

**FASAB**

Telephone 202 512-7350  
Fax 202 512-7366

U.S. General Accounting Office  
Law Library  
Washington, D.C. 20548

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

**FEDERAL ACCOUNTING STANDARDS  
ADVISORY BOARD**

**Newsletter**

March 1993

Issue 9

**FASAB RECOMMENDS NEW INTERIM  
ACCOUNTING STANDARDS GUIDANCE**

The first recommendation to the Board's principals provided guidance for interim accounting standards for agencies to apply until final standards were recommended by the Board and adopted by the Board's principals - the Secretary of the Treasury, Director of the Office of Management and Budget and the Comptroller General.

The interim guidance directed that agencies were to continue the use of accounting standards that were formally adopted within their policy directives. Agencies were to indicate in notes to their financial statements where the standards used departed from standards issued by the Comptroller General in Title 2 of GAO's Policy and Procedures Manual for the Guidance of Federal Agencies.

The Board has recommended new interim guidance. The new guidance provides a hierarchy of accounting standards for agencies to follow and permits agencies to improve accounting practices where existing accounting is not now meeting the needs of users of financial reports.

The Board has recommended that the Principals adopt the following interim guidance:

Until a sufficiently comprehensive set of accounting standards are agreed to and published by the Joint Financial Management Improvement Program (JFMIP) principals, which will constitute "generally accepted accounting principles for the federal government", the following hierarchy shall constitute an "other comprehensive basis of accounting" and shall be used for preparing federal agency financial statements:

1. Individual standards agreed to and published by the JFMIP Principals.
2. Form and content requirements included in OMB Bulletin 93-02, dated October 22, 1992.
3. Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices.
4. Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other

guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

Disclosing differences between the accounting standards being followed and Title 2 of GAO's Policy and Procedures Manual for the Guidance of Federal Agencies is no longer required. Federal agencies will instead fully describe in the footnotes to their financial statements the accounting standards in the above hierarchy followed in preparing the statements.

#### REPORTING MODEL

Hal Steinberg, Deputy Controller, Office of Federal Financial Management (OFFM), OMB, at the February meeting presented plans for the reporting model project. He described two components within the project, one on "entity" and one on "display."

The goal for the entity component of the project will be to provide a framework for defining the meaningful reporting units (e.g., account, program, fund, activity, agency, department, entire government) with due consideration for the relationships among the units. The project will address such questions as:

- What is a tentative list of the various types of entities, and what is the definition of each type?
- What are the notions or criteria to be considered in identifying reporting entities, such as managerial control, budgetary responsibility, operating performance evaluation, fiduciary responsibility, etc.?

The goal for the display component of the project will be to answer such questions as:

- Which of the objectives of federal financial reporting apply to each of the reporting groups or types of entity?
- What are the kinds of reports that would enable the objectives to be met for each type of reporting entity?

As was the case with the project on objectives of federal financial reporting, the Board will be assisted by a task force comprised of several members of the FASAB as well as a variety of federal agencies and non-federal members. The task force will be chaired by Ed Mazur, FASAB member and U.S. Controller, OFFM, OMB. Mr. Steinberg will be the project director. Because of the complexity of the issues and the press of other business, OMB expects that this project may require more time to complete than the objectives project.

#### INVESTMENTS PROJECT

The Board announced in the February newsletter that it has undertaken a project on investments. The Board is placing a high priority on this project due to the magnitude of the investment in physical assets as well as the investment in human and intellectual capital (e.g., education and training, research and development). In addition, the CFO Act (Section 307) requires that "no capital accounting standard or principle, including any human capital standard or principle, shall be adopted for use in an executive department or agency until such standard has been reported to the Con-



gress and a period of 45 days of continuous session of the Congress has expired."

Based on its review of a discussion guide provided by staff, the Board expects to develop criteria and standards on accounting for investment-type expenditures. In addition, the Board has considered the need to identify those investment-type expenditures that result in "assets" being held by Federal entities and the Federal government. Tentatively, the definition of assets is expected to include only those physical properties that are "exchangeable" (i.e., have a market value), provide a future cash flow, or are used and consumed in providing services. These would be reported on a balance sheet. Other physical properties (e.g., public lands or monuments) and other investment-type expenditures (e.g., research and development) might not be considered assets but would be accounted for and reported in a new major financial statement(s) currently being called an "accounting statement."

At the February meeting, the Board discussed at length the tentative definition of investment-type expenditures including possible criteria for identifying investment-type expenditures. The definition of investment varies considerably among budget analysts, economists, and accountants. The definition could be broad enough to include certain social programs that add to GNP as well as long-lived property. Because of the broad definition, it is expected that categories of investment would be identified and afforded different accounting treatment. Traditional financial reports will not be adequate to meet the information needs associated with these categories.

Therefore, the Board is exploring untraditional approaches to meeting these needs. Staff prepared illustrative statements in an effort to develop innovative reporting schemes that may be useful for reporting on investments. These reporting schemes seek to recognize and respond to the very different information needs associated with unique programs and investments.

For example, an operating performance balance sheet is envisioned to report on operating assets of an entity. The value of investments in physical property that are not used and consumed through operations might be reported on an accountability statement. Intangible investments might also be reported on an accountability statement through the use of time series data.

The Board agreed that following some initial work on defining investment, the project might be split into two subprojects - physical and non-physical investment. A project task force will be established to help advise the Board. In addition, given the financial reporting implications for investments, the investments task forces will be working closely with the reporting model task force.

#### LIABILITIES PROJECT

At the February meeting the Board reviewed the tentative decisions it had made on recognition and measurement of liabilities, and discussed the accounting treatment for social insurance programs. The Board is discussing a methodology that will capture costs and liabilities for these programs that will best measure operating performance. Longer-range actuarial projections could go in a separate section of the en-

tity's financial report or a separate accountability statement. The Board discussed the necessity of defining such an accountability statement before publishing a liability exposure draft.

Also, the Board concluded that a more comprehensive approach should be taken in the liability project wherein the accounting treatment of liabilities is discussed in conjunction with that for future claims on budgetary resources. A general description of the accountability statement would be included.

**ACCOUNTING FOR DIRECT LOANS AND  
LOAN GUARANTEES**

At the February Board meeting, the staff presented highlights of a February 10 credit reform accounting meeting held at the Board's request. The purpose of that meeting was to solicit further input on the credit reform exposure draft from the federal agencies that have major credit programs.

As a result of the comments from federal agencies, the Board reconsidered the frequency of reestimates on loan subsidies. The Board decided to drop from the proposed standard the requirement for a reestimate "when information indicates that the latest estimate is no longer correct." It recognized that such a condition would be difficult to audit. The Board decided that an annual reestimate at the time of financial statement preparation would

provide sufficient information for program management.

The Board also is reconsidering the requirement for separately reporting the subsidy cost components. It requested that, before the next Board meeting, staff provide a paper detailing alternatives to separate subsidy cost component reporting.

Staff presented the plan for issuing the Statement of Recommended Accounting Standards on accounting for direct loans and loan guarantees. The Statement will be issued in two volumes. Volume 1 will be issued first. It will be the basic recognition and measurement standard. Volume 2 will be issued after OMB and Treasury complete technical changes to their credit reform guidance. It will be the implementing guidance for the standard.

**PUBLIC HEARING ON REPORTING  
OBJECTIVES AND INVENTORY ISSUES**

Planning is actively going forward for the public hearing scheduled for April 21 and 22 from 9:00 A.M. to 4:00 P.M. 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. We anticipate a broad range of viewpoints from the various presenters. Individuals wishing to participate in the hearing should contact Robert Bramlett on (202) 512-7355.

