



April 10, 2015

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Reporting Model – **TAB A**¹

MEETING OBJECTIVE

The objective is to discuss the outline for an ideal model concepts statement.

BRIEFING MATERIALS

This memo discusses revisions to the reporting model draft concepts statement and attachments:

- Attachment I: Outline for an Ideal Model Concepts Statement provides the outline of concepts for an ideal reporting model.
- Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting* discusses the objectives of federal financial reporting and provides existing concepts regarding: the information needs of users; the role of budgeting in financial reporting; how financial reporting supports reporting on operating performance; and the two levels of stewardship.
- Attachment III: Excerpts of Statement of Federal Financial Accounting Standards (SFFAS) 4, *Managerial Cost Accounting Standards and Concepts*, provides existing concepts regarding the role of cost information in general and the role of managerial cost accounting in financial management.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

BACKGROUND

During the February 2015 meeting, the Board continued its discussions on a concepts statement for an ideal reporting model. The initial issue concerned whether: (1) the framework in the concepts statement should be general and assist in the classification and aggregation of flows reported in government-wide or component entity financial statements; or (2) specific rules for classification or aggregation should be discussed in the statement. The Board agreed that concepts should be general; however, members expressed concern that some level of specificity was needed to guide the Board without constraining future standards setting.

Members expressed concern about whether the concepts should include illustrations of financial statements and whether concepts should reflect an 'aspirational' reporting model or describe current practice. Consequently, the Board decided to: 1) develop an inventory of concepts and topics that might be included in the concepts statement; and 2) discuss the inventory items during the April 2015 meeting. Staff documented the inventory in an outline.

In addition, the Board deliberated budgetary reporting and what actions should be taken given the issues noted during its December 2014 discussion with budget experts. During that meeting, budget experts discussed unique aspects of the federal budget, such as only one-third of federal spending is subject to annual appropriations and they noted that users have difficulty understanding the current Statement of Budgetary Resources. The Board agreed with the staff proposal to defer decisions about concepts and standards related specifically to budgetary reporting until concepts for the other components of the financial reporting model are developed.

MEMBER FEEDBACK

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at simmsr@fasab.gov with a cc to paynew@fasab.gov .

QUESTIONS FOR THE BOARD

1. The Board has stated that there are two levels of Stewardship,

One is for its own assets and liabilities and its ongoing ability to operate. The other is its constitutional responsibility for the nation's wealth and well-being. It is unique in this respect. If the nation's wealth and well-being are deteriorating, the government's financial condition is, or soon will be, deteriorating also—and vice versa. The financial condition of a sovereign national government and that of the nation itself are inextricably intertwined. Some information about the overall context must be provided, therefore, when reporting on the government as a whole, and perhaps when reporting on selected programs. As explained in Chapter 1, the FASAB does not recommend standards for economic reporting, but it may consider whether such information should be included in certain financial reports. (SFFAC 1, par. 236)

The outline currently does not address the level of Stewardship concerning the government's responsibility for the nation's wealth and well-being. Does the Board believe that:

- a. The different levels of Stewardship should be addressed in the proposed concepts statement?
 - b. The concepts should include a discussion on the need for trends in national indicators to help users assess the nation's wealth and well-being. See Outline item D for examples.
2. The Board's reporting model task force recommended that financial reports include information on intergovernmental financial dependency (see Outline item F). Does the Board believe that intergovernmental financial dependency should be discussed in the concepts for an ideal reporting model?
 3. During the February 2015 meeting, members discussed that the interrelationship among information presented in financial statements should be understandable (see Outline item G). While a hierarchy was proposed to list the priority sequence of methods for helping users understand the interrelationships among financial statements another option would be to require a discussion of the relationships in the MD&A. Should the concepts statement for an ideal model include a hierarchy (Option 1) or state that the MD&A should discuss the relationship among financial statements (Option 2)?

4. If the Board believes that a hierarchy should be discussed in the concepts, the proposed concepts (Outline item G, Option 1) state that financial statements are categorized as budgetary, accrual, and projections. Another approach for categorizing financial statements could be short term, point in time, and sustainability.
 - a. Does the Board believe that a categorization approach should be included in the proposed statement?
 - b. If so, what approach should be discussed in the statement?
5. If the Board believes that a hierarchy should be discussed in the concepts, does the Board agree with the hierarchy proposed in the outline (Outline item G, Option 1)?
6. SFFAC 1 discusses the relationship between financial reporting and budgeting (see Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 186 to 191). Also, SFFAS 4 discusses the relationship between cost and budgetary accounting (see Attachment III: Managerial Cost Accounting Standards and Concepts, paragraphs 49 to 51). Does the Board believe the discussion on budgetary reporting (Outline items K1 and K2.) is needed in the concepts statement for an ideal reporting model?
7. SFFAC 1 discusses how financial reporting supports reporting on Operating Performance (see Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 192 to 212). Also, SFFAS 4 discusses the role of managerial cost accounting in performance reporting (see Attachment III: Managerial Cost Accounting Standards and Concepts, paragraph 58). Does the Board believe that the discussion on performance reporting (Outline item L) is needed in the concepts statement for an ideal reporting model?
8. SFFAS 4 discusses the role of cost information in general and the role of managerial cost accounting in financial management (see Attachment III: *Managerial Cost Accounting Standards and Concepts*, paragraphs 31 to 58). Does the Board believe that the discussion on the role of cost accounting (Outline item M) should be included in the concepts statement for an ideal reporting model?
9. What additional topics do members believe should be discussed in the concepts for an ideal reporting model?
10. Of the topics presented in the Outline to date, what topics do members believe should not be discussed in the concepts statement for an ideal reporting model?

Attachment I: Outline for an Ideal Reporting Model Concepts Statement

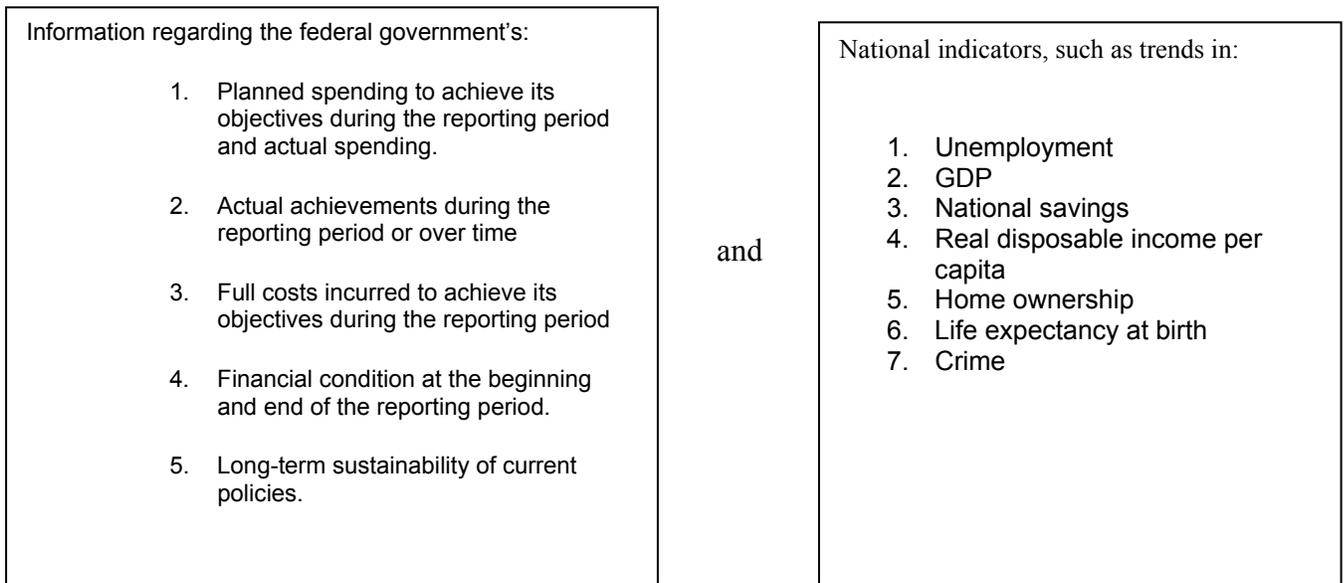
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Outline

- A. Statement of Federal Financial Accounting Concepts (SFFAC) 1: *Objectives of Federal Financial Reporting (Objectives)* discusses the types of users of financial information, their financial information needs, and the objectives of reporting financial information.
 - 1. Budgetary Integrity
 - 2. Operating Performance
 - 3. Stewardship
 - 4. Systems and Controls
- B. *Objectives* also discusses the role of budgeting in financial reporting and how financial reporting supports reporting on operating performance
- C. Many information sources help to achieve the reporting objectives.
 - 1. SFFAC 1 indicates:
 - a. General purpose financial reports will not meet all needs. However, general purpose reporting will be more useful if traditional reports are expanded to include a variety of reports aligned with reporting objectives.
 - b. Users will need to consult special purpose reports; especially those that combine financial and non-financial information and perhaps those that include information about aspects of national society. Federal accounting also must support special purpose reporting.
 - 2. There are now requirements to present data in ways that allow users to create reports suited to their needs.
 - a. Discuss characteristics that are relevant to both general purpose financial reports (GAAP-based) and other sources of financial information. (faithful representation, completeness, comparability, consistency)
 - 3. Discuss the reporting model's ideal relationship to reporting protocols that provide non-GAAP reports and allow users to access data and customize their own reports such as USASpending.gov and the DATA Act.
 - a. Consistency of data standards (definitions) and accounting standards/principles

- b. Interoperability goals established in the DATA Act as well as the ideal interoperability
- c. Leveraging technology to provide information
 - i. The ability to drill-down or obtain detailed information for selected services and by object class
 - ii. The ability to aggregate and disaggregate the cost of services, such as the cost of services by object class, at various levels within or across the various reporting levels.

D. Financial reporting is made more useful by the integration of



Question for the Board: Should the concepts address the different levels of Stewardship (see Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraph 236) and should the concepts discuss the need for trends in national indicators to help users assess the nation's wealth and well-being?

E. Discuss the need to report on intergovernmental financial dependency

1. One level of government relies on another level for direct financial flows or indirect financial flows derived from purchases of goods and services and/or payments to individuals within a governmental jurisdiction by another level of government.
2. The federal government depends on states and local governments to carry out and administer federal services.

3. The federal government impact state's GDP
4. States and local governments face fiscal challenges that affect the nation's overall fiscal challenges.

Question for the Board: Does the Board believe that intergovernmental financial dependency should be discussed in the concepts for an ideal reporting model?

F. Financial statements assist in providing accurate and reliable information to users

1. Financial statements are the basic means of communicating the sources, uses, and status of financial resources and assist the federal government in demonstrating accountability.
2. Financial statements are prepared and issued using disciplined processes to ensure that the information is accurate and reliable.
3. GAAP governs when and how financial transactions and events should be represented in financial statements and the terms that should be used. GAAP helps ensure that financial statements present information to users in an understandable and consistent manner.
4. Financial statements audited in accordance with GAGAS establish discipline in the underlying financial systems.
5. The established discipline provides an increased level of assurance that the information, such as special purpose reports and transaction level data, provided from the underlying systems is accurate and reliable.

G. The interrelationship among information presented in financial statements including Management's Discussion and Analysis (MD&A) and non-financial performance information should be understandable. This may be evident from the titles and lines used on the statements or accomplished through narrative explanation elsewhere.

Question for the Board: Should the concepts include: a hierarchy (Option 1); or state that the MD&A should discuss the relationships among the financial statements (Option 2)?

Option 1: Hierarchy

1. There are different types of financial statements – accrual, budgetary, and projections. .
2. Understandable interrelationships among the statements can be accomplished in the following manner:
 - a. Articulation among the statements. There is value in presenting financial statements in a manner such that the relationships among them are self-evident.
 - b. If the relationships among the statements are not self-evident, a reconciliation on the face of the statements could be shown. If such a reconciliation is not feasible on the face of the statements, it could be shown in an accompanying schedule or the relationships could be described in a narrative disclosure.
 - c. Provide examples of how the interrelationships would be provided, such as narratives or charts.

or

Option 2: MD&A as Key to Integration

1. MD&A should discuss the relationships among the basic financial statements and the significant differences in the information they provide.
2. MD&A should discuss the different levels of reporting and how components relate to the CFR, including why components may use different bases of accounting.

Question for the Board: If the Board believes that a hierarchy should be discussed in the concepts, the proposed concepts state that financial statements are categorized as budgetary, accrual, and projections. Another approach for categorizing financial statements could be short term, point in time, and sustainability.

- a. Does the Board believe that a categorization approach should be included in the proposed statement?
- b. If so, what approach should be discussed in the statement?

Question for the Board: If the Board believes that a hierarchy should be discussed in the concepts, does the Board agree with the hierarchy proposed in the outline (Outline item G, Option 1)?

- H. A financial reporting package should explain the purpose, importance, and kinds of information being reported to users and the relationships among the kinds of information.
- I. There are two different levels of reporting, the government-wide and component levels and the relationships and differences between the levels should be explained. The nature of the organizations at each level differs. As a result, the primary users of their financial reports differ and the information they expect differs as well.
1. Explain how each level is different, including: how characteristics at each level are different
 2. Identify in detail the different characteristics of the government as a whole and its components and discuss how the characteristics relate to meeting the reporting objectives as well as how they affect the elements of financial statements.
 - a. The Constitution established the structure of the federal government; that is the three branches of government and their roles. It is through the Executive Branch and its components that the federal government provides most services.
 - b. The government-wide level is the economic entity where all revenues received by and cost incurred by the government are reported. The component level entities are not economically independent entities; they are agents of elected officials who receive authority by delegations made in the legislative and regulatory process. As agents, their missions are established in law and they rely on appropriations to carry out their missions. Appropriations enable them to obligate the government and incur costs.
 - c. The CFR level is a consolidated view necessary for:
 - i. consideration of the financial position and condition of the government
 - ii. readers to understand that multiple organizations frequently provide related government services.

- d. Congress, citizens, and citizen intermediaries would look to the CFR for information about the federal government.
 - e. Individual component reports have limitations and cannot inform a reader about:
 - i. What happens across multiple component levels (cross agency priority goals).
 - ii. The likelihood that future budgetary resources will be sufficient to meet future obligations and provide services
 - f. The government-wide and components have different financing structures.
 - i. Discuss component level dependence on appropriations and specific laws for authority to spend.
 - ii. Discuss offsetting collections
 - g. Citizens and citizen intermediaries are the primary audiences of the government-wide level. Citizens interested in greater detail will be served by component level reports.
 - h. Reports about specific components may be of greater interest to internal users² such as Congress, appointed officials, senior executives, and others with oversight responsibilities. Congress expects highly disaggregated information to address short term financial and programmatic operations of the government. The Congress also expects highly aggregated information to address and plan for long term financial and programmatic operations and sustainability of the government. This expectation may indicate that consolidated and component level reporting are means of reporting along a spectrum of useful information.
 - i. There are reasons for providing component level activity to external users. External users interested in specific topics will not find sufficient detail in a government-wide consolidated report. Also, some components are self-sustaining so component level reports are an important tool for monitoring their financial performance and sustainability.
- J. Discuss what should be communicated at the different levels (regardless of today's processes for collecting and auditing information for the CFR).

² Internal users do not always have ready access to information.

