Federal Accounting Standards Advisory Board

LOSS ALLOWANCE FOR INTRAGOVERNMENTAL RECEIVABLES

Technical Bulletin 2019-1

Exposure Draft

Written comments are requested by October 1, 2019

August 30, 2019

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

Additional background information is available from FASAB or its website:

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

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Federal Accounting Standards Advisory Board

August 30, 2019

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

Your comments on the exposure draft of a proposed Technical Bulletin, entitled *Loss Allowance for Intragovernmental Receivables,* are requested. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by October 1, 2019.

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

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax the comments to (202) 512-7366. Alternatively, you may mail your comments to:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 1155
Washington, DC 20548

We will confirm receipt of your comments. If you do not receive confirmation, please contact our office at 202.512.7350 to determine if your comments were received.

Sincerely,

Monica R. Valentine

Monica R. Valentine

Executive Director

EXECUTIVE SUMMARY

WHAT GUIDANCE IS BEING PROPOSED?

This Technical Bulletin (TB) would clarify existing standards regarding accounts receivable and related recognition standards and reporting. Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, establishes the definition, recognition, measurement, and disclosure requirements for accounts receivable. SFFAS 1 provides for two types of receivables: receivables from federal entities, or intragovernmental receivables, and receivables from nonfederal entities. It requires separate reporting of the two types of receivables.

This TB would clarify SFFAS 1 by establishing that even though SFFAS identifies the two types of receivables, the absence of explicit guidance distinguishing between the accounting of intragovernmental receivables and receivables from nonfederal entities does not mean the standards only apply to receivables from nonfederal entities. This TB would also clarify that recognition of losses, provided in paragraphs 41-51 of SFFAS 1; apply to both intragovernmental receivables and receivables from nonfederal entities.

The TB would also clarify SFFAS 1 by explaining the allowance approach is not a “write-off” of a receivable. Rather, it is a method for reporting an amount that the entity believes is realizable by requiring only accounts receivable, net of an allowance, to be reported on the financial statements. An allowance recognized in a reporting entity’s financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would facilitate consistent reporting of accounts receivable in accordance with generally accepted accounting principles.

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

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") staff encourages you to become familiar with all proposals in the Technical Bulletin before responding to the questions in this section. In addition to the questions below, staff also would welcome your comments on other aspects of the proposed Technical Bulletin. Because the proposals may be modified before a final Technical Bulletin is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

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

The questions in this section are available in a Microsoft Word file for your use at https://www.fasab.gov/documents-for-comment/. Your responses should be sent by email to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to (202) 512-7366. Alternatively, you may mail your responses to:

Monica R. Valentine, Executive Director
Federal Accounting Standards Advisory Board
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Washington, DC 20548

All responses are requested by October 1, 2019.

Q1. The proposed Technical Bulletin (TB) would provide that the absence of explicit guidance distinguishing between the accounting of intragovernmental receivables and receivables from nonfederal entities in Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, does not mean the standards only apply to receivables from nonfederal entities.

Do you agree or disagree? Please provide the rationale for your answer.

Q2. The proposed TB would clarify that recognition of losses provided in paragraphs 41-51 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities.

Do you agree or disagree? Please provide the rationale for your answer.

Q3. The proposed TB would clarify that an allowance recognized in a reporting entity's financial statements does not alter the underlying statutory authority to collect the receivable or legal obligation of the other intragovernmental entity to pay.

Do you agree or disagree? Please provide the rationale for your answer.

PROPOSED TECHNICAL GUIDANCE

SCOPE

1. **What reporting entities are affected by this Technical Bulletin (TB)?**

2. This guidance applies to all reporting entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP) as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

3. **What accounting practices are addressed in this TB?**

4. This TB clarifies standards regarding accounts receivable and related recognition standards and reporting.

5. **Does the absence of explicit guidance distinguishing between the accounting of intragovernmental receivables and receivables from nonfederal entities in the accounts receivable standards in SFFAS 1, *Accounting for Selected Assets and Liabilities,* mean the standards only apply to receivables from nonfederal entities?**

6. No, the absence of explicit guidance distinguishing between (or not specifically referring to both) the accounting for intragovernmental receivables and receivables from nonfederal entities in the accounts receivable standards does not mean that the standards only apply to receivables from nonfederal entities.

