

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

# FASAB NEWS

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## PUBLIC HEARINGS ON COST ACCOUNTING AND LIABILITIES

On January 9 and 10, 1995, the Board held public hearings on its two Exposure Drafts: Managerial Cost Accounting for the Federal Government, and Accounting for Liabilities of the Federal Government.

### COST ACCOUNTING

The hearing on Managerial Cost Accounting was a continuation of the hearing on the same Exposure Draft held in November 1994. Eleven persons testified on the subject during January 9 and 10. They included federal officials, a consultant, a university professor, and a representative from the Institute of Management Accountants.

All of the speakers expressed general support for the Board's objectives in recommending managerial cost accounting standards for the federal government. Most of them specifically supported the standard for measuring the full cost of goods and services provided by the federal government. They agreed in principle with the requirement for recognizing inter-entity costs. They also agreed with the proposed principles of cost accumulation and cost assignment.

However, some of them voiced differing views on specific issues of the Exposure Draft. For example, some of them disagreed on the inclusion in full cost measurement of those costs that are not to be paid by an agency. An example of such costs is the employees' pension costs funded through the OPM. While most of the commentators strongly supported the standard for responsibility segments and believed that it would enhance managerial accountability and facilitate the tracking of input costs with outputs, two speakers viewed the standard as being too prescriptive. They believed that it should be left for the agency

management to organize managerial costing functions.

Most federal officials who testified questioned the feasibility of measuring unused capacity costs. Some of them did not believe that reporting unused capacity costs would result in valid or useful information for federal managers. In connection with that topic, a Board member solicited ideas on analyzing operating processes and identifying value-added vs. non-value added activities.

None of the commentators believed in the feasibility of implementing the proposed standards by the 1996 fiscal year. Among difficulties they enumerated were the lack of resources, lack of cost accounting expertise within the federal government, and much more time required to install accounting systems. However, some of them urged that agencies start to perform and improve cost accounting without waiting for the completion of systems installations.

The Board will discuss the major issues on managerial cost accounting in its February and March meetings. The Board expects to finalize a statement of managerial cost accounting standards by late this Spring.

### LIABILITIES

The eight people testifying on liabilities at the January 9-10 hearings raised several important issues while expressing general agreement with the proposed standard. One person said that data on federal employee pensions would be better as a footnote disclosure rather than as a liability recognized in the financial statements. He said that the necessary actuarial data would not be of sufficient quality or timeliness to meet audit requirements. Also, he said actuarial gains and losses should be amortized rather

than recognized immediately because the annual fluctuations from the latter would cause problems when calculating reimbursable charges.

Representatives from the Department of Veterans Affairs wanted to apply the same accrual accounting treatment for VA pensions as is proposed for VA service-related injury compensation. The ED proposes that VA pensions be accounted for as general fund benefits where the liability at the end of the accounting period is the amount "due and payable" to beneficiaries in the next payable cycle. The VA service-related injury compensation, on the other hand, would be accounted for as an employee benefit where the liability amount is the present value of future benefits based on injuries sustained in the line of duty. They said that both of these benefits are based on exchange transactions between the service person and the Government as an employer, and that the resulting obligations are probable and measurable.

Representatives from the Social Security Administration's accounting and actuarial offices voiced strong support for the accounting treatment proposed for social insurance. Also, representatives from the Office of Personnel Management's Inspector General's office advocated annually allocating the entire obligation for federal pensions among the participating federal agencies. The ED is proposing an accounting treatment whereby only the annual normal cost would be recognized by the employer agencies.

**PROPERTY, PLANT, AND EQUIPMENT**

The Board reviewed a comprehensive draft of the Property, Plant, and Equipment Exposure Draft at the December meeting. This was the first time that the Board was provided with a complete draft of the ED having made decisions on an issue by issue basis over the past two years. The draft incorporated these decisions as well as details that had not been raised to the Board in previous meetings--such as implementation guidance. Major provisions of the ED include:

--a category of PP&E to be reported on the balance sheet called general PP&E which would be

subject to historical cost depreciation (excluding land which would be carried at historical cost)

--recognition and measurement standards for acquisition, depreciation, impairment, and disposal or retirement of general PP&E