1. The government-wide should answer broad financial questions and help citizens and citizen intermediaries understand the financial condition of the federal government and how that changed for the year being reported; the major services that the federal government provides; and facilitate their obtaining detailed information.
2. The CFR should communicate
 - a. How the government is funded (the resources received) and what it does with that funding.
 - i. Sources and amounts of tax revenues
 - ii. Overall results of operations
 - b. What was obtained (assets) and the obligations created as a result of its activities.
 - c. The difference between mandatory and discretionary spending and how discretionary spending is small in relation to mandatory spending.
 - d. Sustainability of services
 - i. Define services
 - ii. Provide information to help the public understand what it takes to meet long-term commitments.
 - iii. Provide information to help determine whether we can continue programs as structured. The challenge is that some have their own revenue but others do not.
 - e. Spending thru the tax code
 - i. Discuss the need to report on tax expenditures
 - f. The sustainability of revenue.
 - i. The federal government has the power to tax, borrow, and create money. Consequently, the federal government has access to a vast but finite pool of resources.³
 - g. Disclose the government's ability to move money around once collected for a designated purpose.

³ SFFAC 1, par. 55.

3. The component level should communicate
 - a. Amounts expended for specific goals
 - b. Amounts spent for specific services
 - c. Relationship of spending to the amounts budgeted
 - d. Total cost of services and the status of resources (assets) available to provide future services and obligations (liabilities) that must be met in the future
 - e. Spending thru the tax code versus direct appropriation
 - f. Results of spending

K. With respect to budgetary reporting, discuss the following:

1. The budget execution process so that readers understand that there are several relationships
2. The relationship between financial information (cost) and budget

Question for the Board: SFFAC 1 discusses the relationship between financial reporting and budgeting (see Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 186 to 191). Also, SFFAS 4 discusses the relationship between cost and budgetary accounting (see Attachment III: *Managerial Cost Accounting Standards and Concepts*, paragraphs 49 to 51). Does the Board believe this discussion on budgetary reporting is needed in the concepts statement for an ideal reporting model?

3. To the extent possible, financial reporting should present the relationship of outlays to accrual expenses.
4. Financial reporting should provide information on the use of budgeted resources.
5. To the extent possible financial reporting should provide a budget to actual comparison of revenues and expenses. Matters that would need to be discussed include:
 - a. What is actual? Actual would need to be defined.

- b. At what level should a comparison be presented?
- 6. Financial reports should have some recognition of mandatory versus discretionary spending.
 - a. Financial reports should present what expenditures the budget makes mandatory and what expenditures are discretionary.

L. Regarding performance reporting, discuss the following:

- 1. Performance metrics and measures
 - a. Inputs, outputs, and outcomes
 - b. Efficiency measures
 - c. Effectiveness measures
- 2. Cost of programs and activities
- 3. The relationship of cost to strategic goals

Question for the Board: SFFAC 1 discusses how financial reporting supports reporting on Operating Performance (see Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, paragraphs 192 to 212). Also, SFFAS 4 discusses the role of managerial cost accounting in performance reporting (see Attachment III: *Managerial Cost Accounting Standards and Concepts*, paragraph 58). Does the Board believe that this discussion of performance reporting is needed in the concepts statement for an ideal reporting model?

M. Discuss the role of cost accounting

1. Financial reporting versus reporting for internal management
2. Discuss the importance of full costs versus amounts budgeted or cash paid

Question for the Board: SFFAS 4 discusses the role of cost information in general and the role of managerial cost accounting in financial management (see Attachment III: *Managerial Cost Accounting Standards and Concepts*, paragraphs 31 to 58). Does the Board believe that this discussion on the role of cost accounting should be included in the concepts statement for an ideal reporting model?

Question for the Board: What additional topics do members believe should be discussed in the concepts for an ideal reporting model?

Question for the Board: Of the topics presented in the Outline to date, what topics do members believe should not be discussed in the concepts statement for an ideal reporting model?

Attachment II: Statement of Federal Financial Accounting Concepts (SFFAC) 1,
Objectives of Federal Financial Reporting

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Statement of Federal Financial Accounting Concepts 1: Objectives of Federal Financial Reporting

Status

Issued	September 2, 1993
Interpretations and Technical Releases	
Affects	None.
Affected by	SFFAC 3 affects paragraph 181 by providing guidance on MD&A.

Summary

This document is a conceptual statement on the objectives of financial reporting by the federal government. It focuses on the uses, user needs, and objectives of such reporting. The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability, (2) provide useful information, and (3) help internal users of financial information improve the government's management. In addition to guiding the Board, the objectives may serve as useful guidance to others involved in federal financial reporting. For example, the objectives may be useful in developing accounting policy, designing reports, and writing narratives and notes to financial reports.

The objectives reflect the federal environment. They also consider many of the needs expressed by current and potential users of federal financial information. They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.

The four objectives of Federal Financial Reporting are:

Budgetary Integrity—Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine

- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
- the status of budgetary resources, and
- how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

Operating Performance—Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

Stewardship—Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether

- the government's financial position improved or deteriorated over the period,
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
- government operations have contributed to the nation's current and future well-being.

Systems and Control—Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that

- transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;
- assets are properly safeguarded to deter fraud, waste, and abuse; and
- performance measurement information is adequately supported.

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Executive Summary

Introduction

1. This document is a conceptual statement on the objectives of financial reporting by the federal government. It focuses on the uses, user needs, and objectives of such reporting. Statements on concepts, such as this document, differ from statements of recommended accounting standards. Statements on concepts are more general than statements of standards and do not contain specific recommendations that would, when issued by the Board's sponsors, become authoritative requirements for federal agencies and auditors.
2. Instead, statements on concepts, after approval by the Board's sponsors, provide general guidance to the Board itself as it deliberates on specific issues. They also help others to understand federal accounting and financial reports.
3. The objectives are designed to guide the Board in developing accounting standards to enhance the financial information reported by the federal government to (1) demonstrate its accountability to internal and external users of federal financial reports, (2) provide useful information to internal and external users of federal financial reports, and (3) help internal users of financial information improve the government's management.
4. The objectives reflect the federal environment. They also reflect many of the needs expressed by current and potential users of federal financial information. They provide a framework for assessing the existing financial reporting systems of the federal government and for considering how new accounting standards might help to enhance accountability and decision-making in a cost-effective manner.
5. The FASAB notes that many information sources other than financial statements help to attain these objectives. The objectives relate to the management and financial reporting systems in the federal government in their entirety.
6. Listing the objectives does not imply a judgment about the extent to which they are now being attained. Indeed, it is presumed that the objectives are being met to some degree now. However, the federal government does not have an integrated mechanism for reporting within the context of these objectives. The FASAB will consider where new accounting standards could make a useful and cost-effective contribution to improving the extent to which these objectives are attained.

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7. The Department of the Treasury, the Office of Management and Budget, and the Government Accountability Office expect that, to the extent possible, their reporting requirements will be aligned with the Board's objectives and standards.

Background and Rationale

8. The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the citizens, their elected representatives, federal executives, and program managers. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government. Providing this information to program managers, executives, and members of Congress is essential to planning and conducting government functions economically, efficiently, and effectively for the benefit of society.
9. Financial reporting is not the only source of information to support decision-making and accountability. Neither can financial reporting, by itself, ensure that the government operates as it should. Financial reporting can, however, make a useful contribution toward fulfilling those goals.
10. The objectives apply to both internal and external financial reports. They are intended to improve the relevance, consistency, and quality of accounting and other data available for a wide variety of applications.
11. The FASAB and its sponsors believe that any statement of objectives of federal financial reporting must be based on the needs of those who use the reports. Those users include citizens, Congress, federal executives, and federal program managers. Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding such topics as:
- **Budgetary integrity:** What legal authority was provided for financing government activities and for spending the monies? Were the financing and spending in accordance with these authorities?
 - **Operating performance:** How much do various programs cost, and how were they financed? What outputs and outcomes were achieved? What and where are the important assets, and how effectively are they managed? What liabilities arose from operating the program, and how will they be liquidated or provided for?
 - **Stewardship:** Did the government's financial condition improve or deteriorate? What provision was made for the future?

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- **Systems and Control:** Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?

12. Concerns like these define the following objectives of federal financial reporting.

Objectives of Federal Financial Reporting

Budgetary Integrity

13. Federal financial reporting should assist in fulfilling the government's duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government's budget for a particular fiscal year and related laws and regulations. Federal financial reporting should provide information that helps the reader to determine
- how budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization,
 - the status of budgetary resources, and
 - how information on the use of budgetary resources relates to information on the costs of programs operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.

Operating Performance

14. Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity;¹ the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine
- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
 - the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and

¹The FASAB has not yet considered criteria for defining, and terminology for describing, federal financial reporting components or units. In this document, therefore, the term "entity" is used in a generic way to refer, depending on the context, to the U. S. government as a whole; to organizational component units of the government, such as an agency; and to other kinds of potential reporting units, such as programs.

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- the efficiency and effectiveness of the government's management of its assets and liabilities.

Stewardship

15. Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial conditions have changed and may change in the future.
16. Federal financial reporting should provide information that helps the reader to determine whether
 - the government's financial position improved or deteriorated over the period,
 - future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
 - government operations have contributed to the nation's current and future well-being.

Systems and Controls

17. Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that
 - transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purpose authorized, and are recorded in accordance with federal accounting standards;
 - assets are properly safeguarded to deter fraud, waste, and abuse; and
 - performance measurement information is adequately supported.

Organization of the Statement

18. The first two chapters of this statement present background information on the Board and the federal environment. Chapter 3 identifies the four groups of current and potential users of federal financial reports and gives examples of some of their information needs. Chapter 4 states and explains the objectives of federal financial reporting in more detail than does this executive summary.
19. Chapter 5 explains some limitations of the standard-setting process within the context of user needs. Chapter 6 discusses the desirable qualitative characteristics of financial

information. Chapter 7 explains how accounting supports federal financial reporting. Chapter 8 explains how financial reporting supports reporting on operating performance.

20. Appendix A sets forth the basis for the Board's conclusions. Appendix B presents a categorization of user needs according to types of information identified by the users rather than according to objectives. Appendix C lists some major federal reports that are regularly produced.

Chapter 1: Federal Financial Reporting And The Role Of The Federal Accounting Standards Advisory Board

21. Financial reporting by the federal government provides information for formulating policy, planning actions, evaluating performance, and other purposes. In addition, the processes of preparing and auditing financial reports can enhance the government's overall accountability structure by providing greater assurance that transactions are recorded and reported accurately, that consistent definitions are used to describe the transactions, etc. Thus, federal financial reporting helps to fulfill the government's duty to manage programs economically, efficiently, and effectively and to be publicly accountable.
22. Financial reporting is supported and made possible by accounting and accounting systems. "Financial reporting" may be defined as the process of recording, reporting, and interpreting, in terms of money, an entity's financial transactions and events with economic consequences for the entity. Reporting in the federal government also deals with nonfinancial information about service efforts and accomplishments of the government, i.e., the inputs of resources used by the government, the outputs of goods and services provided by the government, the outcomes and impacts of governmental programs, and the relationships among these elements.²

Role Of The FASAB In Federal Accounting And Financial Reporting

*The mission of the FASAB is to recommend accounting standards [for the federal government] after ... considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.*³

23. The FASAB and its sponsors believe that any description of federal financial reporting objectives should consider the needs of both internal and external report users and the decisions they make. This implies a different role for the FASAB than for the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). The FASB sets financial reporting standards for privately owned entities in the United States. The GASB sets financial reporting standards for state and local governments.

²Except where the context indicates otherwise, the term "government" in this document refers both to the U.S. government as a whole and to its component reporting entities, such as agencies and programs.

³From the FASAB Mission Statement, approved by the Board and by the Secretary of the Treasury, the Director of OMB, and the Comptroller General of the United States in 1991.

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24. Those Boards exist primarily to set standards for general purpose financial reporting to external users of financial reports. This is because those users, by definition, have limited ability to control the nature of the information made available to them. The FASB and the GASB do not need to weigh heavily managers' information needs because those individuals, by definition, are assumed to have ready access to the information they need about the financial transactions and events that affect the financial position, operations, and financial condition of the entities they manage.
 25. The FASAB, on the other hand, considers the information needs of both internal and external users. In part, this is because the distinction between internal and external users is in many ways less significant for the federal government than for other entities. Officials who in theory should have ready access to information often find in practice that it is not available. Factors that contribute to this problem include the size and complexity of the government, the rapid turnover among senior political executives compared with the time required to install information systems in large bureaucracies, and the division of authority in the federal government.
 26. The FASAB's dual concern, with both internal and external reporting, is the result of such factors and of the Board's mandate. The FASAB was created to advise OMB and Treasury (agents of the President) and the GAO (an agent of the Congress) on accounting standards for federal agencies and programs in order to improve financial reporting practices.
 27. The Board's sponsors have separate constitutional and statutory authorities for setting accounting policy for the government. The division of powers in the U.S. government means that different policymakers with independent authority find it useful to have a mechanism to coordinate their accounting policy activities. The Board and its public deliberative process also provide a new arena for the participants to deliberate and to discover how federal accounting and financial reporting can be improved.
 28. Just as the traditional distinction between internal and external report users is less useful in the federal context, some of the traditional ways of classifying financial *reports* are less relevant. Reports can be intended primarily for a designated special purpose or for general purpose use. In the federal government, as in most entities, internal financial reporting is designed for special purposes. Internal financial reporting helps managers to plan, conduct, and coordinate their activities and to evaluate the economy, efficiency, and effectiveness of their programs.

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29. Much external federal financial reporting also is for special purposes, but some is for general purpose use; that is, it attempts to meet the common needs of many different users who have limited power to demand information directly. These reports are known as general purpose reports.⁴

Limitations Of Financial Reporting

30. The FASB and the GASB focus primarily on general purpose financial reporting because that is their mandate and reason for being. Even so, those Boards recognize that general purpose financial reporting is not the only source of financial information about such entities. In many cases, users of general purpose financial reports need to consult other sources to satisfy their information needs. This is no less true for the federal government.
31. While certain information is provided by general purpose financial reports, other information is better provided by, or can be provided only by, financial reporting outside such reports. Still other information is provided by nonfinancial reports or by financial reports about segments of the national society other than the federal government and its component entities (e.g., economic reporting).
32. Often, to satisfy the information needs of various individuals, it is necessary to combine and report financial and nonfinancial information. Often, combining information about the government with information about aspects of the national society is necessary to assess past or planned governmental actions. For example, information about the number of people gainfully employed after participating in a vocational education program would be important both in assessing past governmental expenditures for training and in evaluating plans for similar new expenditures.
33. Some questions arise with special force regarding the nature of general purpose reports because, by definition, no user or potential user is able unilaterally to define the requirements for these reports. The FASAB is, by design, well constituted to consider the issues involved with such reports.
34. Federal accounting also must support special purpose reporting to the Congress, executives, and others that the FASAB represents. Indeed, most federal financial reporting is special purpose reporting. Also, the Board notes that traditional “general purpose” financial reports

⁴In state and local governmental accounting, the term “general-purpose financial statements (GPFS)” has a quite specific meaning. Standards published by the GASB define in detail the form and content of such reports. The term “general-purpose reports” is used in a more generic sense in this document to refer to a variety of federal financial reports.

may serve a larger and more useful purpose for a variety of audiences if traditional designs for such reports are expanded to include a variety of reports addressing budgetary integrity, operating performance, stewardship, and control of federal activities.

Evolutionary Approach

35. The FASAB recognizes that developing and implementing standards that will contribute to achieving certain objectives may take considerable time. Time will be needed to establish information-gathering systems and to gain experience by experimenting with alternative approaches.
36. The FASAB expects that some of these objectives may best be accomplished through means of reporting outside general purpose financial reports. Indeed, the FASAB recognizes that information sources other than financial reporting, sources over which the FASAB may have little or no influence, also are important to achieving the goals implied by these objectives.
37. In developing specific standards, the FASAB will consider the needs of financial information users, the usefulness of the information in relation to the cost of developing and providing it, and the ability of accounting standards to address those needs compared with other information sources.