7. Paragraph 40 of SFFAS 1 states, “The accounting standard for accounts receivable is set forth below.” The standards provided in SFFAS 1 continue to refer to “accounts receivable” as such.

8. SFFAS 1 acknowledges that there are two types of receivables and provides for separate reporting in paragraph 42 as follows: “***Separate reporting***. Receivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.” Similarly, SFFAS 1 distinguishes between entity and non-entity receivables.

9. However, in making this distinction in paragraph 42, SFFAS 1 does not imply that the accounts receivable standards will distinguish between intragovernmental receivables and receivables from nonfederal entities for other areas, such as recognition of loss allowances or disclosures. Instead, SFFAS 1 consistently refers to “receivables” or “accounts receivable” when discussing both types of receivable, just as it addresses recognition of receivables prior to identifying the two types of receivables for separate reporting in paragraph 42. The Federal Accounting Standards Advisory Board (FASAB or “the Board) made the distinction only when discussing the separate reporting. Therefore, other than

where indicated, references to “receivables” and “accounts receivable” incorporates both intragovernmental receivables and receivables from nonfederal entities.

10. **Does the guidance regarding recognition of losses provided in paragraphs 41-51 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities?**

11. Yes, guidance regarding recognition of losses provided in paragraphs 41-51 of SFFAS 1 applies to both intragovernmental receivables and receivables from nonfederal entities. As discussed in the previous question, the absence of explicit guidance distinguishing between the accounting for intragovernmental receivables and receivables from nonfederal entities in the accounts receivable standards of SFFAS 1 does not mean the standards only apply to receivables from nonfederal entities.

12. The accounts receivable standards in SFFAS 1 primarily refer to “receivables” and do not distinguish between specific types, with the exception of paragraph 42, which provides for separate reporting. SFFAS 1 details the recognition of receivables, the recognition of loss allowances, and disclosure by referring to “receivables” and not distinguishing between intragovernmental receivables and receivables from nonfederal entities. Paragraph 42 is the only paragraph that distinguishes between intragovernmental receivables and receivables from nonfederal entities by providing for the separate reporting of them.

13. **Is there additional guidance regarding recognition of losses for intragovernmental receivables that should be considered, especially when a statute or law requires that the receivable be reimbursed?**

14. Where appropriate, the allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value (i.e., allowance approach). It is important to consider that the standard is to assess whether amounts recognized are realizable and that the allowance approach does not necessarily result in a “write-off” of a receivable. Instead, it is an adjustment needed to estimate the receivable to its net realizable value for reporting purposes.

15. Paragraph 131 of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, acknowledges that an allowance for intragovernmental receivables may be appropriate, but may not always needed:

    > The allowance for bad debts should be based on an analysis of both individual accounts and groups of accounts, as appropriate under the circumstances. This principle is explained in the standard for accounts receivable. For intragovernmental transactions, allowances for bad debts may not always be needed, because full payment can often be assumed.

16. Therefore, in arriving at the need to report an allowance for intragovernmental receivables, any guarantee or statutory obligation of payment should be considered. As explained, SFFAS 1 requires only accounts receivable, net of an allowance, to be reported on the financial statements. It does not require the write-off of a receivable. Further, recognizing an allowance on a reporting entity’s financial statements does not alter the underlying statutory

authority to collect the receivable or legal obligation of the other intragovernmental entity to pay. For example, intragovernmental receivables may represent payments that are required by statute, but this statutory requirement does not, in itself, eliminate the need of reporting an allowance for financial statement presentation.

