



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 39

August 4, 2010

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 Government Accountability 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.

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Summary

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 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 basic information and required supplementary information (RSI)¹ it would be more appropriately included in the accounting and financial reporting standards of the FASAB than in the auditing literature. Accordingly, this 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 Statement, 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 provide accounting standards in these areas at this time.

The requirements in this Statement will improve financial reporting by incorporating authoritative accounting and financial reporting literature into a single source and thereby better enabling entities to prepare basic information and RSI in conformity with generally accepted accounting principles (GAAP). The 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 the financial report.

¹ The FASAB is in the process of reclassifying all items of required supplementary stewardship information (RSSI). Once the Board reclassifies all the items, the RSSI category will be eliminated. Until such time, this Statement also applies to RSSI.

Introduction

Purpose

1. Accounting and financial reporting guidance regarding **subsequent events**² has been included in SASs of the AICPA. The objective of this Statement is to incorporate that guidance into the Statements of Federal Financial Accounting Standards.

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 Statement are effective upon its issuance.

² Terms defined in the glossary (Appendix C) are in boldface type the first time they appear in this Statement.

Accounting Standards

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) 17, *Accounting for Social Insurance*, par. 24.
 - 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 basic information and required supplementary information (RSI)³ of all federal reporting entities that are presented in conformity with GAAP.⁴

³ Basic information and RSI are required components of a financial report prepared in conformity with GAAP. In the federal government environment, a financial report is known as a Performance and Accountability Report or an Agency Financial Report and may include other components required by legislation or administrative directives.

⁴ The FASAB is in the process of reclassifying all items of required supplementary stewardship information (RSSI). Once the Board reclassifies all the items, the RSSI category will be eliminated. Until such time, this Statement also applies to RSSI.

Definitions

8. **Subsequent events:** Events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued.
9. **Recognized events:** Subsequent 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 basic information and RSI.
10. **Nonrecognized events:** Subsequent 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 basic information or RSI sometimes occur subsequent to the end of the reporting period but before the financial report is issued. Some of those transactions and events (referred to as recognized events) require adjustments while others (referred to as nonrecognized events) may require disclosure in the basic information or RSI.
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 basic information and RSI. In evaluating the conditions on which the estimates were based, all information that becomes available prior to the issuance of the financial report should be used. The basic information or RSI as applicable 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 basic information or RSI before the issuance of the financial report. For

example, the settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the basic information 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 basic information or RSI 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 basic information or RSI. Some of these events, however, may be of such a nature that their disclosure in basic information or RSI is required to keep the basic information or RSI from being misleading. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the basic information or RSI because such changes typically reflect a concurrent evaluation of new conditions.
16. Examples of nonrecognized events that may require disclosure in basic information or RSI, but should not result in adjustment, include the enactment of legislation, after the end of the reporting period, to establish a major federal program or an appropriation to provide benefits or services to protect the public's health and safety during a major disaster that occurred after the end of the reporting period but before the financial report is issued. The disclosures should concern matters that will probably affect the judgments and decisions of those relying on the financial report.
17. When a financial report is reissued, certain events may have occurred subsequent to the original issuance that requires disclosure in the reissued financial report. Events requiring disclosure in the reissued financial report are those that are considered important to a user's understanding of the reissued financial report. These events, occurring between the time of original issuance and reissuance of the financial report, should not result in adjustment of the basic information or RSI unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments as set forth in SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*. This also applies for events occurring subsequent

to the original issuance when a financial report is reissued in comparative form with a financial report of subsequent periods.

Effect on Current Standards

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 basic information or required supplementary information (RSI) and occur subsequent to the end of the reporting period but before the financial report is 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. Some of those transactions and events (referred to as recognized events) require adjustments to the basic information or RSI while others (referred to as nonrecognized events) may require disclosure in the basic information or RSI. A subsequent event may affect a contingency by providing information that resolves 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 Statement are effective upon its issuance.

The provisions of this Statement need not be applied to immaterial items.

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. The FASAB believes that the presentation of principles used in the preparation of a financial report is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

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 report. Such events require either adjustment or disclosure in the basic information or RSI and the auditing literature discusses the two types of events for consideration.
- 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 going-concern as contemplated in the commercial sense is not applicable to federal government financial reporting. 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. 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.
- A7. 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 its financial report. SFFAS 15, *Management's Discussion and Analysis*, paragraph 3 provides guidance for reporting information in an entity's MD&A.