Background Information On Federal Financial Reporting

38. Different people are likely to talk about very different things when asked to describe federal financial reporting or federal accounting. A few examples will illustrate this point
39. **An economist**, when asked this question, is likely to refer to reports about the national society as a whole. Among the most important of such financial reports are the national income and product accounts (NIPA) that measure the nation's aggregate expenditures on currently produced output. Federal government expenditures, of course, constitute a significant fraction of the total expenditures in the economy. The NIPAs, as a system, emerged in the 1940s and were built on work done in the U.S. Department of Commerce beginning in the 1930s and earlier by private organizations.
40. The NIPAs provide a picture of the economic transactions that occur in an accounting period, such as a year. The approach is to provide such a picture through a set of accounts that aggregate the accounts belonging to the individual transactors in the economy—workers, businesses, and consumers, among others—whether or not formal accounting statements exist explicitly for all of them.

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41. The NIPAs provide vital information to policymakers and others who are planning future actions and to individuals who would like to assess the effects of past actions. The NIPAs are recognized as an essential part of economic reporting by national governments. For this reason, the United Nations has developed the System of National Accounts (SNA). The SNA is a comprehensive, integrated, and internationally comparable statistical base for analysis in key policy-making areas, such as economic growth, inflation, and productivity.
 42. This Statement does not deal directly with such accounts of the economic activity of the national society. The focus of this Statement is on accounting systems and financial reports that deal with the budgetary integrity, operating performance, and stewardship of the government as such; that is, of the government as a legal and organizational entity within the national society. However, to report on some aspects of the government's performance and stewardship, economic and other information about the national society is essential. Thus, the FASAB may consider whether such economic information should be included in certain financial reports, such as general purpose financial reports for the U.S. government as a whole.
 43. **A financial analyst** on Wall Street, when asked about federal financial reporting, is likely to think of the "Daily Treasury Statement" and the "Monthly Treasury Statement of Receipts and Outlays of the United States Government." Some financial analysts study these Treasury reports regularly to assess the effect of cash flows on bank reserves and the size of the government's borrowing requirements. The federal government's borrowing is viewed as free of default risk because of the government's ability to tax and to create money. The power to tax depends on the government's willingness to tax and the strength of the economy.
 44. From a longer-term perspective, it is true, however, that borrowers' expectations about such factors as future inflation and the relative value of the dollar compared with other currencies can influence the borrowing costs of the United States. Those expectations, in turn, may be influenced by the deficit reported or projected by the government, the current inflation rate, and other factors.
 45. **Someone concerned with formulating or executing the U.S. budget**, when asked about the "federal accounting model," is likely to think of the budgetary accounting system. This is the system used to keep track of spending authority at various stages of budget execution from appropriation through apportionment and allotment to obligation and eventual outlay. This system is used by Congress and the executive branch for such purposes as "scoring" the budget and for assessing the economic implications of federal financial activity at an aggregate level. It also is used for planning and controlling government operations at more detailed, disaggregated levels. Of course, people involved with the budget also are informed by, and rely on, sources of information other than the budgetary accounting system, e.g., program evaluation and performance measures.

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46. Although the FASAB does not recommend standards for the budget or budget concepts, part of its mission is to recommend accounting principles that will help provide relevant and reliable financial information to support the budgetary process. Furthermore, information about budget execution is essential to assessing budgetary integrity.
47. **Accountants working for the federal government, individuals auditing government programs, or students in a governmental accounting course** are likely to think first of what are known within the federal government as the “proprietary” accounts and the reports prepared, in part, from information in them. These accounts are used to record assets and liabilities that are not accounted for in the budgetary accounts. These reports are said to present “financial position” and “results of operations” in accordance with some set of accounting standards. The FASAB is most directly concerned with these accounts and with the reports that are prepared, in large part, with information from them.
48. Attention to this and other aspects of federal accounting and financial reporting has been greatly increased by the Chief Financial Officers Act of 1990 (CFO Act). This act mandates improved financial management by requiring, among other things, (1) new financial organizations, (2) enhanced systems, and (3) audited financial reporting. However, the FASAB’s area of concern is not limited to the reports required by the CFO Act.

Chapter 2: The Federal Accounting And Financial Reporting Environment

49. Financial reporting is an important, basic tool in the management and oversight of most organizations. It is particularly important for the federal government because of the government’s fundamental nature and responsibilities and because the federal government operates with fewer external restraints than other entities. Federal accounting and financial reporting are shaped by, and need to respond to, the unique characteristics and environment of the federal government, as discussed below.

Sovereignty

50. The federal government is unique, when compared with any other entity in the country, because it is the vehicle through which the citizens of the United States exercise their sovereign power.⁵ The federal government has the power through law, regulation, and taxation to exercise ultimate control over many facets of the national economy and society. All other entities within the nation, both public and private, operate within the context of laws, oversight, and accountability established by the national government. The federal government is accountable only to its citizens. It is politically accountable to the electorate, but no higher agency has the power to demand an accounting from the government.

Separation Of Powers

51. Because of their concern about potential abuse of the national government's power, the founders designed a government characterized by the separation of powers. Each branch of government—legislative, executive, and judicial—is checked and constrained by the others. Paradoxically, this same separation of power can obscure responsibility and reduce accountability. The interrelated responsibilities of the legislative and executive branches, for example, can make it difficult to assign responsibility for the policies that are adopted.

Federal System Of Government

52. The federal system of government— comprising federal, state, and local levels of government—also makes it difficult to pinpoint accountability for many programs. The federal government's responsibility relative to that of the states has gradually expanded. The federal government has undertaken responsibilities in areas such as income redistribution, education, and health care. Often, however, the expansion has come without direct federal control over related operations. Responsibilities and financial resources of the three levels of government have become intermingled. Citizens are not clear about who is in charge, where to press for performance, and whom they should blame for bad results.

⁵The word "sovereign," much discussed by legal and political philosophers, is used here in its broad, popular sense to imply (1) internally that the people are the ultimate (if indirect) overseer or authority in the decision-making process of a democratic state and (2) externally that the state is autonomous or independent. As noted by one authority on the subject, either type of sovereignty, internal or external, implies that there is no higher agency. In a more limited sense, sovereignty is the power to make or change the law, a power exercised collectively by individuals and institutions operating in a complex system of relationships. See "Sovereignty," W. J. Stankiewicz, *The New Encyclopedia Britannica*, 15th. ed. (1976), vol. 17, pp. 309-313.

Responsibility For The Common Defense And General Welfare

53. The federal government is unique in that it has continuing responsibility for the nation's common defense and general welfare. As a result, the government's financial condition is necessarily a secondary consideration in many cases. For example, the nation would enter into military conflict to protect its vital national interests despite the fact that doing so would worsen an already large deficit. (Similarly, the government's greatest resource is one that it does not own but can tax: the national economy.)
54. Further, providing for the nation's general welfare is a broad responsibility that involves multiple goals. There is no single measure of success (like "return on investment" or "earnings per share"). Goals often are not explicitly defined in quantifiable terms and sometimes conflict with each other. Relevant measures of performance are usually nonfinancial. For example, many federal loan programs are charged with two conflicting goals: (1) to operate as a fiscally prudent lender and (2) to provide high-risk lenders with credit.

Power To Tax, Borrow, And Create Money

55. As stated, the federal government has unique access to financial resources and financing. It has the power to tax, to borrow, and to create money. These powers give the government a call on the underlying wealth of the United States—a vast but finite pool of resources.
56. There is no constitutional requirement to provide sufficient revenues to fund expenditures of the federal government. There is a statutory limit on the amount of U.S. debt. This limit is routinely increased by Congress and the President. The federal government's ability to finance its debt has not been constrained by capital market assessments of its creditworthiness. It is true, however, that the cost of servicing the U.S. debt now constrains the range of feasible fiscal and monetary policies more than was formerly the case.
57. The federal government—through the Federal Reserve—also has the power to create money and to control its supply.⁶ This ensures that creditors will be repaid, at least in nominal terms. When the government's debt is large, it also provides a temptation to create money, as well as inflation.

⁶The Federal Reserve Board functions as a largely independent entity but is, of course, a government agency created by congressional action.

Influence Of Organized Interests

58. Because of the size and nature of government programs, it is difficult for individuals to evaluate or to influence policies and actions of the federal government. Typically, individuals must organize to exercise influence. Small groups whose members are significantly affected by a common factor or concern can be organized relatively easily, but they may find it difficult to wield much influence. Large groups may be influential, but organizing them is difficult if the members have common but diffuse interests. Once organized, interest groups tend to perpetuate themselves.
59. As a result, most elected and appointed federal officials, and the groups to which they are responsive, have been interested primarily in information about individual government programs, functions, or activities. They have been less interested in information about the government as a whole and even less concerned about intermediate levels of reporting, such as individual departments.

Political System Versus Private Markets

60. The federal government is not subject to the discipline of competitive markets for private goods, services, and capital. Generally, transactions between citizens and the government are not individual exchanges between willing buyers and willing sellers. Taxpayers provide resources involuntarily, based on their consumption, wealth, or income rather than on their desire for particular government services. Even when user fees are charged, they often are not intended to represent market clearing prices—prices that would, in markets for private goods, balance supply and demand.
61. Thus, citizens as individuals have little say in selecting the public services they pay for. Decisions on what public services will be provided are collective decisions made through the political process. Politically influential recipients of benefits can force less influential non-recipients to bear the cost of the benefits.
62. Further, because most governmental revenues are not earned in individual, voluntary, exchange transactions, no private market directly measures the value of output. Consequently, the value added to society's well-being by government programs cannot be gauged by conventional measures of net income, nor is there much competitive market constraint on the quantity or quality of services provided. Instead, decisions about the quantity, quality, and value of public services are collective decisions made by the political process.

Assets

63. The government makes significant investments in assets, including public domain assets and large investments intended to produce growth (educational programs and research and development, for example).
64. In government, as in the private sector, assets are expected to provide benefits that outweigh costs. In the private sector, the notion of benefits is relatively straightforward: benefits are measured in terms of cash inflows. Assets are not acquired unless the value of expected cash flows exceeds acquisition costs.
65. In the government, this discipline does not usually exist. Expected benefits often are not cash inflows but rather are the services provided by the asset. Sometimes those services are provided to the government itself (e.g., government office buildings or motor pools). More often, the services are provided to the public (e.g., education and research and development).

Responsibility To The News Media

66. The federal government is subjected to, and should encourage, scrutiny by the news media. Because of the lack of external restraints and because the government's power ultimately resides in the citizens, it has a special responsibility to citizens and taxpayers to disclose its activities.

Importance Of The Budget

67. The budget is the most widely recognized and used financial report of the federal government. It is a principal surrogate for the missing external restraints discussed above. It is a vehicle for the political process to reach agreement on goals and to allocate resources among competing priorities. It provides a system for controlling expenditures. And it supplies information necessary for assessing the effect on the economy of the government's fiscal policies. The role of budgeting in financial reporting is discussed further in Chapter 7 under "Relationship of Financial Reporting to Budgeting."

Need For Special Control Mechanisms

68. The lack of external restraints noted above creates a need for special control mechanisms. Some mechanisms exist today. The most important, of course, are the political constraints

and accountability imposed by regular elections and the separation of powers and the other constitutional constraints and accountabilities, such as the federal system and freedom of speech.

69. Accounting and financial reporting also play a role. Budgetary obligation accounting is used to control activities, primarily at the budget account level. Audited financial reports can provide users with assurance that accounting systems are providing consistent and reliable data.
70. However, the need for improvement in financial reporting is widely recognized, as is the fact that financial information alone often is insufficient for decision-making. For example, financial information on costs often must be combined with nonfinancial information on performance to provide a basis for assessing the efficiency and effectiveness of government programs.

Chapter 3: Accountability And Users' Information Needs—the Foundation Of Governmental Financial Reporting

71. It may be said that “accountability” and its corollary, “decision usefulness,” comprise the two fundamental values of governmental accounting and financial reporting. They provide the foundation for the objectives of federal financial reporting. Because a democratic government should be accountable for its integrity, performance, and stewardship, it follows that the government must provide information useful to assess that accountability. Similarly, because a democratic government is accountable for operating economically, efficiently, and effectively, for the purposes intended by citizens and their elected officials, certain other conclusions logically follow. Specifically, those who formulate, select, and implement government policies and programs need information useful for planning, controlling, and conducting government functions.
72. The assertion of accountability therefore leads to identifying, first, those to whom government is accountable and, second, the information needed to maintain and demonstrate that accountability. Accordingly, this Chapter first discusses the concept of accountability, then identifies the four groups of users of federal financial reports. It concludes by providing some examples of the information needs that may be addressed to some extent by federal financial reports.

Accountability

73. Several different kinds of accountability can be distinguished, and a given piece of information may be relevant in different ways to judgments about accountability. For example, one authority suggests that there are five levels or types of public accountability:
- Level 1 is policy accountability—selection of policies pursued and rejected (value).
 - Level 2 is program accountability—establishment and achievement of goals (outcomes).
 - Level 3 is performance accountability—efficient operation (efficiency and economy).
 - Level 4 is process accountability—using adequate processes, procedures, or measures in performing the actions called for (planning, allocating, and managing).
 - Level 5 is probity and legality accountability—spending the funds in accordance with approved budget and/or approved items (compliance).⁷
74. In a democracy, appointed officials are accountable to their superiors, and elected officials are accountable to the citizens for each of these kinds of accountability. Accounting and financial reporting can help elected and appointed officials to maintain and to demonstrate their accountability. The last kind of accountability listed, for “probity and legality,” probably is the kind most often associated by the public with accounting. However, the accounting profession has long recognized that accounting can and should contribute to achieving and demonstrating several kinds of accountability, such as
- accountability for financial resources;
 - accountability for faithful compliance or adherence to legal requirements and administrative policies;
 - accountability for efficiency and economy in operations; and
 - accountability for the results of government programs and activities, as reflected in accomplishments, benefits, and effectiveness.⁸

⁷J. D. Stewart, “The Role of Information in Public Accountability,” eds. Tony Hopwood and Cyril R. Tompkins, Issues in Public Sector Accounting (Oxford, Great Britain: Philip Allan, 1984), pp. 14-15, as cited by the GASB in its Preliminary Views on Service Efforts and Accomplishments Reporting (Dec. 1992).

⁸Report of the Committee on Concepts of Accounting Applicable to the Public Sector, American Accounting Association (1970-71), pp. 80-81, as cited by the GASB in Preliminary Views on Service Efforts and Accomplishments Reporting (Dec. 1992).

Users Of Federal Financial Reports

75. The Board believes that users of financial information about the federal government can be classified in four major groups: citizens, Congress, executives, and program managers.

Citizens

76. This group includes individual citizens (without regard to whether they are taxpayers, voters, or service recipients). Citizens include the general news media and more specialized users, such as trade journals; public interest and other advocacy groups; state and local legislators and executives; and analysts from corporations, academe, and elsewhere.
77. Citizens are interested in many aspects of the federal government. They are concerned about individual programs, candidates for office, the services the government provides, and the fiscal responsibility of their elected and appointed representatives. Citizens receive and pay for government services and therefore are concerned with the outputs and outcomes of those services and the efficiency with which they are provided. Citizens are concerned about their families and, in particular, with the financial burden their children and grandchildren will inherit. As individuals, citizens typically have limited time and ability to analyze reports about their government; they want and rely on assurances that the government is functioning economically, efficiently, and effectively. As they are organized and represented by analysts working for interest groups and the news media, citizens want more information about the government's activities.
78. Citizens express their interest in the government by discussing issues, by voting, and by writing to their representatives about the quality and quantity of the services they receive. In some cases, citizens may decide whether and when to use services and products provided by the government. They may contribute to political campaigns, demonstrate support or opposition for individuals responsible for past and proposed government actions, and even run for office.