17. The factors and criteria that are considered regarding intragovernmental receivables and recognition of losses should be documented in departmental policy and be consistent with government-wide policies.

18. In addition, reporting entities are encouraged to include additional disclosures that would provide transparency about intragovernmental receivables.

EFFECTIVE DATE

19. The requirements of this TB are effective upon issuance.

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

APPENDIX A: BASIS FOR CONCLUSIONS

The Federal Accounting Standards Advisory Board (FASAB or "the Board") has authorized its staff to prepare Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through October 2010, and the procedures described in FASAB Technical Bulletin 2000-1, "Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance." The provisions of Technical Bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this Technical Bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section—not the material in this appendix—should govern the accounting for specific transactions, events or conditions.

This guidance may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this guidance. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

<u>*Department of the Treasury Request*</u>

A1. The Department of the Treasury (Treasury) raised a concern regarding the recognition of losses against intragovernmental receivables (for example, receivables stemming from transactions among federal entities). Treasury does not believe it is appropriate for a reporting entity to recognize a loss allowance for intragovernmental receivables, particularly in cases where the balances are required by statute to be repaid.

A2. Treasury provided the example that it makes judgment claim payments on behalf of many federal reporting entities. Although reporting entities are required, in many cases by statute, to reimburse Treasury for some payments, many of these reimbursements are not made in a timely manner—raising questions about collectability.

A3. SFFAS 1 indicates that losses should be recognized when it is more likely than not that some or all of the balance will not be collected. Treasury requested FASAB to review SFFAS 1 and provide clarifying guidance, noting the language in SFFAS 1 is vague. Specifically, Treasury believes SFFAS 1, paragraph 44 is not clear as to its application to intragovernmental receivables, implying that there could be a delineation in the application of allowance for doubtful accounts intragovernmental receivables from nonfederal entities.

A4. Specifically, Treasury interpreted the absence of explicit guidance to mean FASAB has no specific view on intragovernmental receivables, or did not intend to include it in the guidance for recognition of losses. Treasury further interpreted the absence of explicit guidance to mean that the accounting for and reporting of losses on intragovernmental receivables should be predicated on the inherent nature of those receivables—occurring between and among components of a single, legal entity and, in some cases, subject to statutory requirements. Consequently, Treasury issued a policy memo and the Bureau of the Fiscal Service made system changes to preclude agencies from reporting an allowance for losses of intragovernmental receivables. The policy memo and the system changes would ensure consistent treatment government-wide.

A5. However, concerns were raised by some auditors that the Treasury proposed policy (and system change) was inconsistent with GAAP. Therefore, certain agencies, based on concerns raised by auditors, could not conclude that there was adequate justification to change the accounting policy as suggested by Treasury.

A6. As a result, Treasury requested FASAB to review this issue. At a minimum, Treasury believes that the intent of SFFAS 1 with respect to the accounting for and reporting of losses on intragovernmental receivables is unclear and seeks clarification. The Board agrees that guidance will resolve any uncertainty regarding SFFAS 1.

CURRENT STANDARDS

A7. SFFAS 1 provides the accounting standards for accounts receivable and related recognition and reporting standards in paragraphs 40-52 as follows:

> ### Accounts Receivable
> 40. Accounts receivable arise from claims to cash or other assets. The accounting standard for accounts receivable is set forth below.
>
> 41. ***Recognition of receivables.*** A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made. [See SFFAS 7, paragraph 53 for more.]
>
> 42. ***Separate reporting.*** Receivables from federal entities are intragovernmental receivables, and should be reported separately from receivables from nonfederal entities.
>
> 43. ***Entity vs. Non-entity receivables.*** Receivables should be distinguished between entity receivables and non-entity receivables. ***Entity receivables*** are amounts that a federal entity claims for payment from other federal or nonfederal entities and that the federal entity is authorized by law to include in its obligational authority or to offset its expenditures and liabilities upon collection. ***Non-entity receivables*** are amounts that the entity collects on behalf of the U.S. government or other entities, and the entity is not authorized to spend. Receivables not available to an entity are non-entity assets and should be reported separately from receivables available to the entity.
>
> 44. ***Recognition of losses due to uncollectible amounts.*** Losses on receivables should be recognized when it is more likely than not that the

receivables will not be totally collected. The phrase *more likely than not* means more than a 50 percent chance of loss occurrence.

