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FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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THREE RECOMMENDED STATEMENTS SUBMITTED TO PRINCIPALS

During July, the Board recommended the following documents to the principals:

-Statement of Federal Financial Reporting Objectives. It includes objectives in the areas of Budgetary Integrity, Operating Performance, Stewardship, and Systems and Control.

-Accounting for Inventory and Related Property. It includes the following six standards: inventory, operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property, and goods held under price support and stabilization programs.

-Accounting for Direct Loans and Loan Guarantees. It includes standards for pre- and post-Credit Reform Act Accounting.

Other work in progress is:

- Developing a Reporting Model,
- Developing an Exposure Draft on Liabilities and Future Claims,
- Developing an Exposure Draft on Capital Expenditures (formerly Physical and Non-Physical Assets), and
- Performing research on Management Cost Accounting Standards.

FUTURE CLAIMS ON BUDGETARY RESOURCES

The Board discussed a proposed definition for future claims on budgetary resources and reviewed several pro forma alternative displays. The definition will encompass future claims which do not meet the definition of liabilities. The Board's majority view for the definition of the term "liability" is as follows: "a probable and measurable future outflow of resources arising from a past transaction or event." The Board is considering "other supplemental information" which might not meet a future claim definition but would still be useful to disclose.

For future claims, one of the possible pro forma displays under consideration is the "current service estimates" (CSEs) published in the Budget of the United States Government as directed by statute. The CSEs are five-year projections of currently authorized programs. It includes receipts as well as discretionary and mandatory spending. Several Board members said that the CSEs were informative, and may be worthwhile to include in a general purpose financial report; but it should be shown as supplemental information and not as future claims. Moreover, by the time annual financial reports are published the CSEs information may be too old to be relevant.

It was felt that future claims ought to fill a void and provide information that is not already available in the budget. It should be useful information not otherwise focused on, such as risk exposures not easily accessible elsewhere. The information might be considered "economic" rather than "accounting" or "financial." Accountants may view liabilities differently for their purposes.

There seemed to be a consensus that both CSE and risk exposures should be reported as stewardship information, but that CSE would be "other supplemental information." The future claim concept is developing as realistic risk exposures, the type of contingencies the Financial Accounting Standards Board might consider only "reasonably possible" as opposed to "probable" -- and therefore not require recognition as a liability. The CSE would be useful "other supplemental information," either dollars or percentages of GDP or both, but "future claims" would be selective information.

There seemed to be a consensus that the future claims should "go beyond" liabilities. At least two types of "going beyond" are possible: (1) there are footnotes to the operating statements which provide information on the present obligations; and (2) there were future claims/obligations that needed reporting.

In developing the criteria and definition for future claims, programs will be identified for study that currently face the problem of disclosing contingencies and potential future obligations.

CAPITAL EXPENDITURE PROJECT

As reported in the July edition of the FASAB News, this project, known as the "Investment-type Expenditure Project," was to be renamed in response to task force requests to eliminate the term "investment." It was felt that "investment" could be confusing to users of financial reports since the term has a variety of meanings both within and outside the federal sector. Therefore, the project has been renamed the "Capital Expenditure Project."

Also, as last reported, at a working level the project was to be subdivided so that the issues for each type of capital expenditure could be more easily addressed. Staff originally proposed that the project be divided between tangible and intangible items. However, discussions with task force members and representatives highlighted that many unique issues exist at a somewhat lower level than the tangible/intangible split. It was therefore decided to break the

project into working subgroups in the following categories: Property, Infrastructure not owned by the Federal Government, Human Capital, and Research and Development.

The subgroups will be meeting over the next few weeks to address their respective issues. As each subgroup develops its issues they will be presented to the full task force for review prior to being presented for the Board's consideration. Issues on property will be presented at the task force's August 20th meeting. FASAB staff will then prepare an issues paper on property for the Board's consideration at its September meeting.

ENTITY AND DISPLAY

Deputy Controller Hal Steinberg made a presentation to the Board on the work of the Entity and Display Task Force. The two topics "entity" and "display" are often referred to collectively as "the reporting model." The project is intended to provide a framework for establishing standards for the presentation of general purpose financial reports.

The FASB can often consider decisions about what items businesses should recognize in financial statements and how those items should be measured without also considering how to define the reporting entity, what financial statements should be included in a financial report, or what those statements should look like. This is because an accepted, workable framework exists within which such decisions can be made on an incremental basis.

The situation for the FASAB is different. Currently there is much less agreement about the federal financial reporting model than exists regarding the reporting model used by businesses. In this situation, some decisions about recognition and measurement may be influenced by details of the reporting model that is contemplated.

REPORTING ENTITY

The reporting model project can be viewed as comprising two distinct



first part deals with defining the federal financial reporting entity and its component reporting units. The second part deals with defining the general purpose financial statements that each reporting unit should prepare. In an important sense, the government comprises a single economic and political entity. Of course, it can be subdivided in many different ways.

The United States government can be viewed from a variety of perspectives. Different perspectives are relevant to different decisions or objectives. The Task Force focused on three perspectives that have special relevance to financial reporting:

1. The organizational perspective. The government is made up of organizations, which manage and are responsible for its resources and operations.
2. The budgetary or financing source perspective. The government is made up of budget accounts, comprised of expenditure (appropriation or fund) accounts and receipt (including offsetting collection) accounts.
3. The service delivery or program and activity perspective. The government is made up of programs and activities that are responsible for producing certain outputs to achieve desired outcomes.

For some parts of the government, there is a "one to one" correspondence among all perspectives: a single budget account may finance a single program and organization (and only that program and organization). The program may be accomplished only by the single organization in question, and the organization may deal with only one program. For many existing organizations, programs and budget accounts, however, the situation is not so simple. A single appropriation may finance several programs, a single organization may conduct several programs, a program may be accomplished by several organizations, etc.

The Task Force wrestled with the complexity of organizations of the federal government, its inconsistencies across and within departments and agencies, and the incongruities of boundaries according to different classifications. In the end, the

group could see no alternative to using different classifications for each major objective and requiring departments and agencies to "cross-walk" from one to another at the lowest possible level.

Budgetary integrity clearly must be assessed by budget account.

Operating performance would usually be assessed by program or activity.

Stewardship would generally be assessed by organizational unit. When assets or liabilities are material for a program, for example a credit program, this level might also be displayed in program reports.

Meeting the operating performance objective requires analysis of the expense of producing specific outputs and achieving specific outcomes. The Task force recommends that FASAB encourage departments and agencies to define responsibility centers that consist of homogeneous activities focused on the production of a common output. The primary purpose for collecting information by responsibility center would be to analyze service efforts and accomplishments and to improve operating performance. A secondary purpose would be to create "basic building blocks" of accounting information to assist in comparing similar activities and in aggregating information related to common outcomes, budget accounts, or organizations.

The Task Force envisions that the Standard General Ledger would in some cases need to be enhanced to identify transactions and resources by responsibility center, program, budget account, and organization. OMB has included an update of the SGL in its five year plan.

DISPLAY

The goal of the display phase of the project is to provide a framework of financial statements and supplemental schedules that will help to address each of the objectives of federal financial reporting. The Task Force has not defined these statements in detail, but it has suggested in general terms that these statements include both stock and flow statements for

budgetary resources, operating statements, balance sheets, and a variety of supplemental schedules to provide information on service efforts and accomplishments, the management of assets and liabilities, future claims on budgetary resources, and investments in physical, human, and intellectual capital.

**COST ACCOUNTING PROJECT
ESTABLISHED**

The Board has begun a project on cost accounting. The project seeks to recognize the importance of cost information for measuring program performance and operating results. It would also fulfill one of the reporting objectives: enabling report users to determine the cost of specific programs and activities.

It is contemplated that the project would provide conceptual guidance for the accumulation and assignment of activity costs, and the measurement of unit costs for goods and services that the government provides.

At the initial stage, the Board intends to use ideas of people with costing expertise, both inside and outside the federal government.

**BRIEFINGS ON COST ISSUES SCHEDULED
FOR SEPTEMBER MEETINGS**

Professor Robert Kaplan, a member of the Harvard Business School faculty, and Mr. Struan Little, the World Bank, Office of the Executive Director for Australia and New Zealand are scheduled to brief Board members on cost accounting issues at the September 9th meeting. Prof. Kaplan is one of the pioneers on activity-based cost issues, known as the "ABC concept." Mr. Little will speak on his experience with cost accounting in New Zealand.

Also, on September 29, Mr. Ian Ball, the Controller of the Treasury in New Zealand, will meet with the Board and selected FASAB staff members to discuss cost accounting issues.

**FASAB STAFFING COST ACCOUNTING
PROJECT**

The Federal Accounting Standards Advisory Board is planning to fill staff positions on the cost accounting project. Those interested should have a thorough knowledge of and background in cost accounting and cost issues. For further information, contact Ron Young, Executive Staff Director, on 202-512-7354, or at 750 First St., N.E. Suite 1001, Washington, D.C. 20002.

**OBTAINING COPIES OF APPROVED
STATEMENTS**

After the principals have approved a recommended Statement, it is then issued by OMB as a Statement of Federal Financial Accounting Standards (SFFAS). OMB provides a limited supply for distribution to federal agencies. Additional copies are available to agencies and to members of the public from the Government Printing Office (GPO). The first SFFAS, cited in the July edition of the FASAB Newsletter, was Statement No. 1, Accounting for Selected Assets and Liabilities. Copies of this SFFAS document (Stock # 041-001-00403-3) and all future SFFAS can be purchased from the Superintendent of Documents, Government Printing Office, Washington, DC 20402-9325. To order by telephone, call 202-783-3238; to fax an order, call 202-512-2250.