Congress

79. This group includes elected members of Congress and their staffs, including staff of the Congressional Budget Office (CBO) and the GAO. Congress is concerned with broad policies, priorities, and the programs that implement those priorities. It decides what taxes to impose, what funds should be spent, and for what purpose. Thus, Congress is concerned both with how to finance programs and with how they are executed.
80. Congress participates—along with the administration—in the basic decisions that describe the intent of government. Such decisions include passing laws in response to public demand,

allocating resources among competing programs, and establishing policy that affects various aspects of the country's economic and social life. These decisions often are influenced by assessing costs and benefits and by considering the effect of the government's aggregate financial requirements on the economy.

81. Congress also participates in monitoring government programs. It assesses the management performance of the executive branch and the efficiency and effectiveness of programs.

Executives

82. This group includes the President and those acting as his agents, i.e., program agency heads and their deputy, under, and assistant agency heads; heads of bureaus, administrations, services, and agencies; and the central agency officials in OMB and the Department of the Treasury.
83. Executives, like Congress, are concerned with the government's goals, objectives, and policies. Executives focus on the strategic plans and programs that are intended to achieve presidential and congressional goals and to implement their policies. In particular, they pay attention to budgets that, from the perspective of each agency, are the source of the resources needed to achieve goals and to implement policies. Executives are, of course, directly concerned about the management of programs, that is, with the actual delivery of services and with the efficiency and effectiveness of the delivery process.
84. Executives develop legislative proposals, recommend the necessary level of program funding, and formulate financing and revenue-raising strategies. They help select the method for delivering services. They determine whether program managers have been accountable for the resources entrusted to them and whether programs are operating efficiently and effectively. Executives also provide information that will enable the President and Congress to monitor programs.

Program Managers

85. This group includes individuals who manage government programs. Their concerns include operating plans, program operations, and budget execution.
86. Program managers assist in the design of programs and organize the method selected for delivering services. They recommend program budgets based on detailed plans that set forth needs for money, staffing, facilities, and inventory.
87. Program managers establish operating procedures for their programs and manage them within the limits of the spending authority granted by Congress. They select, supervise, and evaluate personnel. They also make sure that program inventory and facilities are acquired

economically, maintained adequately, and used efficiently. Program managers need to provide information to enable executives and Congress to monitor the programs.

The Needs Of Users Of Federal Financial Reports

88. While the financial information needs of these groups is more diverse than their membership, those needs can be categorized under four broad headings.

Budgetary Integrity

89. All user groups need information about the budget. For citizens, information about budget execution provides assurance that their elected and appointed representatives have fulfilled their most basic fiduciary responsibility: to raise and spend money in accordance with the law.
90. For the President's economic team and for congressional budget committees, information is needed on budget aggregates (total budget authority, total receipts and collections, and total outlays) to establish fiscal policy, including governmental financing needs. These officials need to know that prior-year "actuals" have been accurately recorded in accordance with the same budgetary principles used to prepare estimates.
91. To avoid violations of the Anti-Deficiency Act and the Impoundment Control Act, program managers need information about obligations incurred on their programs. They need periodic information about the status of budgetary resources, that is, the extent to which the resources have been used or remain available. They also want to know whether budgetary resources are available to be used for other purposes through reprogramming.

Operating Performance

92. Citizens want information about programs that affect them. Veterans, for example, want to know about new hospitals, and defense workers want information about contract awards (and cancellations). Retirees and people planning retirement—and their representatives in Congress—want to know that the Social Security Administration provides reliable services to the public.
93. Congress and executives want information about the comparative costs of programs (such as the per student cost of the Job Corps Program versus that of other job training programs). For comparisons to be valid, costs must be defined and measured alike.

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94. Of course, information on the effectiveness of programs is also needed to make valid comparisons among programs. Information is needed about outputs (e.g., number of students who graduated) and outcomes (e.g., number of students who got and held jobs for which they were trained).
 95. Executives and program managers need to know the cost of performing work reimbursed by other government entities or by nonfederal customers. Costs, in this case, would measure the resources (personnel, material, and equipment) used to accomplish the work.
 96. Congress and executives often want cost information that would help to compare alternative courses of action. How much more or less would it cost if the Census Bureau used a new approach to taking the census? How much would be saved if an Army division were based in the United States rather than in Europe?
 97. Program managers need information on the assets and liabilities related to operations. Managers of loan programs need information on the quality of their loan portfolios. Managers of repair depots want information on inventories, such as their value, quantity, location, age, and condition. Managers of government facilities need to know the facilities' condition and an estimate of future outlays made necessary by deferring needed maintenance.
 98. Congress and executives need information about the market value of assets that could be sold, such as precious metals or other commodities.

Stewardship

99. Citizens, Congress, executives, and program managers need information to assess the effect of the government's activities on its financial condition and that of the nation. Information is needed about the financial outlook for both the short and the long term.
100. Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood insurance. People need to know about likely future expenditures for cleaning up nuclear weapons sites and military bases. They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises.
101. All users need information on earmarked revenues recorded in trust funds. They want to know, for example, whether the Social Security Trust funds are likely, in the foreseeable future, to need infusions of new taxes to pay benefits. Citizens need to know the implications of investing trust fund revenues in government securities.
102. Users also need trend information on spending on investments in physical and human capital versus spending on consumption.

Systems and Control

103. Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well. Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.
104. The implications of these four broad categories of information needs for the objectives of federal financial reporting are discussed in more detail in the next Chapter.

Chapter 4: Objectives Of Federal Financial Reporting

105. The federal government derives its just powers from the consent of the governed. It therefore has a special responsibility to report on its actions and the results of those actions. These reports must accurately reflect the distinctive nature of the federal government and must provide information useful to the people, their elected representatives, and federal executives. Providing this information to the public, the news media, and elected officials is an essential part of accountability in government. Providing this information to program managers, executives, and members of Congress is essential to planning and conducting the government's functions economically, efficiently, and effectively for the benefit of society.
106. Financial reporting is not the only source of information to support decision-making and accountability. Neither can financial reporting, by itself, ensure that the government operates as it should. Financial reporting can, however, make a useful contribution toward those objectives.
107. The objectives discussed below apply both to internal and to external financial reports. To some degree, they also apply both to special purpose and to general purpose reports. Users of general purpose financial reports may have difficulty obtaining relevant information to hold the federal government accountable if the government operates without appropriate reporting objectives and accounting standards. The Board also intends that these objectives and the ensuing standards will prove widely useful for other purposes, though they may not apply to every special report or every item in the accounting system. The objectives are intended to improve the relevance, consistency, and quality of accounting and other data available for a wide variety of applications.

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108. The Board expects that its recommendations will be applied to improve information for program management and executive and legislative branch decision-making. The Department of the Treasury, OMB, and the GAO expect that, to the extent possible, their reporting requirements will be aligned with the Board's objectives and standards.
109. Four major objectives are proposed, around which accounting standards should be organized. These objectives are designed to help ensure the accountability of the federal government and to better inform decisions influenced by financial information about the government. Each objective reflects the federal environment and meets many of the needs expressed by current and potential users of federal financial information. Together, they provide a framework for assessing the existing accountability and financial reporting systems of the federal government and for considering how new accounting standards might be able to enhance those systems in a cost-effective manner.
110. Current and potential users of federal financial information want information to help them assess how well the government is doing by answering questions regarding topics like those below:
- **Budgetary Integrity:** What legal authority was provided for financing government activities and for spending the monies? Were the financing and spending in accordance with these authorities? How much was left?
 - **Operating Performance:** How much do various programs cost, and how were they financed? What outputs and outcomes were achieved? What and where are the important assets, and how effectively are they managed? What liabilities arose from operating the program, and how will they be provided for or liquidated?
 - **Stewardship:** Did the government's financial condition improve or deteriorate? What provision was made for the future?
 - **Systems and Control:** Does the government have cost-effective systems and controls to safeguard its assets? Is it able to detect likely problems? Is it correcting deficiencies when detected?
111. Concerns like these define the objectives of federal financial reporting. In the following text, objectives and subobjectives are stated in bold italic type. Each of the objectives and subobjectives is followed by a commentary that explains some of the implications of the objective.

Budgetary Integrity

Objective 1

112. **Federal financial reporting should assist in fulfilling the government’s duty to be publicly accountable for monies raised through taxes and other means and for their expenditure in accordance with the appropriations laws that establish the government’s budget for a particular fiscal year and related laws and regulations.**

113. This objective arises generally from the responsibility of representative governments to be accountable for the monies that are raised and spent and for compliance with law. More specifically it arises from the requirement in Article I, Section 9 of the Constitution of the United States that “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.” Its focus is the Budget of the United States Government, the President’s annual budget submission to the Congress, which is the government’s principal financial report, and the laws enacting budget authority for a given fiscal year. The Budget of the United States Government is the initial frame of reference within which Congress and the President enact the laws that require the payment of taxes and provide the authority to obligate and spend money.

114. The focus of this objective is retrospective. That is, the focus is on recording actual data from budget execution against appropriations made by Congress using existing budgetary standards. Thus, it would validate the “actual” column shown in the Budget of the United States Government. It would also provide data that could be shown in other reports as a statement of budget execution or a statement of the status of budgetary resources. The data also could be displayed in analytical tables showing, for example, the historical pattern of receipts and outlays.

115. Certain subobjectives arise from the basic objective of budgetary integrity, as discussed below.

Federal financial reporting should provide information that helps the reader to determine:

116. **1A. How budgetary resources have been obtained and used and whether their acquisition and use were in accordance with the legal authorization.**

117. Considering this objective in conjunction with the specific information needs identified by the Board suggests some examples of information that might help meet this objective:

- government receipts and offsetting collections reported in total and by composition;

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- obligations according to the nature of services or items procured;
 - information about the extent of compliance with the budget and laws, and whether money was expended as intended by the federal government and its grantees; and
 - valid data on budget authority, obligations, and outlays by program and for all appropriation and fund accounts (summarized appropriately to fit the intended audience).

118. **1B. The status of budgetary resources.**

Examples of information that could help meet this objective include

- information about the sufficiency of budget authority for covering commitments and the status of obligated and unobligated balances of budgetary resources and
- assurances that funds authorized for a given purpose were actually spent for that purpose.

119. **1C. How information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities.**

120. This subobjective arises from the fact that accrual-basis measures of the cost of government programs, functions, and activities may differ from the amounts used in the budget for a variety of valid reasons.

121. Reports primarily intended to address objective 1 and its first two subobjectives would use budgetary measurement. Subobjective 1C would use both budgetary and accrual measures because reconciliation of the two is implied. The basic accounting unit for this objective would be the budget account, although accounts are often aggregated for some reporting purposes.

Operating Performance

Objective 2

122. **Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities.**

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123. This objective arises from a democratic government's duty to be accountable to its citizens for managing resources and providing services economically and efficiently and for effectiveness in attaining planned goals. Also, the government should be accountable for raising resources efficiently.
124. Because government services are not usually provided in exchange for voluntary payments or fees, expenses cannot be matched against revenue to measure "earnings" or "net income" as would be done in business accounting. Moreover, directly measuring the value added to society's welfare by government actions is difficult. Nonetheless, expenses can be matched against the provision of services year by year. The resulting cost can then be analyzed in relationship to a variety of measures of the achievement of results.
125. Certain subobjectives arise from the basic objective of reporting on operating performance, as discussed below.

Federal financial reporting should provide information that helps the reader to determine:

126. **2A. The costs of providing specific programs and activities and the composition of, and changes in, these costs.**
127. Examples of financial information that can help to address this objective include
- information on the costs of programs and activities;
 - cost comparisons with estimates, with similar functions, with targets,⁹ and over time; and
 - relevant analyses of the composition and behavior of costs, such as full and incremental costs, fixed and variable costs, direct and indirect costs, and reimbursable and other costs, where appropriate.
128. **2B. The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs.**
129. Examples of information that can help to address this objective include
- financial and nonfinancial indicators of service inputs, outputs, and outcomes, including comparisons with goals;
 - indicators of program efficiency and effectiveness;
 - work load measures and unit costs; and

⁹"Performance targets" specify the level of performance that is set as a goal by policy and program officials. Targets may be set in terms of outputs, outcomes, impacts, cost per unit of output, etc.

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- total and marginal costs and benefits, the relationship of these to budget requests, and when the benefits will be realized.

130. **2C. The efficiency and effectiveness of the government's management of its assets and liabilities.**

131. This subobjective implies concern with the management of all federal assets and liabilities used by or under the control of agencies. Users of financial reports focus on the use of these resources in program operations, not solely on their financial value. Reports intended to address this objective would provide information to help users assess the efficiency and effectiveness with which

- cash is used;
- loan, loan guarantee, and other receivables programs are conducted;
- inventories of supplies, materials, and similar items are maintained; and
- forfeited and other tangible assets are handled.

132. Other examples of information relevant to this objective might include

- the service life and replacement cost of major systems and equipment;
- backlogs (and budgetary impact) of delayed maintenance, rehabilitation cost or replacement value of assets;
- the market value of forfeited and other assets, particularly those held for sale;
- the extent of unpaid expenses; and
- estimates (and ranges of estimates) of other known liabilities (such as leases or deposit and other insurance liabilities) and other exposures to loss.

133. Further discussion of performance measurement and how financial reporting can contribute to reporting on performance is provided in Chapter 8.

Stewardship

Objective 3

134. **Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.**¹⁰

¹⁰The concepts of "financial position" and "financial condition" are discussed in Chapter 7.

135. This objective is based on the federal government's responsibility for the general welfare of the nation in perpetuity. It focuses not on the provision of specific services but on the requirement that the government report the broad outcomes of its actions. Certain subobjectives arise from the basic objective of stewardship, as discussed below.

Federal financial reporting should provide information that helps the reader to determine:

136. **3A. Whether the government's financial position improved or deteriorated over the period.**

Examples of information relevant to this objective include

- the amount of assets, liabilities, and net assets (or net position);
- an analysis of government debt, its growth, and debt service requirements;
- changes in the amount and service potential of capital assets; and
- the amount of contingent liabilities and unrecognized obligations (such as the probable cost of deposit insurance).

137. Assessing whether the government's financial position improved or deteriorated over the period is important not only because it has financial implications but also because it has social and political implications. This is because analysis of why financial position improved or deteriorated helps to explain whether financial burdens were passed on by current-year taxpayers to future-year taxpayers without related benefits. The latter notion is sometimes referred to as "interperiod equity."¹¹

138. Viewed in this broader context, providing information to meet objective 3 and its subobjectives will help to satisfy the needs expressed by financial report users. It will also help to explain the issuance of new debt in relation to expenditures for activities with current benefits versus expenditures for investment-type activities that yield future benefits.

139. **3B. Whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.**

¹¹In paragraph 61 of its first conceptual statement, *Objectives of Financial Reporting*, the GASB noted: "The Board believes that interperiod equity is a significant part of accountability and is fundamental to public administration. It therefore needs to be considered when establishing financial reporting objectives [for state and local governmental entities]. In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided." GASB's Statement 11, *Measurement Focus and Basis of Accounting--Governmental Fund Operating Statements*, adds "Conversely, [a measure of interperiod equity] would show whether current-year revenues not only were sufficient to pay for current-year services, but also increased accumulated net resources."

