



Federal Accounting Standards Advisory Board

**Subsequent Events: Codification of Accounting and Financial
Reporting Standards Contained in the AICPA Statements on
Auditing Standards**

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by December 28, 2009

October 20, 2009

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366
www.fasab.gov

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Federal Accounting Standards Advisory Board

October 20, 2009

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. Specific questions for your consideration appear on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by December 28, 2009.

All comments received by the FASAB are considered public information. Comments will be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The FASAB's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

Executive Summary

What is the Board proposing?

The American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS) AU section 560, *Subsequent Events*, includes accounting and financial reporting guidance that is not discussed in the authoritative literature that establishes accounting principles. The objective of this proposed Statement is to incorporate that guidance into the authoritative literature of the FASAB. Insofar as AU Section 560 established principles pertaining to the preparation of financial statements it would be more appropriately included in the accounting and financial reporting standards of the FASAB than in the auditing literature. Accordingly, this proposed Statement does not establish new accounting guidance but rather incorporates the existing guidance (to the extent appropriate in the federal government environment) into the FASAB standards. In developing this proposal, the FASAB also considered incorporating existing AICPA guidance regarding an entity's ability to continue as a going concern and related party transactions. However, for reasons presented in the basis for conclusions (Appendix A), the FASAB does not propose accounting standards in these areas at this time.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

The requirements in this proposed Statement would improve financial reporting by incorporating authoritative accounting and financial reporting literature into a single source and thereby better enabling entities to prepare financial statements in conformity with generally accepted accounting principles (GAAP). The proposed Statement addresses the circumstances under which an entity should recognize or disclose events or transactions occurring after the end of the reporting period but before issuance of financial statements.

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the proposed Statement before responding to the questions in this section. In addition to the questions below, the FASAB also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by December 28, 2009.

- Q1. The FASAB proposes to incorporate accounting principles regarding subsequent events that currently reside in the professional auditing literature into the FASAB's authoritative literature (see paragraphs 11 - 18). Do you agree or disagree with the FASAB's proposal? Please explain the reasons for your position in as much detail as possible.
- Q2. The FASAB considered accounting and financial reporting guidance discussed in AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, and determined that the guidance was not readily adaptable to the federal government environment (see paragraphs A5 – A8). Do you agree or disagree with the FASAB's decision? Please explain the reasons for your position in as much detail as possible.

-
- Q3. The FASAB also considered accounting and financial reporting guidance discussed in AU Section 334, *Related Parties*, and determined that the guidance was not readily adaptable to the federal government environment. However, the FASAB plans to continue research on related parties as part of its Entity project (see paragraphs A9 – A12). Do you agree or disagree with the FASAB's decision? Please explain the reasons for your position in as much detail as possible.

Introduction

Purpose

1. Accounting and financial reporting guidance regarding **subsequent events**¹ has been included in SASs of the AICPA. The objective of this Statement is to incorporate that guidance into the financial accounting and reporting standards of the FASAB.

Materiality

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

3. The requirements in this standard are effective upon its issuance.

¹ Terms defined in the glossary (Appendix C) are in boldface type the first time they appear in this Statement.

Proposed Standard**Scope**

4. This Statement establishes accounting and financial reporting standards for subsequent events and applies to the accounting for, and disclosure of, subsequent events not addressed in other applicable GAAP.
5. Other applicable GAAP may address the accounting treatment of events or transactions that occur after the end of the reporting period but before the financial statements are issued. If an event or transaction is within the scope of other applicable GAAP, then an entity should follow the guidance in that applicable GAAP, rather than the guidance in this standard. The following are examples of other applicable GAAP that prescribe the accounting and disclosures for specific subsequent events. Note that this is not meant to be an exhaustive list.
 - Statement of Federal Financial Accounting Standards (SFFAS) 27, *Identifying and Reporting Earmarked Funds*, par. 23.
 - SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, par. 33.
6. Also, this Statement amends SFFAS 5, *Accounting for Liabilities of the Federal Government*, footnote 17.
7. This statement applies to the financial statements of all federal reporting entities.

Definitions

8. **Subsequent events**: Events or transactions that affect the financial statements that occur subsequent to the end of the reporting period but before financial statements are issued.
9. **Recognized events**: Events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing financial statements.
10. **Nonrecognized events**: Events that provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date.

Subsequent Events

11. Events or transactions that affect the financial statements sometimes occur subsequent to the end of the reporting period but before financial statements are issued. Some of those transactions and events (referred to as recognized events) require adjustments to the financial statements while others (referred to as nonrecognized events) may require disclosure in the notes to the financial statements.
12. Recognized events consist of those events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing financial statements. In evaluating the conditions on which the estimates were based, all information that becomes available prior to the issuance of the financial statements should be used. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.
13. Identifying recognized events calls for the exercise of professional judgment and knowledge of the facts and circumstances. The receipt of information regarding the impairment of an asset or the incurrence of a liability subsequent to the end of the reporting period may be indicative of conditions existing at the end of the reporting period, thereby calling for adjustment of the financial statements before their issuance. For example, the settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government

property, had taken place prior to the end of the reporting period. In this example, the resolution of an uncertainty may confirm the impairment of an asset or incurrence of a liability as of the end of the reporting period.

14. Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time.
15. Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the end of the reporting period, but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure in the notes to the financial statements is required to keep the financial statements from being misleading. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.
16. Examples of nonrecognized events that require disclosure in the notes to the financial statements, but should not result in adjustment, include the announcement of plans for a new federal program or the provision of benefits or services to protect the public's health and safety during a major disaster.
17. When financial statements are reissued, certain events may have occurred subsequent to the original issuance that require disclosure. Events requiring disclosure are those that are considered important to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. This also applies for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods.
18. In addition, SFFAS 5, footnote 17 is amended as follows to conform to the above requirements:

Contingencies are different from "subsequent events," ~~as used in the accounting/audit literature.~~ Subsequent events are events or transactions that affect the financial statements and occur subsequent to the end of the reporting period but before financial statements are issued. ~~Balance Sheet date, but prior to the issuance of the financial statements and auditor's report, that have a material effect on the financial statements~~

and therefore require adjustment or disclosure in the statements. However, a subsequent event may resolve an uncertainty related to a contingent liability and confirm the impairment of an asset or incurrence of a liability as of the end of the reporting period.

Effective Date

19. The requirements in this standard are effective upon its issuance.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by FASAB members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

- A1. Representatives of the AICPA requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.
- A2. The AICPA SASs address certain accounting and financial reporting issues not included in the FASAB's authoritative literature that establishes accounting principles. Those initially-identified issues concerned subsequent events, an entity's ability to continue as a going concern (going concern), and related parties.

Subsequent Events

- A3. AU Section 560, *Subsequent Events*, discusses events or transactions that occur subsequent to the end of the reporting period but prior to the issuance of the financial statements. Such events either require adjustment or disclosure in the financial statements and the auditing literature discusses two types of events for consideration. One type of event requires financial statement adjustment while the other type may require disclosure.
- A4. The FASAB believes that incorporating the accounting and financial reporting guidance essentially as it exists in the AICPA literature would only change the source of the guidance and not significantly affect practice. Upon evaluating the auditing literature for subsequent events, the FASAB decided that the guidance is readily adaptable to the federal government environment with only minor terminology enhancements.

Going Concern

- A5. AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, identifies certain factors that could indicate that there may be substantial doubt about a non-governmental entity's ability to continue as a going concern and provides examples of information that an entity might disclose if the conditions warrant such disclosures. However, the FASAB considered the nature of the federal government and determined that the auditing standard was not readily adaptable to the federal government environment. Additionally, the FASAB considered that related guidance has been developed as discussed below and, as a result, decided to exclude the going concern standard from the Statement.
- A6. The FASAB believes that the federal government is unique. For example, the federal government has the power to tax, borrow, and create money, and must continue to provide public services. These factors virtually eliminate the possibility that the federal government would be unable to continue as a going concern.
- A7. Also, on September 28, 2009, the FASAB issued SFFAS 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. This standard concerns the consolidated financial report (CFR) of the federal government and requires the reporting of information to help users determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. It will thereby facilitate assessments of the extent to which financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers.
- A8. On the other hand, the FASAB noted that some federal government component units may experience fiscal challenges and may need to seek additional funding from Congress to continue their missions. In such instances and because SFFAS 36 only applies to the CFR, the FASAB expects that the entity would address the matter in the Management's Discussion and Analysis (MD&A) section of their financial report. SFFAS 15, *Management's Discussion and Analysis*, paragraph 3 provides guidance for reporting information in an entity's MD&A.

Related Parties

- A9. AU Section 334, *Related Parties*, attributes the requirement for related party disclosures to the Financial Accounting Standards Board's (FASB) ASC 850 (SFAS 57), *Related Party Disclosures*, and provides indicators of related party transactions. The FASAB determined that the related party guidance was not readily adaptable to the federal government and discussed the applicability of related FASAB projects and current federal financial reporting practices to the issue of related party transactions.
- A10. The FASAB has an on-going Entity project that is intended to define and characterize federal reporting entities and to establish criteria for including various organizational units in a reporting entity. Also, the project will involve research on the various types of relationships that the federal government has established to carry out its public policy functions. The FASAB believes that it would be premature to incorporate the related party guidance before it completes its Entity project. Consequently, the FASAB decided to conduct research on related parties as part of the Entity project and use the research results to develop related party guidance applicable to the federal government environment.
- A11. In addition, the FASAB noted that federal agencies typically purchase goods and services from other federal agencies or organizational units within the same agency and the FASAB has provided guidance to assist in reporting this activity. The guidance includes, but is not limited to:
- a. SFFAS 4, *Managerial Cost Accounting Standards and Concepts*;
 - b. SFFAS 5, *Accounting for Liabilities of the Federal Government*;
 - c. SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; and
 - d. SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

- A12. The FASAB expects that this statement will not alter current reporting practices. However, some are concerned that reporting practices may change if the auditing guidance changes before the Entity project is completed. If so, the FASAB would issue a Technical Bulletin to assist the federal financial reporting community.

Appendix B: Abbreviations

AICPA	American Institute of Certified Public Accountants
ASC	Accounting Standards Codification
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
MD&A	Management's Discussion and Analysis
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards
SFAS	Statement of Financial Accounting Standards

Appendix C: Glossary

Nonrecognized events: Events that provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date.

Recognized events: Events that provide additional evidence with respect to conditions that existed at the end of the reporting period and affect the estimates inherent in the process of preparing financial statements.

Subsequent events: Events or transactions that affect the financial statements that occur subsequent to the end of the reporting period but before financial statements are issued.

FASAB Board Members

Tom L. Allen, Chair
Robert F. Dacey
Nancy Fleetwood
Michael H. Granof
Norwood J. Jackson, Jr.
Alan H. Schumacher
D. Scott Showalter
Harold I. Steinberg
Danny Werfel

FASAB Staff

Wendy M. Payne, Executive Director

Project Staff

Ross Simms

Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov