

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

FASAB NEWS

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ENTITY AND DISPLAY

At the regular monthly meeting in February Board Member Harold Steinberg presented a draft of an exposure draft on Entity and Display. He explained that it is intended as a conceptual document that will provide guidance to the Board in subsequent deliberations and to OMB in preparing the annual bulletin on "Form and Content."

The ED will discuss reasons for defining reporting entities, the structure of the federal government, and components of the government may be integrated into reporting entities. The ED will also discuss the criteria for deciding what should be included in a reporting entity and other aspects concerning the completeness of the entity. Finally, the ED will discuss display of financial information, and will provide recommendations for the contents and for the displays.

One member suggested that the published ED should include illustrative financial statements or at least "shells" so that readers could better understand what is being proposed, and the interrelationships, e.g., with the "accountability" or "stewardship" statements. He also noted that, because governmental operations are cost driven, agency operating statements should focus on net cost of service.

Board members discussed the need to communicate clearly the relationship between the budgetary entity and the financial reporting entity. They also discussed the relationship between the entity and display project the cost project.

Board members discussed the draft ED paragraph by paragraph. A revised draft will be submitted to the Board in April, and is currently scheduled for issuance after the Board's approval at the May 10 meeting.

LIABILITIES

Board member Bill Kendig presented the Board with a "matrix" of the liability concepts showing their implications and examples of their application. He suggested the matrix helped clarify the implications of the Board's theories about liabilities. Debra Carey, a member of Mr. Kendig's staff, presented Mr. Kendig's paper. One member suggested that the liability be revised to incorporate the idea of "unpaid expense." The "matrix" will be incorporated in the exposure draft in a way that is consistent with the Board's decisions about liabilities. The Liabilities task force will review a draft ED in March. The ED is currently scheduled for discussion by the Board at its May 10 meeting.

COST ACCOUNTING PROJECT**Task Force Discussion**

The initial meeting of the Cost Accounting Task Force was held on January 31. Wide-ranging discussions were held concerning many aspects of cost accounting including user needs, data consistency, full costing, customer value, product inventories, and flexibility versus comparability. It was decided at that meeting to break the task force into three groups to discuss more specific area issues. These study groups cover the areas of costing, cost/data comparability, and performance reporting. Another meeting of the full task force is planned for April 5.

The Costing Study Group met on February 15 and 28. The group discussed cost accumulation/assignment/allocation, overhead, inventory valuation, transfer pricing, capital costing and depreciation, and best cost accounting practices. The Cost/Data Comparability Study Group met on February 17 to discuss issues related to federal government lines of business, relationship of cost accounting to financial and budgetary accounting, methods for agencies to identify their products/services (outputs/outcomes), and the consistency of data and cost objects. The Performance Reporting Study Group also met on February 17 and reviewed issues such as value added /non-value added concepts, reporting needs of users, coordination with the FASAB entity and display project, and the relationship of cost accounting to the requirements of the National Performance Review and the Government Performance and Results Act. The comments from these groups are being considered in developing a draft standard.

Discussion at the February 24 Board Meeting

At the February meeting of the Board, Joe Donlon and Clif Williams presented an outline of cost management/accounting concepts. The Board suggested several changes and discussed some of the cost accounting issues in depth. The Board agreed that identifying government lines of business, products, and services is important to cost management and should be discussed in the final statement. However, the FASAB should not make specific identifications or definitions. The Board also stated that, although inventory valuation standards have been established by the Board, the cost project is not precluded from raising any cost accounting issues concerning valuation methods.

Most Board members stated that they do not view cost accounting, financial accounting, and budgetary accounting as a single integrated system using one set of recognition and measurement standards. However, they generally agreed that these systems should relate to one general database and the information and reports they produce should be reconcilable to each other. Several Board members stated the cost

accounting project must consider the effect of certain laws and regulations when developing the issues related to transfer pricing. Some Board members also said that the FASAB should not require or recommend a particular costing method for all government agencies, but that the pros and cons of some well developed methods could be posed to allow agencies to choose methods that are well suited to them. Board members generally agreed that assignment/allocation of costs on the basis of causal relationships is an issue which could be developed as a standard.

Staff intend to present to the Board an outline of a statement exposure draft at the March meeting. Meetings of the task force study groups will also be called in the near future to continue discussion of the issues in light of the Board's concerns and comments. The task force is scheduled to make a presentation on the ED at the June 23 meeting. It is expected that the Board will discuss the ED at its July 21 meeting, and approve it for issuance at its September 22 meeting.

CAPITAL EXPENDITURE PROJECT

Physical Property, Including Land

Since the January newsletter, the land subgroup has been merged into the existing physical property subgroup. While there are many issues that are unique to land, the broader issues required joint effort of the subgroups.

The subgroup has continued to meet regularly and is addressing issues such as:

- definition of property, plant and equipment;
- identification of categories (e.g., general, heritage, military and land);
- use of life-cycle costing information for forward-looking renewals accounting; and
- balance sheet reporting versus stewardship reporting.

The subgroup is currently exploring the issue of reporting on those items that would not appear on the



of the balance sheet. Those items are tentatively identified as heritage assets and military hardware. Many subgroup members believe that these items should be disclosed in footnotes to the balance sheet rather than being reported on a separate stewardship statement. This treatment would reserve the stewardship statement for investments that the federal government pays for, at least partially, but does not own (e. g. highways).

The Board itself is expected to address the following issues at the March meeting:

- identification of any exceptions to historical cost depreciation;
- deferred maintenance reporting requirements; and
- capitalization threshold.

Other key Board dates are as follows:

- (April 21. Discuss recognition, measurement, and assumption; and approve an outline for an ED.
- May 10. For Land, discuss recognition, measurement, and deferred maintenance.
- June 23. Approve the various issues for inclusion in the ED.

- July 21. Discuss clean-up and impairment issues.
- August. Staff to submit the draft ED to the Board.
- October 20. Approve the ED for issuance.

STATEMENTS AVAILABLE FROM GPO

The following documents have been approved by the FASAB and issued by OMB. They are available for the indicated fee from the Government Printing Office (GPO), telephone number (202) 783-3238:

-Concepts Statement No. 1, Objectives of Federal Financial Reporting, GPO Stock # 041-001-00412-2, \$6.00.

-Accounting Statement No. 1, Accounting for Selected Assets and Liabilities, GPO Stock # 041-001-00403-3, \$4.00.

-Accounting Statement No. 2, Accounting for Direct Loans and Loan Guarantees, GPO Stock # 041-001-00416-5, \$6.00.

-Accounting Statement No. 3, Accounting for Inventory and Related Property, GPO Stock # 041-001-00415-7, \$3.50.

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