140. Information about the results of past government operations is useful in assessing the stewardship exercised by the government. Users of financial reports also want help in assessing the likelihood that the government will continue to provide the current level of benefits and services to constituent groups, such as farmers, retirees, and the poor.
141. Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs. It could also include information such as
- the long-term financial implications of the budgetary process,
 - the status of trust funds, and
 - backlogs of deferred maintenance.
142. Providing information of this kind may require the use of reporting mechanisms other than traditional financial statements. For example, special reports may have to be developed to demonstrate whether the level of a particular year's maintenance and rehabilitation expenditures resulted in an improvement or a deterioration of capital assets and infrastructure.
143. **3C. Whether government operations have contributed to the nation's current and future well-being.**
144. Objective 3, in general, and subobjective 3C, in particular, imply a concern with "financial condition," as well as "financial position." Financial condition is a broader and more forward-looking concept than that of financial position. Reporting on financial condition requires financial and nonfinancial information about the national economy and society, as well as about the government itself. For example, reports intended to help meet this objective might address users' needs for information about
- investments in (or expenditures for) research and development, military readiness, and education;
 - changes in the service potential of infrastructure assets;
 - spending for consumption relative to investments;
 - opportunities for growth-stimulating activities; and
 - the likelihood of future inflation.
145. Indicators of financial position, measured on an accrual basis, are the starting point for reporting on financial condition but must be supplemented in a variety of ways. For example, subobjective 3B might imply reporting, among other things, a current law budget projection under a range of alternative assumptions. Reports intended to achieve subobjective 3C might disclose, among other things, the contribution that the government is making to national wealth by financing assets that are not federally owned, such as research and development,

education and training, and state-owned infrastructure. Information on trends in total national wealth and income is also important.

Systems And Control

Objective 4

146. **Federal financial reporting should assist report users in understanding whether financial management systems and internal accounting and administrative controls are adequate to ensure that**

- **transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with federal accounting standards;**
- **assets are properly safeguarded to deter fraud, waste, and abuse; and**
- **performance measurement information is adequately supported.**

147. This objective arises from the three preceding objectives, in conjunction with the fact that accounting supports both effective management and control of organizations and the process of reporting useful information. Indeed, accounting processes are an integral part of the management control system.

148. The ability to prepare financial reports that report all transactions, classified in appropriate ways that faithfully represent the underlying events, is itself an indication that certain essential controls are in place and operating effectively. The preparation of reliable financial reports also helps to ensure that reporting entities have early warning systems to indicate potential problems and take actions to correct material weaknesses or problems.

149. Sound controls over internal processes are essential both to safeguard assets and to ensure economy, efficiency, and effectiveness in many governmental programs.

150. Information relevant to this objective helps financial report users to determine whether the entity has established reasonable, cost-effective programs to safeguard assets, prevent and detect waste and abuse, and reduce error rates. An example of information that would address this objective is management's assertion about the effectiveness of the internal accounting and operational control system.

Chapter 5: Balancing Costs And Benefits In Recommending Standards

151. Users' information needs define financial reporting. Even so, the process of articulating financial reporting objectives and then recommending accounting standards is not a simple progression from canvassing users of federal financial information to recommending standards. This is partly because such users, when asked about their information needs, may give answers that are limited by their past needs and experiences. More fundamentally, it is because articulating objectives and recommending accounting standards necessarily involve judgments about the costs and benefits of producing more information or of reporting it differently.
152. The standard-setting process is further complicated by the fact that any given accounting standard can have many different kinds of effects that must be considered. For example, accounting standards can influence the activities of agency accountants and the auditors who review reports prepared by those accountants, as well as the decisions of those who read the financial statements. Thus, a standard may influence which physical assets are under accounting control and the extent of work the auditor does to provide assurance about those assets. The accountants' and auditors' reports, in turn, may influence various decisionmakers in different ways as they select policies regarding the assets and the systems used to control them, decide how to implement the policies, and evaluate the results.
153. The standard setter must, to some extent, be aware of these potential effects when considering the costs and benefits of any given accounting alternative. As an added complication, *the same piece of information* may be used in different ways for different decisions. In other words, there are different kinds of "use." In some cases, the information may be consciously used in well-defined ways; in other cases, it may subtly influence the way people see the world, understand their options, and assess their priorities.
154. For example, the size of the deficit may have a very specific meaning with quite explicit implications (e.g., sequestration) under certain rules for scoring the budget. The deficit may also influence the economy because it affects aggregate demand and the government's financing requirements in a variety of ways that economists can only partially explain and quantify. Finally, the deficit may influence people's perceptions of their own well-being or of the nation's financial condition in more subjective or symbolic ways that can affect both private and collective behavior (e.g., willingness to undertake various new commitments, to pay more in taxes, or to accept reductions in program benefits).
155. Finally, as noted earlier, accounting and financial reporting cannot satisfy every need for information and accountability. For many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or more cost-

effective. This constraint pervades any discussion of the objectives of federal financial reporting.

Chapter 6: Qualitative Characteristics Of Information In Financial Reports

156. Financial reporting is the means of communicating with those who use financial information. For this communication to be effective, information in financial reports must have these basic characteristics: understandability, reliability, relevance, timeliness, consistency, and comparability.¹²

Understandability

157. Special purpose reports are prepared to meet the needs of specified users. Understandability is rarely a problem in such cases because mutual understanding of what information is needed can generally be assumed between report preparer and report user. Information in general purpose financial reports, however, should be expressed as simply as possible. Users of general purpose financial reports, including internal users, tend to have different levels of knowledge and sophistication about government operations, accounting, and finance.

158. To be publicly accountable, the federal government and its component entities should issue general purpose financial reports that can be understood by those who may not have a detailed knowledge of accounting principles. Those reports should include explanations and interpretations to help report users understand the information in the proper context. However, general purpose financial reports should not exclude essential information merely because it is difficult to understand or because some report users choose not to use it.

159. For reports to be understandable to different audiences, different reports may be necessary to provide information relevant to the needs of the expected report users, with suitable amounts of detail, explanation, and related narrative. To be fully intelligible, financial information in general purpose reports may need to be presented in relation to the goals, service efforts, and accomplishments of the reporting entity.

¹²For the most part, these characteristics are similar to those described by the FASB and the GASB.

Reliability

160. Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, nor should anything be included that would likely cause the information to be misleading to the intended report user. Reliability does not imply precision or certainty, but reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured. Financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances, a properly explained estimate provides more meaningful information than no estimate at all.

Relevance

161. Relevance encompasses many of the other characteristics. For example, if the information provided in a financial report is not timely or reliable, it is not relevant. Information can, however, meet all other characteristics and still not be relevant. To be relevant, a logical relationship must exist between the information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event. Relevance depends on the types of financial information needed by the various users to make decisions and to assess accountability.

Timeliness

162. In some circumstances, the mere knowledge that a report eventually will be made public can influence behavior in desirable ways, just as the knowledge that one's tax return might eventually be audited can influence the behavior of people when they report their income. In other circumstances, however, if financial reports are to be useful, they must be issued soon enough to affect decisions. Timeliness alone does not make information useful, but the passage of time usually diminishes the usefulness that the information otherwise would have had. In some instances, timeliness may be so essential that it requires sacrificing a certain amount of precision or detail; a timely estimate may then be more useful than precise information that takes longer to produce.

Consistency

163. Financial reports should be consistent over time; that is, once an accounting principle or reporting method is adopted, it should be used for all similar transactions and events unless there is good cause to change. The concept of consistency in financial reporting extends to many areas, such as valuation methods, basis of accounting, and determination of the financial reporting entity. If accounting principles have changed or if the financial reporting entity has changed, the nature and reason for the change, as well as the effect of the change, should be disclosed.

Comparability

164. Financial reporting should help report users make relevant comparisons among similar federal reporting units, such as comparisons of the costs of specific functions or activities. Comparability implies that differences among financial reports should be caused by substantive differences in the underlying transactions or organizations rather than by the mere selection of different alternatives in accounting procedures or practices.

Chapter 7: How Accounting Supports Federal Financial Reporting

165. This Chapter explains the focus of the FASAB's concern by showing how accounting supports financial reporting and thus how accounting standards recommended by the FASAB can influence federal financial reporting. This Chapter shows how the FASAB's recommendations can influence a wide variety of financial reports. Additionally, it lays a foundation for the discussion (in Chapter 8) of how financial reporting in general, and cost information in particular, contribute to performance reporting. In effect, Chapter 7 outlines parts of a conceptual framework for federal accounting but is limited to those ideas, such as "financial position" and "financial condition," that will help readers understand the Board's proposed statement of objectives for federal financial reporting.

Financial Core Data

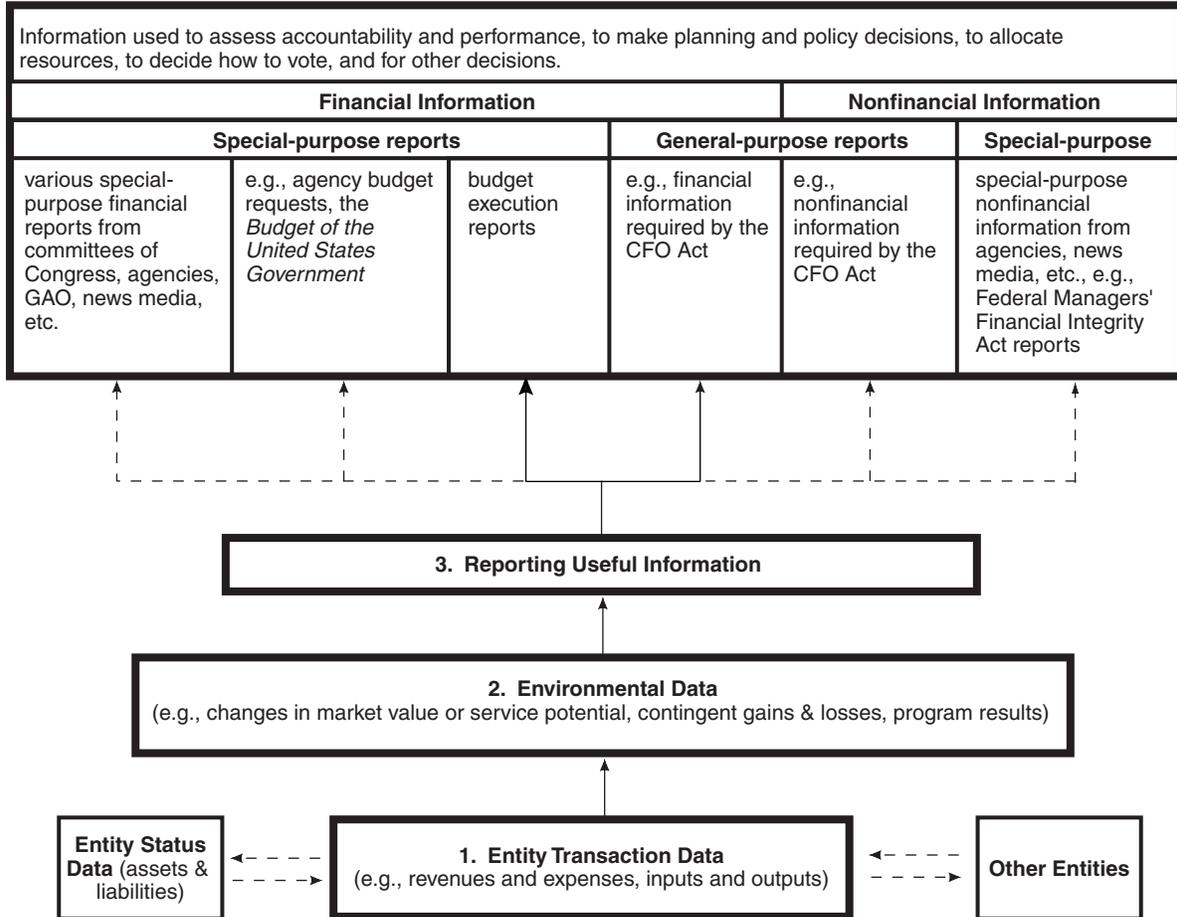
166. The accounting process begins with recording information about transactions between the government (or one of its component entities) and other entities, that is, inflows and outflows of resources or promises to provide them. These may involve flows of economic goods, cash, or promises. These comprise the "core" data of the accounting discipline. This

initial step in the accounting process is depicted at the bottom of figure 1, in the box numbered 1. To enhance the usefulness of this core set of data about transactions with other entities, accountants make various accruals, classifications, interpretations, etc.

167. Many accounting entries recorded in the accountant's general ledger data base are such rearrangements of data about previously recorded transactions with other entities rather than new transactions involving flows of resources or promises between entities.¹³
168. In the branch of accounting called financial accounting, the most noteworthy interpretations or classifications are those about which data pertain to the past and which pertain to the future. In other words, financial accounting is largely concerned with assigning the value of past transactions to appropriate time periods.
169. Transaction data assigned to a period that has elapsed are said to be "recognized" in the statement of operations (or income statement), e.g., as an expense or a revenue of that period. Transaction data pertaining to the future are recognized in the statement of financial position (or balance sheet) as assets and liabilities.

¹³See William J. Schrader, Robert E. Malcom, and John J. Willingham, "A Partitioned Events View of Financial Reporting," *Accounting Horizons* (Dec. 1988), p 10-20. For a more academic exploration of the ideas involved, see Yuji Ijiri, "Theory of Accounting Measurement," *Studies in Accounting Research #10*, American Accounting Association (1975).

Figure 1: How Accounting Contributes to Information Used by Citizens, Congress, Federal Executives, and Program Managers



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170. Together with the statement of cash flows, the income statement (or statement of operations or activities) and the balance sheet comprise the three “basic” general purpose financial statements for privately owned entities. Other statements, such as a comparison of actual results with the budget, may be regarded as part of the basic statements for governmental entities.
171. At the initial stage of the accounting process, the information about assets and liabilities is merely the result of assigning all or part of the value of certain transactions to the future. “Assets” and “liabilities” at this stage are *not* statements about future benefits or sacrifices that can be proven or disproven. They are allocations of the cost of past transactions based on assumptions about future benefit and sacrifice.
172. This has been a common source of confusion when accountants communicate with nonaccountants, for whom the word “asset” typically implies something of value that can be sold or used. Much of the evolution of accounting under the FASB and the GASB has been to reduce this confusion, to improve communication, and to make financial reports more faithfully represent economic reality in terms meaningful to report users. This evolution has involved adding increasing amounts of information to the core set of transaction data. That process is discussed later.
173. In other words, the amount of “equity” or “net assets” based on the core data in a bookkeeper’s trial balance is not a direct *measure* of either the market value or the service potential of the entity. In some circumstances, however, net assets can be a meaningful *indicator* of that value or potential. (The word “indicator” is used deliberately to avoid the implication of precision that may be associated with the word “measure.”)¹⁴
174. Accounting data may be further assigned, allocated, or associated with units of activity or production, segments of organizations, etc., *within the same time period*. These kinds of *intraproduct* allocations are developed most extensively in the branch of accounting called cost or managerial accounting. Neither the FASB nor the GASB has devoted much attention to this branch of accounting, but the FASAB, because of its unique mission, will need to do so. One reason for performing cost accounting is to assist in performance measurement.

¹⁴The term “measure” is commonly used in accounting literature regarding cost and in other literature (including the GASB’s) regarding performance. This document follows that practice. In a conceptual discussion, however, it is important to note that “cost,” “performance,” and “financial condition” are all multidimensional concepts. It may be more precise to think in terms of multiple indicators that provide information about these concepts instead of a single-valued “measure” of any of them.

Nonfinancial Core Data

175. Traditionally, financial accountants record and describe transactions in terms of money. At the most detailed level, however, their records usually include information about the associated physical inputs and outputs of goods, labor, etc. This nonfinancial information is an important part of the data available for reporting and evaluating the economy and efficiency of the organization's performance.

Budgetary Core Data

176. In government the data on transactions with other entities include information on the budget authority, obligations, outlays, receipts, and offsetting collections for the transactions. This information is maintained in what are called budgetary accounts to distinguish them from the "proprietary" accounts that record other information on transactions. The budgetary and proprietary accounts at this level are said to be "integrated." In effect, they maintain information about different stages of a transaction.

