MAR 1 4 1994

Issue No. 12 June 1993

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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ACCOUNTING FOR DIRECT LOANS AND LOAN GUARANTEES

The draft Statement of Accounting Standards for Direct Loans and Loan Guarantees is undergoing final review by the Board. Recent changes were made to clarify the accounting procedures related to indirect modification of pre-1992 direct loans and loan guarantees. The final Statement is expected to be signed by Chairman Staats and submitted to the principals for approval by the end of June.

VENTORY

At the May Board meeting, issues identified from comment letters and the public hearing were discussed. A brief summary of the issues and Board conclusions is reported below. The basis for conclusion section of the recommended standard will include further detail.

INVENTORY HELD FOR SALE

Issue: Should any changes be made in the various inventory categories described in the exposure draft?

> Conclusion: No, the current categories of inventory will be retained; (1) held for sale under normal operations, (2) held in reserve for future sale, (3) excess, obsolete, and unserviceable, and held for repair. This issue was also raised for operating materials and supplies and the conclusion was the same.

Issue: Should the estimated annual holding costs for entory held in reserve for future sale be disclosed?

Conclusion: No; however, the issue will be revisited in the project on cost accounting standards. This issue was also raised for operating materials and supplies and the conclusion was the same.

Issue: Which presentation method should be required for cost of goods sold and the change in the allowance for holding gains and losses under latest acquisition cost?

> Conclusion: Cost of goods sold should include a component for the change in the allowance.

Issue: Should the Board adopt the lower of cost or market rule for valuing inventory?

> Conclusion: No, there is not sufficient justification in the federal environment.

Issue: Should the statement express the Board's position with regard to market value accounting for inventory since the Board requested comments on the costs and benefits on the subject?

> Conclusion: Yes, a brief summary of the comments regarding market value accounting will be presented.

Issue: Should the recommended standard address the comments received on standard cost at replacement cost method?

> Conclusion: Yes, a brief summary of the comments regarding the method will be presented.

OPERATING MATERIALS AND SUPPLIES

Issue: Should latest acquisition cost be an acceptable valuation method?

> Conclusion: Yes, the standard should state that any other valuation method that approximates historical cost is acceptable. This change was also approved for stockpile materials.

STOCKPILE MATERIALS

Issue: Should the definition of stockpile materials include a requirement that stockpile materials are held as a result of statutory provisions?

> Conclusion: Yes, this would avoid confusion as to how to classify large holdings of routine items.

Issue: Should an exception to permit market valuation for items that are interchangeable, have a ready market, and for which the unit cost is not determinable be added to the standard?

> Conclusion: No, due to the uncertainties regarding sales there should not be an exception.

SEIZED AND FORFEITED PROPERTY

Issue: Should the standard provide for a valuation allowance to adjust the reported fair value of forfeited property for anticipated losses upon disposal?

Issue: Should the standard require that, in addition to recording deferred revenue, deferred distributions be recorded?

> Conclusion: These issues were deferred for future consideration.

FORECLOSED PROPERTY

Issue: Should the standard continue to require use of net present value to value post-91 foreclosed property and lower of cost or net realizable value to value pre-92 foreclosed property?

> Conclusion: Yes, but another method may be used if the results are not materially different.

GOODS ACQUIRED UNDER PRICE SUPPORT AND STABILIZATION PROGRAMS

Issue: Should the standard require that nonrecourse loans be adjusted at time of disbursement if the market rate is lower than the loan rate (whether on a group or individual loan basis)?

> Conclusion: The standard should be revised to require recognition of losses that are probable and measurable.

Issue: Should losses on purchase agreements be recognized and the contingent liability recorded at issuance?

> Conclusion: The standard should be revised to require recognition of losses that are probable and measurable.

REPORTING OBJECTIVES

At its May meeting, the Board moved closer toward issuing a conceptual Statement on the Objectives of Federal Financial Reporting as members reviewed a staff paper analyzing the 46 responses to the January exposure draft on objectives. The staff will re-draft the Statement for the June meeting. At the July meeting, the Board should be able to approve a final version for recommendation to its sponsors (GAO, OMB, and Treasury).

The Statement establishes objectives in four areas: budgetary integrity, operating performance, stewardship, and systems and control. The Statement's primary audience will be the Board itself. The Board will review present practices in light of the objectives to help determine which projects should be undertaken. It will also use them to weigh the pros and cons of alternative provi

The Statement should also be useful to the Board's constituents. Agencies and auditors will find that understanding the Board's goals will be useful in applying individual standards. Congress and federal executives will find the Statement helpful in understanding the benefits and limitations of financial reports.