Related Parties

- A8. AU Section 334, *Related Parties*, attributes the requirement for related party disclosures to the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 850 (Statement of Financial Accounting Standards 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.
- A9. The FASAB has an on-going Federal 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 Federal Entity project. Consequently, the FASAB decided to conduct research on related parties as part of the Federal Entity project and use the research results to develop related party guidance applicable to the federal government environment.
- A10. 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*.

A11. 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 Federal Entity project is completed. If so, the FASAB would issue a Technical Bulletin to assist the federal financial reporting community.

Exposure Draft

A12. The Board published the exposure draft (ED), *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*, on October 20, 2009, with comments requested by December 28, 2009. Upon release of the ED, notices and press releases were provided to: the Federal Register, FASAB News, the Journal of Accountancy, AGA Today, the CPA Journal, Government Executive, the CPA Letter, and Government Accounting and Auditing Update, the CFO Council, the Council of Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network, and committees of professional associations generally commenting on EDs in the past.

A13. This broad announcement was followed by direct mailings of the exposure draft to the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate, and the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives.

A14. The Board received 17 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		2
Auditors	3	1
Preparers and financial managers	11	
Totals	14	3

- A15. Respondents agreed that accounting principles regarding subsequent events should be incorporated into the FASAB's authoritative literature and they generally agreed that the going concern and related party guidance were not readily adaptable to the federal government environment. While some respondents believed that it would be helpful to consider providing additional guidance, such as FASB requirements for subsequent events, the objective of the Board's project was to incorporate the guidance presented in the audit literature rather than developing additional guidance or requiring changes in current practices.
- A16. In addition, some respondents believed that it would be helpful to clarify aspects of the statement. Particularly, a respondent noted that in federal financial reporting, the term *financial statements* may refer to a *financial report*. A financial report includes basic information, required supplementary information (RSI), and required supplementary stewardship information (RSSI),⁵ and may include other accompanying information (OAI). The respondent believed that the Statement should be clarified to state that it applies to *basic statements* and disclosures. However, if the Statement applies to a financial report, it should clarify the components or categories of the report and how it applies to those categories. The Board clarified this concern by clearly indicating that the Statement applies to basic information and RSI. The Board's standards are authoritative for only the basic information and RSI and do not apply to the other portions of a document (e. g., Performance and Accountability Report, Agency Financial Report) in which basic information and RSI are included. Further, auditors of the financial statements have certain responsibilities to read OAI. Any identified material inconsistencies between OAI and the basic information and RSI and any identified material misstatements of fact in OAI would affect the audit and/or the auditor's report.
- A17. Another respondent believed that the definition of subsequent events should explicitly state that subsequent events pertain to *material* events and transactions and the term *material* should be used throughout the Statement as applicable. Also, one respondent believed that the term *material* should be included in the definition of

⁵ The FASAB has re-categorized all RSSI items except for stewardship investments. Once the FASAB reclassifies the remaining RSSI item, the category will be eliminated. See SFFAC 6, par. A15.

subsequent events presented in SFFAS 5, footnote 17. The Forward to the FASAB's *Pronouncements as Amended*, June 30, 2009, discusses the term *materiality*. It states,

The Board intends that application of authoritative guidance be limited to items that are material. "Materiality" has not been strictly defined in the accounting community; rather, it has been a matter of judgment on the part of preparers of financial statements and the auditors who attest to them.

Consequently, paragraph 2 of the Statement provides the Board's position on the matter of materiality regarding this Statement.

- A18. An additional respondent believed that the examples in paragraph 16 should be clarified to help readers understand what type of events should be considered nonrecognized events. The Board revised the examples of nonrecognized events in paragraph 16 to clarify that such events provide evidence with respect to conditions that did not exist at the end of the reporting period but arose subsequent to that date. The examples include legislative enactments occurring subsequent to the end of the reporting period. Also, additional guidance was added to assist readers in determining nonrecognized events that should be disclosed.

Board Approval

- A19. This statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

Appendix B: Abbreviations

AICPA	American Institute of Certified Public Accountants
ASC	Accounting Standards Codification
AU	Auditing Standards codified by the AICPA
CFR	Consolidated Financial Report
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
MD&A	Management's Discussion and Analysis
OAI	Other Accompanying Information
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SAS	Statement on Auditing Standards
SFAS	Statement of Financial Accounting Standards
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

Appendix C: Glossary

Nonrecognized events: Subsequent 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: Subsequent 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 basic information and RSI.

Subsequent events: Events or transactions that affect the basic information or RSI that occur subsequent to the end of the reporting period but before the financial report is issued.

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