Financial Environmental Data And The Concept Of Financial Position

177. The core set of accounting data is expanded with a variety of what may be called "environmental" data to distinguish them from the data that arise from transactions (flows of resources or promises) with other entities. Box 2 in figure 1 depicts this step of the accounting and reporting process. Many events within the environment of a reporting entity may have economic consequences for the entity. Examples of environmental data that may be relevant to financial reporting for some purposes include current market prices, net realizable values, changes in discount (interest) rates, and impairment of assets (either in terms of market value or in terms of service potential). Judgments about what environmental data should be added are made by considering the specific information needed for specific purposes.

178. At this level of the accounting and financial reporting process, the information reported in the balance sheet transcends bookkeeping. It can now represent more of what is known about future economic benefits and sacrifices. To the extent that this is accomplished, the balance sheet may be said to represent the "financial position" of the reporting entity. The concept of financial position is that of a point-in-time snapshot of an entity's economic resources and the claims on those resources.

Nonfinancial Environmental Information

179. Nonfinancial information about program efforts, accomplishments, and outcomes may be collected and associated with the financial environmental data. This information is particularly important for governments because there is no direct analogue to “net income” or “earnings” to gauge the economy, efficiency, and effectiveness or net value of governmental activity.

The Concept Of Financial Condition

180. As more environmental data are added to the core data, a concept that is broader and more forward-looking than “financial position” emerges. That concept is “financial condition.” For the U.S. government, the additional data could include financial and nonfinancial information about current conditions and reasonable expectations regarding the national and even the global society. For example, the expected implications of environmental degradation; the relative competitiveness and productivity of the U.S. economy; or expected changes in the population’s composition in terms of age, gender, longevity, education, health, and income all might affect judgments about the government’s financial condition.

181. Information about financial condition can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management’s “discussion and analysis” of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management’s discussion and analysis might address such topics as

- budgetary compliance;
- internal control systems;
- capital resources and investments;
- service efforts, accomplishments, and results of operations; and
- the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.¹⁵

182. Increasingly, managers and investors in the private sector are attending to other factors that may sometimes be useful indicators of an entity’s financial condition, including such intangible factors as the quality of the entity’s

¹⁵Such a discussion and analysis is required in federal financial reports prepared pursuant to the CFO Act of 1990. In these reports, the discussion and analysis is referred to as the “overview” section. OMB Bulletin 92-03 provides guidance on preparing the overview section.

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- information and analysis capabilities,
 - strategic planning,
 - human resource development and management, and
 - constituent satisfaction.

Similar factors may be relevant for many federal reporting entities.

Kinds Of Financial Information Needed And Provided

183. The information produced by these accounting processes supports the overall reporting process. Traditionally, the items of information included in financial statements are classified in various “elements” of financial reporting, such as “assets,” “liabilities,” “revenues,” or “expenses.” In future projects, the FASAB may consider the definition of elements of federal financial reporting. For the purposes of this Statement of Concepts, however, it is not necessary to do so. It is sufficient to note that needed financial information identified by some current and potential users of federal financial reports can be classified under six broad headings:

- information on the sources and uses of budgetary resources,
- information about operations and the related resources,
- information about the government’s assets,
- information about the government’s liabilities and financial responsibilities,
- information that addresses concerns with the future, and
- Information that discloses the levels of financial controls.

184. Examples and further discussion of such information needs are provided in appendix B.

How This Information Flows Into Financial Reports

185. The core and environmental financial information, often supplemented with information from other sources, is the basis for a variety of general purpose and special purpose reports. For this reason, figure 1 culminates with the preparation of useful reports. A direct relationship exists between the accounting and reporting processes both for *general purpose* financial reports and for *budget execution* reports. The dotted line in figure 1 leading to other kinds of reports emphasizes that other kinds of information are often more heavily involved in producing them. Accounting contributes to these reports but has less influence over the nature, scope, and content of them. (Appendix C lists selected federal reports that are regularly prepared.)

Relationship Of Financial Reporting To Budgeting

186. “The budget” is a broad term that may include, among other things, a projection of spending authorities and means of financing them for a future period and a report of the actual spending and associated financing for a past period. The FASAB’s recommendations may influence the reporting of actual budgetary data.
187. The Budget of the United States Government is the most widely recognized and used financial report of the federal government. The budget process is the government’s principal mechanism for reaching agreement on goals, for allocating resources among competing uses, and for assessing the government’s fiscal effects on economic stability and growth. Most attention is paid to these future-oriented roles of the budget.
188. Budget execution is designed to control and track tax receipts and the use of resources according to the purposes for which budget authority was approved. Actual receipts, obligations, and outlays are recorded by account, as is the status of budgetary resources at the end of each fiscal year.
189. Budgetary measurement is designed to assist in the control and allocation of resources by showing the cash outlays implied by each decision when the decision is made. In some cases, the budget now also includes accruals for costs in advance of the required cash outlay. Budgetary concepts are under continual review. They may be changed by law or, after consultation with the Congress, in the annual revision of OMB Circular A-11, “Preparation and Submission of Budget Estimates.”
190. The Board’s authority does not extend to recommending budgetary standards or budgetary concepts, but the Board is committed to providing reliable accounting information that supports budget planning and formulation. The Board also supports efforts to ensure the accuracy and reliability of reporting on the budget.
191. The Board’s own focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information. This implies a variety of measures of costs and other information that complements the information available in the budget. Together with budgetary reports, these reports will provide a more comprehensive and insightful understanding of the government’s financial position, results of operations, and financial condition than either set of reports alone.

Chapter 8: How Financial Reporting Supports Reporting On Operating Performance

192. The second objective and its subobjectives concern reporting on performance. References to measuring cost pervade this objective and its supporting narrative. The topics of cost and performance measurement are related because it is by associating cost with activities or “cost objectives” that accounting can make much of its contribution to reporting on performance.
193. Setting performance targets is a function of management, not of accountants. That is, elected and appointed officials, including both program and policy officials, decide what the government will do, how much the government will do, and how it will be done. These officials consider the relevant constraints and other factors when establishing the performance targets. Measuring performance against those goals is an essential part of management. On the other hand, measuring cost is an important part of measuring performance, and measuring cost and reporting the results is a function of accounting and the financial reporting system. Financial reporting standards deal with what information is reported and how it is reported, not with the target levels of performance.
194. This Chapter first discusses cost measurement in general terms, then outlines a framework for reporting on performance to show how cost information can assist in that endeavor. Both cost measurement and performance measurement are complex subjects. Difficult problems arise during attempts to implement the ideas involved. For example, meaningful interpretation may require disaggregation of information, or adjustment of targets for differences in client characteristics, for local conditions, and for other factors beyond the government’s control. Such problems are beyond the scope of this conceptual document. This Statement does not purport to present a comprehensive discussion of how to measure cost or performance. Neither does this Statement address the problems of implementation; it merely shows the relationship between financial reporting and performance reporting in conceptual terms.

Cost Measurement

195. As used in this Statement of Concepts, “cost” is the monetary value of the resources used. Thus far, the FASAB has considered the recognition and measurement of certain assets and liabilities that could influence the amount of cost recognized in a given period by a federal reporting entity. For example, the Board’s Statement on *Accounting for Direct Loans and Loan Guarantees* implements accrual accounting for these programs, similar to the accrual budgeting mandated for them by the Credit Reform Act of 1990.

196. A “cost objective” is a program, a function, an activity, an organizational subdivision, a contract, or another work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. The basic premise of cost accounting has been described by saying that the measurement, assignment, and allocation of costs to cost objectives should be based on the beneficial or causal relationship between those costs and the cost objectives. In defining the proper measurement, assignment, and allocation of cost for a given purpose, selecting the appropriate accounting method and whether to use full costing should be carefully considered.

Method of Accounting

197. The accrual basis of accounting generally provides a better matching of costs to the production of goods and services, but its use and application for any given purpose must be carefully evaluated.

Full Costing

198. Full assignment of all costs of a period, including general and administrative expenses and all other indirect costs, is an important basis for measuring cost of service. However, full cost is not necessarily the relevant cost for making all decisions. For example, incremental cost is more appropriate for many kinds of decisions, while opportunity cost is more appropriate for others. Similarly, cost that is controllable at a given management level is more appropriate for most evaluations of the performance of those managers. Accordingly, accounting systems should permit the calculation of the relevant costs needed for a range of decisions, as determined by the specific situation, and financial reports should reflect costs suitable to the purpose intended.

Performance Measurement

199. Performance reporting is broader than financial reporting, but good financial reporting is essential to support performance reporting. The GASB has identified three broad categories of measures for reporting on performance of state and local governmental entities: those that measure service efforts, those that measure service accomplishments, and those that relate efforts to accomplishments. Although some performance measures may not be clearly assignable to one of these categories, the categories are helpful for understanding how and where financial reporting can *contribute to* performance reporting by providing relevant financial information.

200. To clarify this relationship, the FASAB may wish to change or expand parts of the following discussion in future projects. At this time, however, the FASAB believes this basic framework is appropriate for the limited purpose of explaining how financial reporting can contribute to performance reporting.¹⁶

Measures of Efforts

201. Efforts are the amount of financial and nonfinancial resources (in terms of money, material, and so forth) that are put into a program or a process. Measures of service efforts also include ratios that compare financial resources with other measures that may indicate potential demand for services, such as the number of potential service recipients.

202. **Financial information** includes financial measures of resources used. They include the cost of salaries, employee benefits, materials and supplies, contract services, equipment, etc., used in providing a service. The FASAB's exposure draft (ED) on *Accounting for Inventory and Related Property* is an example of how the FASAB's recommendations could affect information reported on resources used.

203. **Nonfinancial information** includes the following:

- Number of personnel: Because personnel are a major resource for many federal agencies and programs, indicators that measure the number of full-time equivalent employees or employee-hours used in providing a service often provide a significant measure of resources used.
- Other measures: These may include the amount of equipment (such as number of vehicles) or other capital assets used in providing a service. Because some federal programs use large amounts of capital assets, measures of the use of such assets can be important indicators of resources used.

Measures of Accomplishments

204. Measures of accomplishments report what was provided and achieved with the resources used. There are two types of measures of accomplishments—outputs and outcomes. Outputs measure the quantity of services provided. Outcomes measure the results of providing those outputs. For some kinds of programs, financial information can provide measures of accomplishments. For example, for some government business-type activities, just as for profit-seeking businesses, the revenue earned can be used as an indicator of

¹⁶The following discussion is based largely on the GASB's *Preliminary Views on Service Efforts and Accomplishments Reporting*, December, 1992.

accomplishments. In most government programs, however, the important indicators of accomplishments are based on nonfinancial information, as discussed below.

205. **Outputs**, which can be measured in these ways:

- Quantity of service provided: These indicators measure the physical quantity of a service provided.
- Quantity of a service provided that meets a certain quality requirement: These indicators measure the physical quantity of a service provided that meets a specified criterion or a set of criteria. (Quality requirements can also be defined and measured regarding inputs.)

206. **Outcomes**, for which indicators measure accomplishments or results that occur (at least partially) because of the service efforts. Some authorities use terms like “impact,” “effect,” or “results” to distinguish the change in outcomes specifically caused by the governmental activity from the total change in outcomes that can be caused by many factors. Though it is not always feasible, in theory performance evaluation should focus on results or effects in the sense of impacts, i.e., on the differences between program outcomes and the outcomes that would have occurred in the absence of the program. Results also include measures of public perceptions of outcomes.

207. Outcome measures are particularly useful when presented as comparisons with previous years, established targets, goals and objectives, generally accepted norms and standards (in the sense of “targets”), other parts of the entity, or other comparable entities.

208. Sometimes, the secondary and/or unintended effects of a service on the service recipients, community, or nation can be identified and may warrant reporting.

Measures That Relate Efforts to Accomplishments

209. For profit-seeking entities and for some business-type government programs, the amount of net income can be thought of as a single indicator that relates organizational efforts to accomplishments. For most government activities, however, relating efforts with accomplishments in a meaningful manner is more complex. Two types of such indicators are discussed below.

- Efficiency measures that relate efforts to outputs of services: These indicators measure the financial resources used or the cost (in dollars, employee-hours, or equipment) per unit of output. They provide information about the production of an output at a given level of resource use and demonstrate an entity’s relative efficiency when compared with previous results, established goals and objectives, generally accepted norms or targets, or results achieved by similar entities.

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- Effectiveness or cost-outcome measures that relate efforts to the outcomes or results of services: These measures report the cost per unit of outcome or result. They relate costs and results to help managers, executives, Congress, and citizens assess the value of the services provided by an entity.

210. As is evident, financial or cost information is an important component of both types of measures that attempt to relate efforts to accomplishments.

Limitations of Performance Measurement

211. Performance measurement is an essential part of good management, and performance reporting is an essential part of government accountability. Important limitations and difficulties associated with performance measurement and reporting should be noted, although they cannot be fully explored in a brief outline of the subject such as this. For example, performance usually cannot be fully described by a single measure, indicators of service efforts and accomplishments do not, by themselves, indicate why performance is at the level reported, and reporting quantifiable indicators can sometimes have unintended consequences.
212. For these and other reasons, the three categories of performance measures generally need to be accompanied by suitable explanatory information. Indeed, narrative information is an essential part of reporting on performance. Explanatory information includes both quantitative and narrative information to help report users understand reported measures, assess the reporting entity's performance, and evaluate the significance of underlying factors that may have affected the reported performance. (As noted, the reporting entity may be the federal government as a whole or any of its component reporting entities.) Explanatory information can include, for example, information about factors substantially outside the entity's control, as well as information about factors over which the entity has significant control.

Appendix A: Basis For Conclusions

Introduction

213. This appendix summarizes some of the considerations that were deemed significant by members of the Board in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and for rejecting others. Individual Board members gave greater weight to some factors than to others.
214. The Board used several methods to arrive at the knowledge base and conclusions that shape this Statement. Its staff conducted focus group discussions, interviewed users and preparers of financial information, and performed other research.
215. Based on this work, the Board published an exposure draft on January 8, 1993, as called for by the Board's rules of procedure. Forty-six letters were received in response. The Board also held a public hearing on the exposure draft on April 21-22, 1993, at which it received valuable comments.
216. The Board wishes to thank everyone who participated in the process.

Relationship Between Financial Reporting And The Budget

217. The Board considered whether it should modify the exposure draft's discussion of the relationship between financial reporting and the budget. Several respondents commented on this subject, but often in different ways. Some alluded to budgetary and proprietary (or "accrual" or "financial") accounting in a context that implied each should be on a different basis but reported in an integrated fashion. Others suggested that using the same basis for reporting and for budgeting was essential to achieve the objectives stated for federal financial reporting.
218. Many recommendations have been made over the years that information on expenditures be arranged to permit better perception of the relationship between the expenditures and national policy objectives. Some of those recommendations have related to the budget. Some have called for an "accrual-basis" budget. Those who would like to change the organization and/or the basis of the budget, e.g., to more of a "program" organization or to more of an "accrual" basis, might regard financial reporting from a program perspective and/or on an accrual basis as a valuable first step before considering restructuring the budget.

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219. Others may have fundamentally different views. For example, some believe there is merit in maintaining a distinction between accrual accounting and budgeting, except to the extent that those involved in preparing and approving the budget elect to use an accrual convention, as in the Credit Reform Act of 1990. These persons believe that the budgetary basis of measurement should, in principle, sometimes be different from the accrual basis. They infer this from the different purposes of budgeting and financial reporting.
220. The Board concluded that there was no reason to change the discussion of this topic in this Statement, because the Board has no jurisdiction regarding the budget.