--disclosure requirements

--implementation guidance

--three categories of PP&E to be subject to stewardship reporting (i.e., Federal mission PP&E, heritage assets and land other than general PP&E land)

--recognition and measurement provisions for amounts to be reported on the operating statement (e.g., the acquisition cost of the assets)

--disclosure requirements

--implementation guidance

--accounting treatment of cleanup costs

--disclosure of deferred maintenance information

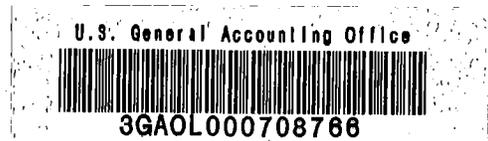
At the meeting, the Board discussed issues that came to light as a result of reviewing a comprehensive ED for the first time. These issues included:

--categorizing certain types of PP&E that appeared to fit into more than one category (e.g., heritage assets used in general government operations, military bases, and weapons production facilities);

--improvements to the category descriptions and criteria to aid in making the categorizations (e. g., for the federal mission PP&E criteria, a new criterion could be that it is not feasible to calculate depreciation expense) and

--appropriate guidance for implementation of the standards-- including the implementation date and methods as well as its impact on the Standard General Ledger.

At the January meeting, staff will provide a revised draft ED for the Board's review. Changes will have been made to (1) clarify the categories, (2) improve



the implementation guidance, and (3) ensure that the requests for comment cover all potential issues. It is hoped that the Board will reach consensus on the changes at that time and that the ED will be issued for comment in early March.

### ENTITY AND DISPLAY

At its December meeting the FASAB discussed the responses that have been received for the exposure draft on Entity and Display concepts. The concepts statement specifies the type of federal government entities for which financial reports should be prepared and provides guidance on the information that should be included in such reports. The guidelines will be used by all organizations within the executive branch and will also be useful to preparers, auditors and users of federal agencies' financial statements.

Most of those who responded during the comment period--chief financial officers, inspectors general, federal financial managers, academics and others--were in general agreement with the overall concepts. Specific issues have been raised, however, regarding the concept of responsibility centers, the completeness and weighting of the criteria, the form and content of suggested statements, and other issues.

In December the FASAB considered the responses received and the analysis of the Entity and Display task group. The Board decided, among other things, to:

-clarify how the responsibility center concept fits with organizational and program reporting, and to explain that responsibility means that a cost has been incurred regardless of whether the organization is also responsible for the Budget account in which the cost is appropriated and charged;

-use general criteria for determining the entity rather than being too prescriptive;

-emphasize that there should be consistency between internal management reporting and external

financial reporting;

-require a statement of program performance to be part of the financial report but not to characterize it as "basic" or "supplemental"; and

-allow departments with many components providing similar programs to have the option of reporting a consolidating or a consolidated statement, provided that the components are also presented.

The task group will present a revised concept statement at the January Board meeting.

### LAND; FEDERAL MISSION PROPERTY, PLANT, AND EQUIPMENT; HERITAGE ASSETS;

### AND NON-FEDERAL PHYSICAL PROPERTY

Drafts of proposed accounting standards for land, Federal mission property, plant, and equipment (PP&E), heritage assets, and non-federal physical property were again discussed by the Board principally in connection with its discussion of a draft proposed standard relating to property, plant, and equipment (PP&E). Definitions of various categories of resources were discussed and guidance was provided to staff as to needed revisions to the definitions.

The drafts will be revised to complement materials in the PP&E document and will be brought back to the Board at its January meeting.

### STATEMENTS AVAILABLE FROM GPO

The following documents have been approved by the FASAB and issued by OMB. They are available for the indicated fee from the Government Printing Office (GPO), telephone number (202) 783- 3238:

-Concepts Statement No. 1, Objectives of Federal Financial Reporting,

FASAB Newsletter

GPO Stock # 041-001-00412-2,  
\$6.00.

-Accounting Statement No. 1,  
Accounting for Selected Assets and Liabilities, GPO  
Stock # 041-001-00403-3, \$4.00.

-Accounting Statement No. 2,  
Accounting for Direct Loans and Loan Guarantees,  
GPO Stock # 041-001-00416-5, \$6.00,

-Accounting Statement No. 3,  
Accounting for Inventory and Related Property, GPO  
Stock # 041-001-00415-7, \$3.50.