LIABILITIES AND FUTURE CLAIMS ON BUDGETARY RESOURCES

The project on Liabilities and Future Claims addresses liabilities very broadly. Earlier projects focused on specific types of liabilities. The Board's initial statement ofrecommended accounting standards - Accounting for Selected Assets and Liabilities - included standards on accounts payable, interest payable, and other current liabilities. The project on Direct Loans and Loans Guarantees, which is nearing completion, includes standards for liabilities ecifically related to loan programs. The Liabilities .d Future Claims project covers the full range of liabilities and will provide definitions that will encompass but not change standards included in the earlier projects.

Liabilities, as currently being discussed by the Board, are defined as "probable and measurable future outflows of resources arising from past transactions or events." For the purpose of analysis, the Board's discussion paper lists liability categories and certain federal programs, and illustrates how the definition would apply to them. Any footnotes would be an important part of the liability presentation.

The Board is considering additional reporting that would complement the liability disclosure and address the stewardship reporting objective--one of the four objectives for federal financial reporting that the Board is offering for public discussion. This reporting would cover commitments that result in a probable future outflow of (or future claims on) budgetary resources. The nature and magnitude of these nmitments is such that they may need regular essment and prominent reporting beyond the usual footnote disclosure. The Board is developing guidelines for this reporting to be offered for public comment, along with the proposed liability standard, in an exposure draft scheduled for fall 1993 publication.

INVESTMENT-TYPE EXPENDITURES

The Investment Task Force continues to make progress as its members work to develop criteria for investment-type expenditures. After the Task Force's first meeting in late April, members appointed key representatives from their agencies. The representatives were asked to respond to questions designed to test the Board's concept on investment-type expenditures as related to federal financial reporting and the conceptual framework to meet user needs and objectives. Questions involved:

-proposed criteria for investment-type expenditures,

-proposed criteria for investment-type expenditures as assets,

-approaches for accounting and reporting both physical and non-physical investment-type expenditures, and

-components to be included in measuring the cost of government services.

The Task Force met on May 21, 1993 to discuss responses to the questions. Major points of the responses were:

-Overall, there was broad support for many of the concepts posed in both the questions and criteria.

- Many respondents believed that the term "investments" as used in this project could be confused with other uses of the term.

-A number of concerns were expressed about the criteria for splitting tangible investments between assets and physical property. They were 1) difficulty in identifying property "used in the delivery of service" because "service" could be broadly applied to all federal operations; 2) effect of a change in the use of property, e.g. shifting it from an operational asset to physical property not contributing to operations; 3) impact on "net worth" of excluding physical property from the balance sheet; and 4) possible confusion (comparability and interpretation) that could result from classifying similar property differently.

-Issues raised by Task Force members as they discussed the criteria for identifying assets were:

-- Many believed that the criterion of exchangeability should consider "intent" to sell; "probability of a sale"; and market consequences of a sale, e.g., gold.

-- Some wanted clarification of the criterion "providing a future cash flow."

-- Most believed the criterion "used and /or consumed in the delivery of government services" should be more narrowly defined to preclude embracing most physical things that provide a public good (e.g., weapons systems that provide defense services, public lands that provide preservation services).

-- Many suggested that federal ownership of tangible items be added to the criteria.

-There was general agreement that the cost of government services should include the cost of wear and tear and should be computed for all activities, not for just revolving or industrial funds.

-Many respondents believed that some form of deterioration/degradation should be considered in measuring the cost of government services.

Task force members discussed the proposed investment-type expenditure criteria. An example of one agency's approach to investment is to focus on productivity and concentrating on physical rather than non-physical items. Some members favored an approach to separate items into 1) physical assets and 2) intangible items. It was suggested that each of these categories could then be separated into the subcategories of income- producing; non-income-producing; and other (for physical assets such as monuments and military hardware, and intangible items that do not fit the first 2 subcategories).

There was discussion about a proposed report intended to keep track of physical property that 1) would not directly contribute to operations; 2) would not be included on the proposed operating balance sheet designed to include operating assets; and 3) would not be depreciated and included in computing cost for performance measurement. This proposed report generally has been referred to as the "accountability statement," in general Board discussions relating to a potential reporting model. It was pointed out that whether an item is included on such a proposed report or segregated as a non-operating asset on the balance sheet, to measure performance one would still have to distinguish between property that contributes to operations (operating assets) and property that does not (physical property).

FASAB staff will incorporate responses from the Task Force's key representatives and the Task Force discussion into a paper on the Project's latest issues and options. This paper will be presented at the next Board meeting on June 16.