State And Local Governments And Other Nonfederal Entities

221. Some respondents expressed concern about the potential impact of federal accounting standards on state and local governmental accounting. These respondents would like to minimize the cost of compliance with federal requirements. To the extent possible, they would like to avoid the need to report on a basis different from that specified by the GASB. Presumably their comments dealt with general purpose reporting because grantees must now prepare various special purpose reports pursuant to the requirements of granting agencies, OMB, the Single Audit Act, etc.
222. The FASAB has no intent to recommend standards for general purpose external financial reporting by nonfederal entities. The FASAB's mission is to consider and recommend accounting principles for the federal government. The FASAB's work, therefore, will have no direct effect on nonfederal entities. It is true, however, that the FASAB's recommendations could eventually result in increased demand for information from recipients of federal funds. This could happen when such information was necessary for federal reporting entities to achieve the stated objectives of federal financial reporting. Such requirements would be "special purpose" reporting requirements, from the perspective of grant and contract recipients.
223. These requirements most likely would be imposed by program officials in contracts and grant agreements with the recipients of the federal funds. The Board acknowledges that the federal government has a responsibility to consider the cost imposed on nonfederal entities when making decisions to impose such requirements. At the same time, benefits to all entities and to all citizens involved also must be considered.

Reporting On Performance And Using Nonfinancial Information

224. Most respondents who addressed reporting on performance supported the exposure draft, but some thought the language was too encompassing. The Board concluded that their

concern was stimulated in part by the wording of the first three objectives in the exposure draft. Each began with the phrase “federal financial reporting should assist...” However, each of these objectives subsequently included a phrase “Federal financial reporting should enable the reader to determine...” that perhaps implied more than the Board intended.

225. Accordingly, the Board substituted the phrase “provide information that helps the reader...” for “enable...” The Board also made certain other changes recommended by some respondents. In particular, the Statement now uses the phrase “performance target” to refer to desired levels of performance defined by elected and appointed officials. This term is used instead of “performance standard” to avoid possible confusion with “financial reporting standards,” which deal with what information is to be reported in designated reports and with how it is reported.

226. The Statement also makes it clear that performance targets should be set by program and policy officials working together. Financial officials have a role to play in this process, especially where financial data are involved. That role is based on their expertise in cost measurement and their responsibility to ensure the integrity of the data.

227. One authority on public administration has explained the relationship in this way:

Government accountants are responsible in part for capturing, reporting, and analyzing actual financial information important for both policy making and management. Policy analysts and budget professionals deal primarily with what should occur and accountants deal primarily with capturing and recording what did occur. In addition, government accountants have auditors reviewing their work professionally to further ensure the integrity of the accounting process.¹⁷

228. The Board believes that accounting supports financial reporting and that, in the government, financial reporting goes hand in hand with accountability and performance evaluation. Financial accounting and financial reporting have a special role in assuring compliance with finance-related requirements for transactions. This is most directly relevant to objectives 1 and 4.

229. Financial reporting, however, also provides useful information about costs, assets, and liabilities. This information is especially relevant to objectives 2 and 3. Routine reporting of outputs, outcomes, and their costs is an important part of a performance monitoring system. Assessments of impacts (also referred to as effects, or results) specifically caused by governmental action are more likely to be performed in less-frequent program evaluations

¹⁷Thomas D. Lynch, “President’s Column,” *ASPA Times*, vol. 16, No. 6 (June 1, 1993), p. 5.

and special studies. Those studies draw upon the output, outcome, and cost information that is (or should be) more frequently published.

230. Federal accounting and financial reporting exist within the context of various laws intended to foster accountability and performance evaluation. Neither the FASAB nor federal financial reporting can independently accomplish the objectives of evaluating performance or assuring accountability, but they can contribute to achieving them. Furthermore, to make their essential contribution to these ends, accountants, auditors, and financial managers must understand the overall framework for achieving these objectives.
231. For nongovernmental entities, competitive markets for goods, services, and capital provide an independent assessment of the economy, efficiency, and effectiveness with which those entities use resources to meet their customers' needs. There is no similar proof of value for federal output independent of the political process. To report on the results of operations of a governmental entity, nonfinancial information is essential, in conjunction with financial information.
232. In concept, this fact could imply that a complete financial report of a federal reporting entity should include indicators of economy, efficiency, and cost effectiveness if the report is to fairly present the entity's financial position and results of operations. Paragraph 164 notes that financial or cost information is an important component of both types of measures that attempt to relate efforts to accomplishments. In practice, the extent to which it is feasible and cost effective to present such information can be decided only after careful study of the specific circumstances.
233. While specific decisions will require further study, the Board notes its belief that any attempt to demonstrate accountability beyond probity (level 5) and process (level 4) requires performance measures.¹⁸ The Board's user needs study, its public hearings, and similar sources of information suggest a widespread belief that the federal government needs to make a more systematic attempt to measure and report outputs, outcomes (including impacts), and the costs of producing them. To do this, the Board believes, accounting and financial reporting play an essential part throughout the cycle of planning, budgeting, financial management, and evaluation of federal activities.

¹⁸Levels of accountability are discussed in Chapter 3.

Stewardship

234. A few respondents said that the stewardship objective described in the exposure draft was too broad. They felt that information on the effects on the nation of policy decisions was outside the scope of federal financial reporting. The Board concluded that this concern—like the preceding one regarding reporting on performance—stemmed in part from the wording and structure of the first three objectives in the exposure draft.
235. Accordingly, the Board substituted the phrase “provide information that helps . . .” for “enable . . .” As noted earlier, federal financial reporting cannot by itself accomplish the objectives of evaluating or assuring stewardship; it can only contribute to those goals.
236. The Board notes that the federal government has two levels of stewardship. One is for its own assets and liabilities and its ongoing ability to operate. The other is its constitutional responsibility for the nation’s wealth and well-being. It is unique in this respect. If the nation’s wealth and well-being are deteriorating, the government’s financial condition is, or soon will be, deteriorating also—and vice versa. The financial condition of a sovereign national government and that of the nation itself are inextricably intertwined. Some information about the overall context must be provided, therefore, when reporting on the government as a whole, and perhaps when reporting on selected programs. As explained in Chapter 1, the FASAB does not recommend standards for economic reporting, but it may consider whether such information should be included in certain financial reports.

Systems And Control

237. Most respondents who addressed the fourth objective, originally titled “Deterring Fraud Waste and Abuse,” supported the exposure draft, though some suggested that it could be phrased in a more positive fashion. Several emphasized the need for this objective and for standards to achieve it, but a few thought that internal control should not be regarded as an element of financial reporting. Others suggested that a separate objective on this topic was not necessary because it could be inferred from the other objectives.
238. The Board agreed that the objective should be stated in more positive terms. Accordingly, it replaced “Deterring Fraud, Waste, and Abuse” with the new heading “Systems and Control” and made other changes in wording the objective. With regard to the fundamental point, however, the Board continues to believe that systems and control are topics of sufficient importance and relevance to warrant addressing in their own right.
239. The Board’s user needs study, public hearings, and other sources of information make abundantly clear that users want assurance that reported information is credible and

reliable. They also want to know that reasonable controls are in place to deter fraud, waste, and abuse. Independent audit can help provide this assurance, but whether information is audited or not, effective systems and controls are essential to providing such assurance in a cost-effective way. Furthermore, effective systems and controls are essential to achieving the other objectives.

240. Perhaps the unique contribution of accounting-based reports for objectives 1 and 4 is the “core” accounting data base on transactions, especially on controlled transactions subject to finance-related restrictions. Systems of accounting control are integral parts of this special role for financial reporting. Similarly, regarding objective 2 and, to some extent, objective 3, systems and controls are important because direct observation of outcomes and impacts is often infeasible or expensive. In these cases, reliance on accounting and administrative controls to ensure compliance with good practices and processes is often a cost-effective surrogate for trying to measure the value added by governmental activities.
241. Finally, the fundamental notion of accountability pervades the entire set of objectives. Effective systems and controls are essential prerequisites to accountable government. Thus, the Board regards systems and controls as an integral part of accounting, accountability, and financial reporting.

Dual Focus On Internal And External Users

242. Several respondents mentioned users, but no consensus about a change to the exposure draft was evident. For example, some respondents urged greater emphasis on the information needs of external users or on objectives of general purpose, external financial reporting. Others urged greater emphasis on information needs of lower-level program managers and employees. These comments are not necessarily contradictory, nor are the competing perspectives necessarily mutually exclusive. The Board continues to believe that it must consider both external and internal users. The Board itself is the agent of officials who, in turn, are agents of the public. This organizational fact contributes to the dual focus.
243. Also, as noted in Chapter 1, the distinction between internal and external users is not clear for the federal government. Except in degree of detail, virtually all federal financial information is of interest to at least some segments of the public.
244. The Board acknowledges that this dual focus will often create the need to balance various considerations to arrive at an optimal result. For example, as one respondent properly noted, there could be a danger of emphasizing what he termed “comparable consistency” for uniform reporting to users who want comparable information across agencies. He was concerned that this might interfere with “relevant customization” of information systems to meet the unique needs of agencies in response to their specific environments. It is

understood that “comparable consistency” of information is needed for some purposes and “relevant customization” for others.

245. The Board is primarily concerned with the former class of uses and reports, i.e., with ensuring the provision of comparable data where it is relevant and cost-effective to do so. Individual preparers often are not in a good position to judge the cost-benefit ratio of such information governmentwide. They are aware of the costs they incur to produce information, but they often are not aware of the potential benefit of producing that information. Neither are they in a position to establish standards that would produce such information.
246. On the other hand, there should be less need for outsiders like the Board or its sponsors to mandate relevant customization within agencies. Presumably each preparer can and will take care of that, provided that resources are available to do so and that there are no bureaucratic impediments.
247. In *concept*, therefore, there need be no conflict between “comparable consistency” and “relevant customization.” Furthermore, in *theory*, properly designed accounting systems should facilitate both internal and external reporting. In *practice*, however, because administrative resources for information processing systems are limited and because new systems take time to install, externally-imposed requirements for comparable consistency could compete with addressing internally perceived needs for relevant customization. The Board acknowledges this trade-off. This is just one of many cost-benefit factors that the Board will need to consider as it addresses each specific issue in subsequent projects.

Objectives For Governmentwide And Component Entity Reports

248. Some respondents suggested there should be separate sets of objectives for governmentwide and component entity reports. Similarly, it might also be possible to distinguish objectives for reporting by organizational unit components from those for functional or program components. Alternatively, one might imagine separate sets of objectives for reports to different audiences. The Board concluded that different reports are likely to emphasize different objectives but that there is no need to prepare separate statements of objectives. The Board will give due consideration to variations in emphasis among the objectives for different types of reports in subsequent statements and projects.

Appendix B: Users' Information Needs Addressed By Federal Financial Reporting

249. This appendix is consistent with Chapter 3's discussion of users' needs for financial information. It represents an intermediate step in the Board's consideration of the financial reporting objectives implied by those needs. The appendix is included to aid the reader in understanding the reporting objectives by providing another perspective on the issues.

250. The financial information needs of the four user groups can be classified into six categories:

1. Information on the sources and uses of budgetary resources
2. Information about operations and the related resources
3. Information about the government's assets
4. Information about the government's liabilities and financial responsibilities
5. Information that addresses concerns with the future
6. Information that discloses the levels of financial controls

251. In some cases, the specific nature of the information would be basically the same for all four groups of users; only the level of detail would vary. For example, the amount of unobligated budgetary authority available to be obligated would be of interest to program managers wanting to avoid violations of the Anti-Deficiency Act and to executives wanting to know the availability of budgetary resources that can be reprogrammed for other purposes.¹⁹

252. In other cases, the specific nature of the information would vary, depending on the reporting entity, the report user and the use to which the information was put. For example, "error rates" could refer to errors in determining the monthly payment an individual was entitled to receive from the government or errors in calculating fees that a company was required to pay the government.

Information On The Sources And Uses Of Budgetary Resources

253. The budget is the starting point for the government's finances. All users want to know the makeup of the budget, i.e., the budget authority, the obligations, the outlays, the receipts and offsetting collections, etc. They want to know how the budget was executed and particularly

¹⁹"Obligations" has a meaning in federal accounting similar to that of "encumbrances" in state and local governmental accounting; that is, it reflects a reservation of appropriated spending authority that will be used to pay for a specific contract, a purchase order, or another item.

whether it was executed in accordance with the appropriation statutes and other laws affecting the entity's finances. They want to know the status of the budgetary resources, including the extent of obligated and unobligated budget authority. Finally, they want to know the sufficiency of the budget authority for covering future commitments.

Information About Operations And The Related Resources

254. Accompanying the need for information about budgetary resources is a need for information about the operations of the government's programs. This includes information about the costs of the programs, classified in ways that provide further understanding, such as by program or activity, direct or indirect, fixed and variable, in comparison to estimates, or by object (e.g., personnel). Information that discloses unit, total, and marginal costs and changes in costs is also useful.
255. Cost information reflects the inputs for government services. Equally useful is information about the outputs, outcomes, efficiency, and effectiveness of government services, by themselves or in relation to a budget or goals, and any changes. This would include an identification of the periods in which the accomplishments would be realized. Such information helps form a basis for voting, funding, and management decisions.

Information About The Government's Assets

256. Financial statement users want considerable information about the government's assets. They want to know whether the balances in the trust and revolving funds will be sufficient for fulfilling the fund's purposes. They want to know the nature and amounts of receivables owed the government and whether the receivables will be paid. They are interested in the size and condition of the inventories and whether they can be used as intended or, if not, how much would be received for their disposition. There is much the users want to know about the government's physical assets: their value, their expected service life, the replacement costs, and the impact of the maintenance that has been deferred.
257. The government also holds assets as a custodian or only until the assets can be sold. Examples are seized or forfeited assets. Information about these assets helps to establish accountability for them and to make decisions about the best time and method for their disposal.

Information About The Government's Liabilities And Financial Responsibilities

258. Users want to know what the government owes and whether the amounts are short term and precisely definable, long term and only an estimate, or just a contingency related to an enterprise or activity that is not a direct and current government responsibility, e.g., government-sponsored enterprises. This information helps the reader assess the government's ability to continue to operate at its current levels over a period of time and/or whether a tax increase is likely.
259. The changes in the amounts owed from year to year are also important. The user often is willing to settle for (or may actually prefer) ranges rather than point estimates and/or net present values rather than nominal (undiscounted) amounts.

Information That Addresses Concerns With The Future

260. The federal government is responsible for the country's well-being. Its financial actions affect that well-being, both currently and in the future. Thus, users look not just for information to evaluate the condition of the trust funds upon which they rely for future security. They also want information to assess the likelihood of tax increases, service reductions, and changes in the inflation rate.
261. They therefore want information about possible sources of additional financial resources. They want to see the amounts of resources expended on consumption activities in comparison to investment activities, such as research and development. They want information on other growth-stimulating activities. On the other hand, they still want to be able to assess where spending can be reduced significantly.
262. Finally, they want to know the magnitude of the probable future deficits, the cost burden this will place on taxpayers, and the potential effect that this burden might have on the quality of life.

Information That Discloses The Levels Of Financial Controls

263. Because the government spends such large amounts of monies, taxpayers and other citizens are naturally concerned that the resources they supply are being protected from fraud, waste, and abuse and that the errors are minimal. They want to know that controls are in place and operating effectively and that problems are being quickly identified and corrected.

They are particularly concerned that identified high risks are addressed and that adequate funds are devoted to eliminating the risk.

264. This concern is not just with the monies expended directly by the government. It also extends to the monies expended by the individuals and organizations that receive government contracts or grants.

Appendix C: Selected Federal Reports Prepared On A Recurring Basis

265. This appendix classifies some well-known reports according to the categories set forth in figure 1 in Chapter 7. Reports are classified according to whether they are primarily financial or nonfinancial and whether they have primarily a special or a general purpose. The classification is somewhat subjective. It is based on the general nature or emphasis of the reports. Many reports combine information and functions from different categories.
266. All these reports contribute to meeting the Board's reporting objectives for some users. However, many of the specific reports listed—economic reports dealing with the nation as a whole, for example—will be influenced only indirectly, if at all, by the Board's standards. Indeed, because they deal with transactors other than the government (such as private citizens and corporations, states and local governments, and not-for-profit entities), economic reports fit within the context of figure 1 only to the extent that they may provide information to assess the government's operating performance and stewardship.

