether to allocate research and development costs.

Mr. Cherbini presented the concept of a standard cost system for internal management information. Mr.

Gremillion suggested that the changes in the standard cost could be accumulated in a contra account for unrealized gains. Board members offered comments on this concept. One member said that historical cost could still be used, with provisions for "grand-fathering" existing assets. Another said that, based on the Army's use of this information, a more useful approach might be a physical count and location with a dollar value only for loss of assets.

Following the presentation, FASAB staff provided the Board with an update on the work of the investment-type expenditure task force. Major points covered:

- There was concern among the task force members and key agency representatives that the title of the project, "investment" or "investment-type" expenditures, was too broad.
- Many agreed that for measuring operating performance, one of the financial reporting objectives identified by the Board, it may be useful to separately report those tangible items used in operations versus those not used in operations. However, there were divergent views on the technicalities of accomplishing such a breakdown.
- Many agreed that for measuring operating performance, it may be useful to have reporting requirements for intangible items.

The staff also provided the Board with the following suggestions for continuing the project:

- Since the term "investment" has a variety of uses and may be misinterpreted by users, the project name should be revised.
- Because the issues and options differ for physical capital and human and intellectual capital, the project should progress as two subprojects.

The Board generally agreed with these suggestions. One remarked, however, that depreciation should be addressed early in the discussions as it is an issue that continues to come up. Another noted that it is the end use of the physical property that should determine how it is classified.

The Chairman concluded by requesting that staff prepare an issue and options paper on the two subprojects.

RESIGNATION OF ED MAZUR

At the June Board meeting, Ed Mazur announced that at the end of June he would be leaving his position as Controller, Office of Federal Financial Management. He has accepted a position as Vice President of Administration and Finance at Virginia State University, a challenging assignment that will also allow him to spend more time with his family. Mr. Mazur expressed thanks for the opportunity to have served on the Board and to have worked with its members and staff. He emphasized the Board's pivotal role in improving federal financial management through standardizing accounting and reporting and indicated he would look forward to commenting on future Board projects.

Chairman Staats thanked Mr. Mazur for his significant contribution both as a Board member and as the first Controller under the CFO Act. He cited, in particular, Mr. Mazur's leadership role in heading the task force to develop the Objectives of Federal Financial Reporting. Stating that Mr. Mazur's ability to bridge differences and foster reaching common solutions will be missed, Chairman Staats wished Mr. Mazur well and invited his continued interest in Board activities.

ENTITY AND DISPLAY PROJECT

At the Board's July meeting, Deputy Controller Hal

Steinberg will give a status report on the entity and display task force. The task force has thus far focused on the definition of entity, that is, what kinds of reporting units should be included in the federal reporting model for general purpose financial reports. The task force is beginning to consider display issues. These issues deal with the financial statements and related schedules or reports needed for reporting units to address the objectives of federal financial reporting.

HIERARCHY OF ACCOUNTING PRINCIPLES

In the April 1993 FASAB News, we published the interim guidance on accounting standards approved by the principals pending their publishing a sufficiently comprehensive set of accounting standards. This guidance, which provides a hierarchy of accounting principles and is considered "an other comprehensive basis of accounting," has been issued in a revision to OMB Bulletin 93-02, "Form and Content of Agency Financial Statements." Copies of the Bulletin can be obtained from the Office of Management and Budget, Office of Federal Financial Management, Financial Standards and Reporting Branch, 725 17th St., Room 10235, Washington, DC, 20503, or by phone (202) 395- 3993.

FRANK REXFORD

We note with deep regret the untimely death of Frank Rexford, a member of FASAB's staff. Mr. Rexford began his federal career with the Cost Accounting Standards Board. He later worked for the Defense Contract Audit Agency, the Railroad Accounting Principles Board, the General Accounting Office, and the Federal Accounting Standards Advisory Board.

Mr. Rexford contributed greatly to the Statement of the Objectives of Federal Financial Reporting. He played a major role in developing user requirements through focus groups and interviews with users of federal financial information. Mr. Rexford's work was vital to the ultimate form and content of the Statement, which includes much of his writing.