45. An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts should be reestimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct.

46. ***Measurement of losses.*** Losses due to uncollectible amounts should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.

47. ***Individual account analysis.*** Accounts that represent significant amounts should be individually analyzed to determine the loss allowance. Loss estimation for individual accounts should be based on (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources, including liens, garnishments, cross collections and other applicable collection tools.

48. The allowance for losses generally cannot be based solely on the results of individual account analysis. In many cases, information may not be available to make a reliable assessment of losses on an individual account basis or the nature of the receivables may not lend itself to individual account analysis. In these cases, potential losses should be assessed on a group basis.

49. ***Group analysis.*** To determine the loss allowance on a group basis, receivables should be separated into groups of homogeneous accounts with similar risk characteristics.

50. The groups should reflect the operating environment. For example, accounts receivable can be grouped by: (a) debtor category (business firms, state and local governments, and individuals), (b) reasons that gave rise to the receivables (tax delinquencies, erroneous benefit payments, trade accounts based on goods and services sold, and transfers of defaulted loans to accounts receivable), or (c) geographic regions (foreign countries, and domestic regions). Within a group, receivables are further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables.

51. Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks.

52. ***Disclosure.*** Agencies should disclose the major categories of receivables by amount and type, the methodology used to estimate the allowance for uncollectible amounts, and the total allowance.

A8. The previous Board was consistent in the accounts receivable standards language in SFFAS 1. SFFAS 1 consistently refers to “receivables” or “accounts receivable” because the asset standard being discussed is Accounts Receivable. Therefore, these terms are used when discussing recognition of receivables, recognition of loss allowances, and disclosures.

A9. The only time the distinction is made between intragovernmental receivables and receivables from nonfederal entities is in paragraph 42 of SFFAS 1, which is specific to the separate reporting of receivables. Therefore, there is no indication that a distinction would be made in other circumstances.

OTHER FACTORS CONSIDERED

A10. While FASAB staff understand Treasury’s position, staff does not believe this position justifies recommending that the Board revise current standards. Current standards require the allowance approach and that is not a “write-off” of a receivable. Instead, it is an adjustment needed to estimate the amount that is realizable. The factors and criteria that are considered regarding intragovernmental receivables and recognition of loss allowances may be complex.

A11. An allowance in a reporting entity’s financial statements does not alter the underlying statutory authority to collect the receivable or legal obligation of the other intragovernmental entity to pay. For example, intragovernmental receivables may represent payments that are required by statute. However, the statutory requirement for payment of intragovernmental receivables does not, in itself, eliminate the need for an accounts receivable allowance for financial statement presentation.

A12. Therefore, it is important that a reporting entity policy regarding allowances and criteria for assessing collectability be documented. These policies should also be consistent with government-wide initiatives and policies.

A13. Staff also notes that reporting entities are encouraged to include additional disclosures that would provide transparency about intragovernmental receivables, as appropriate. For example, in an effort to demonstrate accountability, reporting entities may choose to disclose information about their efforts to collect, secure funding to settle legally enforceable claims, and resolve disputes, if applicable. Reporting entities may also disclose material receivable amounts by reporting entity, an aging of receivables, and a narrative explanation regarding the allowances, if appropriate, including the reason for the allowances (for example disputed amounts or stated intent to not pay).

APPENDIX B: ABBREVIATIONS

FASAB	Federal Accounting Standards Advisory Board
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin

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