Financial Information—Special Purpose

- Budget of the U.S. Government
- Analysis of the President's Budget Proposals (CBO)
- Economic and Budget Outlook Report (CBO)
- Economic and Budget Outlook Report Update (CBO)
- Midsession Review of the Budget
- Budget Enforcement Act Reports: Preview, Update, and Final Sequestration
- Request for Apportionment (SF 132)
- Report on Budget Execution (SF 133)
- Economic Report of the President
- Federal Reserve Bulletin
- OPM Forms 1351 A-D: Work years and personnel costs reports
- Prompt Payment Report

Financial Information—General Purpose

- Annual financial statement (principal financial statements, including footnotes and combining financial statements if applicable) required by the CFO Act on revolving funds, trust funds, substantial commercial functions, and pilot federal agencies
- Annual financial reporting by agencies required by Treasury (SF 220 series)

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- Prototype Consolidated Financial Statements of the U.S.
 - The U.S. Government Annual Report and Appendix (Treasury)
 - Monthly Treasury Statement of Receipts and Outlays of the U.S.
 - Monthly Statement of Public Debt
 - Daily Treasury Statement (on cash and debt)

Nonfinancial Information—General Purpose

- Annual departmental reports to the President and Congress
- Nonfinancial information required by the CFO Act in the overview, supplemental information, and other portions of the reports

Nonfinancial Information—Special Purpose

- Reports required by the Federal Managers' Financial Integrity Act of 1982

Attachment III: Excerpts of Statement of Federal Financial Accounting Standards (SFFAS) 4,
Managerial Cost Accounting Standards and Concepts

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29. The determination of whether an item is material depends on the degree to which omitting 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.

Effective Date

30. The managerial cost accounting standards prescribed in SFFAS No. 4 shall be effective for fiscal periods beginning after September 30, 1997. Earlier implementation is encouraged.

Purposes Of Using Cost Information

31. There are many different purposes for which cost information may be used by the federal government. The focus of this statement is on cost information needed to improve federal financial management and managerial decision making.
32. In managing federal government programs, cost information is essential in the following five areas: (1) budgeting and cost control, (2) performance measurement, (3) determining reimbursements and setting fees and prices, (4) program evaluations, and (5) making economic choice decisions. Each of these uses is discussed below.

Budgeting And Cost Control

33. Information on the costs of program activities can be used as a basis to estimate future costs in preparing and reviewing budgets. Once budgets are approved and executed, cost information serves as a feedback to budgets. Using cost information, federal managers can control and reduce costs, and find and avoid waste. For example, with appropriate cost information, federal managers can:
- Compare costs with known or assumed benefits of activities, identify value-added and non-value-added activities, and make decisions to reduce resources devoted to activities that are not cost-effective;
 - Compare and determine reasons for variances between actual and budgeted costs of an activity or a product;
 - Compare cost changes over time and identify their causes;
 - Identify and reduce excess capacity costs; and
 - Compare costs of similar activities and find causes for cost differences, if any.

Performance Measurement

34. Measuring performance is a means of improving program efficiency, effectiveness, and program results. One of the stated purposes of the GPRA of 1993 is to “. . .improve the confidence of the American people in the capability of the federal government, by systematically holding federal agencies accountable for achieving program results.”
35. Measuring costs is an integral part of measuring performance in terms of efficiency and cost-effectiveness. Efficiency is measured by relating outputs to inputs. It is often expressed by the cost per unit of output. While effectiveness in itself is measured by the outcome or the degree to which a predetermined objective is met, it is commonly combined with cost information to show “cost-effectiveness.” Thus, the service efforts and accomplishments of a government entity can be evaluated with the following measures:
- (1) Measures of service efforts which include the costs of resources used to provide the services and non-financial measures;
 - (2) Measures of accomplishments which are outputs (the quantity of services provided) and outcomes (the results of those services); and
 - (3) Measures that relate efforts to accomplishments, Such as cost per unit of output or cost-effectiveness.
36. Thus, as stated previously, performance measurement requires both financial and non-financial measures. Cost is a necessary element for performance measurement, but is not the only element.

Determining Reimbursements And Setting Fees And Prices

37. Cost information is an important basis in setting fees and reimbursements. Pricing and costing, however, are two different concepts. Setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and other times by managerial or public policies. Thus, the price of a good or service does not necessarily equal the cost of the good or the service determined under a particular set of principles. Nevertheless, cost is an important consideration in setting government prices. With certain exceptions, OMB requires:⁹

⁹OMB Circular A-25, User Charges (Revised July 8, 1993).

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- With respect to goods and services that the government provides in its sovereign capacity to a particular group of individuals as a special benefit, user charges should be sufficient to recover the full cost of those goods and services; and
 - With respect to goods and services that the government provides under business-like conditions, user charges for those goods and services need not be limited to the recovery of full cost and may yield a net revenue.
38. Also, cost information is important in calculating reimbursements for products and services provided by one government agency to another. Even if fees or reimbursements do not recover the full costs due to policy or economic constraints, management needs to be aware of the difference between cost and price. With this information, program managers can properly inform the public, the Congress, and federal executives about the costs of providing the goods or services.

Program Evaluations

39. Costs of federal resources required by programs are an important factor in making policy decisions related to program authorization, modification, and discontinuation. These decisions are usually subject to policy constraints, and often require the consideration of social and economic costs and benefits affecting different sectors of the economy and society. Nevertheless, the costs of federal resources required are an important factor. Information on program costs can be used as a basis for cost-benefit considerations.

Economic Choice Decisions

40. Often, agencies and programs face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out; to accept or reject a proposal; or to continue or drop a product or service. Making these decisions requires cost comparisons among available alternatives.

Managerial Cost Accounting Concepts

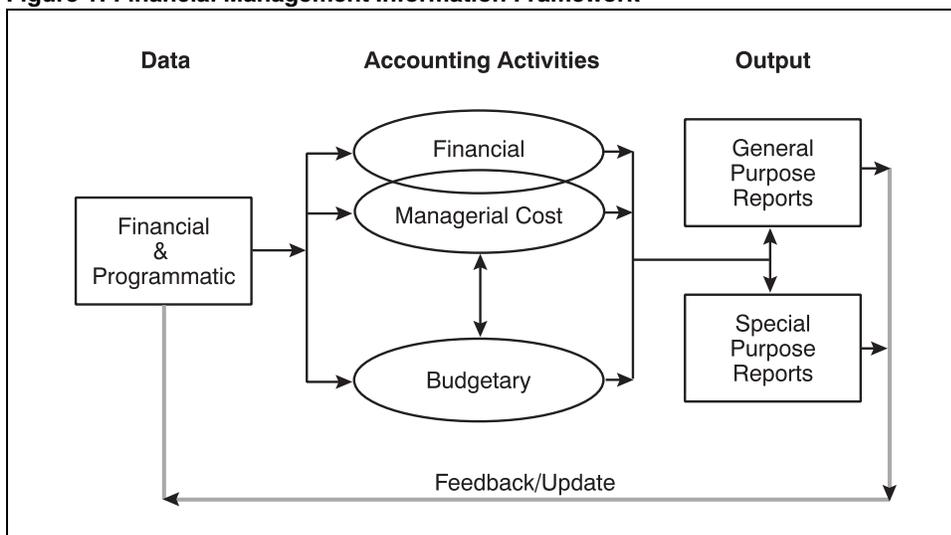
Managerial cost accounting should be a fundamental part of the financial management system and, to the extent practicable, should be integrated with other parts of the system. Managerial costing should use a basis of accounting, recognition, and measurement appropriate for the intended purpose. Cost information developed for different purposes should be drawn from a common data source, and output reports should be reconcilable to each other.

41. Managerial cost accounting should be an essential element of proper financial planning, control, and evaluation for any organization or activity that uses resources having monetary value. Managerial cost accounting is a basic part of the financial management system in that it supports and provides data to the budgetary and financial accounting functions and, by itself, provides useful information for both internal and external users.

Role Of Managerial Cost Accounting In Financial Management

42. Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for, safeguards, and controls its resources to meet its objectives. Managerial cost accounting, therefore, is the servant of both budgetary and financial accounting and reporting because it assists those systems in providing information. Also, it provides useful information directly to management. These relationships are shown in Figure 1.

Figure 1: Financial Management Information Framework



Common Data Source

43. The information flow within a financial management system begins with a basic information pool or common data source. This data source consists of all financial and programmatic information used by the budgetary, cost, and financial accounting processes. It includes all

financial and much non-financial data, such as environmental data, that are necessary for budgeting and financial reporting.¹⁰ The common data source also includes evaluation and decision information developed as a result of prior reporting and feedback. Other types of data may be included based upon perceived needs and purposes related to the ultimate users of the information.

44. The common data source may include many different kinds of data. It is far more than the information about financial transactions found in the standard general ledger, although that is a significant part of the data source. Few organizations or entities maintain all these data in any one system or location. Furthermore, the use of the term “data source” is not meant to imply the use of computerized systems for source information. Instead, the term is used in a broad way to include many sources of information.
45. Managerial cost accounting, financial accounting, and budgetary accounting draw information as needed from the common data source. The data obtained by each of these is processed to attain specific objectives by reporting useful information.

Relationship to Financial Accounting

46. As shown in Figure 1 by their overlap, managerial cost accounting and financial accounting are closely related or integrated. To some degree, this is due to the historical development of cost accounting as a method for more detailed scorekeeping with the requirement to provide inventory values for external financial reporting purposes.¹¹ In part, it is because cost information generally originates with transactions recorded for financial accounting purposes.
47. While inventory valuation is still part of the fundamental relationship, managerial cost accounting serves financial accounting in several other ways. Fundamentally, managerial cost accounting should assist financial accounting in determining the results of operations during a fiscal period by providing relevant data that are accumulated to produce operating expenses. These data include the allocation of capitalized costs to periods of time or units of usage.
48. Traditionally, managerial cost accounting information pertaining to financial accounting has involved costs of past transactions and the assignment of transaction value to fiscal periods

¹⁰The makeup of core data and environmental data is discussed in Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, Chapter 7, and, therefore, a detailed discussion is not provided here.

¹¹Coulthurst, Nigel and John Piper, “The State of Cost and Management Accounting,” *Management Accounting*, April 1986.

and outputs. These purposes and uses are closely aligned with the financial accounting activity and traditional external financial reporting. This past cost aspect has been acknowledged in *Objectives of Federal Financial Reporting* which states that “financial accounting is largely concerned with assigning the value of past transactions to appropriate time periods.”¹²

Relationship to Budgetary Accounting

49. Managerial cost accounting should also provide budgetary accounting with cost information. However, the two are not as closely aligned as is the case with financial accounting (see Figure 1). Mostly, this is because costs are usually recorded, accumulated, and allocated by managerial cost accounting on an accrual basis of accounting which is different from the obligation or cash basis generally used in budgetary accounting.
50. Still, managerial cost accounting does provide cost information to budgetary accounting for use in preparing yearly and long-term budgets for required materials, supplies, equipment, human resources, and other resources needed to produce different levels of outputs. Managerial cost accounting also helps in making many budgetary decisions such as those concerning future capital expenditures and purchase/lease alternatives.
51. It is important to note that the Board’s authority does not extend to recommending budgetary standards or budgetary concepts, and that is not the purpose of this statement.¹³ However, the Board is committed to providing relevant and reliable cost accounting information that supports budget planning, formulation, and execution.

Cost Information for Management Purposes

52. Managerial cost accounting produces information directly for management use, sometimes employing data produced by the budgetary and financial accounting processes. Cost information is used for many different purposes which can be generally classified into five types: performance measurement; cost reduction and control; determination of reimbursements and fee or price setting; program authorization, modification, and discontinuation decisions; and decisions to contract out work or make other changes in the methods of production.
53. To meet these needs, managerial cost accounting should use basic cost data and non-financial or programmatic data. For example, it tracks units of output produced and input

¹²Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, par. 168.

¹³Memorandum of Understanding establishing the FASAB, October 10, 1990.

used including the amount of labor in terms of employees or employee-hours. Sometimes, information from cost analysis is used to compare actual to predetermined or anticipated costs. An organization may use cost estimates, cost studies, and cost finding techniques.

54. While managerial cost accounting is concerned not only with past costs and future costs, one of its most important features is the use of present costs to assist management. This current cost aspect of managerial cost accounting is referred to in the *Objectives of Federal Financial Reporting* where it states that “accounting data may be further assigned, allocated, or associated with units of activity or production, segments of organizations, etc., within the same time period. These kinds of intraperiod allocations are developed most extensively in the branch of accounting called cost accounting. Neither the FASB nor the GASB has devoted much attention to this branch of accounting, but the FASAB, because of its unique mission, will need to do so.”¹⁴ Managerial cost accounting information pertaining to present costs is most often used for controlling and reducing those costs, controlling work processes, and measuring current performance.

Reporting Relationships

55. Proper financial management requires that the three accounting processes work closely together to provide useful reporting to both internal and external users. The internal-external dual focus of federal reporting has been established in the *Objectives of Federal Financial Reporting*. It states that “The FASAB and its sponsors believe that any description of federal financial reporting objectives should consider the needs of both internal and external users and the decisions they make.” In addition, it says that “the FASAB... considers the information needs of both internal and external users. In part, this is because the distinction between internal and external users is in many ways less significant for the federal government than for other entities.” It goes on to classify the users of financial information into four major groups: program managers, executives, the Congress, and citizens.¹⁵ These categories include both internal and external users.
56. Federal financial reporting encompasses general and special purpose reports to meet the needs of the four user groups. Information produced by managerial cost accounting appears in or influences both types of reports.¹⁶ As discussed above, managerial cost accounting should provide information for use by both financial accounting and budgetary accounting.

¹⁴Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, par. 174.

¹⁵*Ibid.*, pars. 23, 25, and par. 75.

¹⁶The types of general purpose and special purpose reports are discussed in Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting*, Chapter 7.

That information is used by those processes in producing both general purpose and special purpose reports.

57. Managerial cost accounting also results in reports of its own. Most often these are special purpose reports designed for internal users, typically program and line managers. However, they may be for groups generally considered external users.
58. One of the most important aspects of reporting in which managerial cost accounting plays a large role is that of performance reporting. Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost information is necessary in establishing strategic goals, measuring service efforts and accomplishments, and relating efforts to accomplishments. The importance of cost information in relation to performance measurement and performance reporting has been recognized in the *Objectives of Federal Financial Reporting*, which said “One reason for performing cost accounting is to assist in performance measurement” and it also stated that “The topics of cost and performance measurement are related because it is by associating cost with activities or ‘cost objectives’ that accounting can make much of its contribution to reporting on performance.”¹⁷

Basis Of Accounting And Recognition/measurement Methods

59. Costs may be measured, analyzed, and reported in many ways. A particular cost measurement has meaning only when considering its purpose. The measurement of costs can vary depending upon the circumstances and purpose for which the measurement is to be used. In *Objectives of Federal Financial Reporting*, it is stated that “the Board’s own focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the federal government and its component entities and other useful financial information. This implies a variety of measures of costs and other information that complements the information available in the budget [emphasis added].”¹⁸
60. In addition, it is stated that “In defining the proper measurement, assignment, and allocation of cost for a given purpose, selecting the appropriate accounting method and whether to use full costing should be carefully considered.”¹⁹ Further, it added that “The accrual basis of

¹⁷Ibid., par. 174 and par. 192.

¹⁸Ibid., par. 191.

¹⁹Ibid., par. 196.