

## FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

**FASAB NEWS**

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**MANAGERIAL COST ACCOUNTING  
PROJECT**

Task force leaders Joe Donlon and Cliff Williams of IRS, and FASAB staff Richard Mayo and Larry Modlin collaborated in developing and writing an outline of a statement exposure draft, which was presented at the March Board meeting. The draft contained suggested wording for the proposed standards and a list of discussion points. The Board discussed these standards in detail and approved several with either minor or no changes.

Board members agreed that the term "managerial cost accounting" should be used for this project since it is more representative of the standards the Board intends to issue. They also decided that the standards should state that cost accounting systems and financial accounting systems should be integrated where possible and the information and reports produced for various purposes should originate from a common basic data pool and be reconcilable to each other.

There was agreement that the management of each reporting entity should define and establish responsibility segments. The management of each responsibility segment should define its outputs and measure the cost per unit of output.

In addition, the Board decided that the standards should support full costing of government products and services, but at the same time recognize the fact that full costing is not needed in every cost accounting context. Furthermore, the Exposure Draft should include some criteria and examples of what should be included in full costs. The Board also agreed that the

issue of how to treat "cost of capital" would be addressed in a separate concept statement apart from the cost project. (Jim Blum, representing the Congressional Budget Office, later agreed to develop a paper on "cost of capital" for Board discussion.)

Board members agreed that each responsibility segment should report the full cost of products and services to the responsibility segments within its reporting entity or other reporting entities that receive the services or products. In this way, a more accurate picture of the total costs for government products and services can be developed.

The Board decided that the standards should not specify a particular costing methodology for all agencies to follow. Instead, the advantages and disadvantages of several will be described. The standard, however, will say that the method for measuring costs should be systematic and that agencies should consider using standard cost systems for those processes that are repetitive in nature. In addition, the Exposure Draft will include a discussion of cost-finding techniques and how they can be useful within the context of the overall cost accounting system.

Most Board members expressed a desire for a standard which requires the identification of unused or excess capacity. However, they are concerned that it may be difficult to define such capacity and to measure it. One member stated that he believes there is also a need to identify non-value added processes and past or sunk costs in addition to the excess capacity costs.

The FASAB staff will continue to seek comments and advice of the task force members in developing the

Exposure Draft, including detailed explanations and discussion of the standards. They will also consult task force members to develop examples and illustrations. The staff and task force leaders will present the explanation and discussion section of the exposure draft concerning unused capacity costs to the Board at the May meeting. An initial draft of the entire proposed Statement will be presented for discussion by the Board at the June meeting.

**CAPITAL EXPENDITURE PROJECT-  
HUMAN CAPITAL AND RESEARCH AND  
DEVELOPMENT**

Accounting for federal investments in the "intangible" areas of human costs and research is being addressed under the Board's project on Capital Expenditures as two separate subprojects: Human Capital and Research and Development.

The human capital subgroup is working on proposed definitions and criteria for human capital expenditures. Emphasis is on linking expenditures with productivity increases. The subgroup has tentatively identified human capital programs as those federal programs for education and training of people who do not work for the federal government, including Head Start, and education and training of federal employees.

The Research and Development subgroup also is working on definitions. Subgroup members are reviewing several variations on definitions of what constitutes expenditures for federal research and development to determine which definition most closely reflects agency and other user needs.

Results of progress on the issues of the two subgroups will be presented for discussion at the Capital Expenditures Task Force meeting on April 6.

When the human capital and research and development proposed standards are developed for

public comment (estimated publication date is March 1995), they will be issued in an exposure draft that will include all of the "stewardship" areas: human capital, research and development, non-federally-owned infrastructure, and future claims on federal resources. Work in the area of coordinating all of the stewardship issues will be aided by Mr. Harry Havens, former Assistant Comptroller General, who has been engaged on a contractual basis for this purpose.

For information or questions on the human capital or research and development subprojects, contact Bob Bramlett, (202) 512-7355, or Lucy Lomax (202) 512-7359.

**CAPITAL EXPENDITURE PROJECT-  
PHYSICAL PROPERTY, INCLUDING LAND**

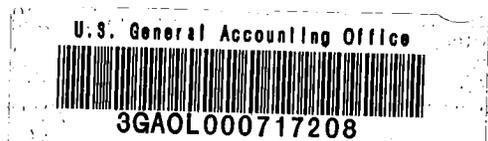
**Land**

The physical property subgroup held meetings during March to discuss issues. The subgroup includes representatives from key land management entities, such as the Bureau of Land Management, the Park Service, the General Services Administration and the Department of Defense. These representatives are providing invaluable insight into the various uses of land in the federal government and the complexities in providing information suited to managers given the diverse uses. The Board is expected to discuss land issues at the April meeting.

**Physical Property**

The Board discussed exceptions to historical cost depreciation for long-lived assets at the March meeting. The subgroup believes that measuring the cost of using up long-lived assets is important in determining "full cost" of operations and is searching for a more useful measure than historical cost depreciation of long-lived assets. The subgroup raised the issue of going to current cost depreciation for long-lived assets because of concern that historical cost depreciation does not provide relevant information to managers.

The Board members engaged in a lively discussion of



alternative measures for the using up of long-lived assets. The Board focused primarily on buildings due to general familiarity with the issues in accounting for that type of asset. The options raised by the Board include:

- reporting only the annual maintenance cost,
- imputing rent on owned facilities based on going market rates,
- imputing interest on the current value of buildings in order to capture the opportunity cost of continuing to occupy the building, and
- dividing buildings between general purpose and special purpose and providing different accounting for each.

Board member noted that the cost of long-lived assets included three components: (1) the acquisition cost of the asset, (2) ongoing maintenance costs including deferred maintenance, and (3) the opportunity cost of holding the asset for use rather than selling it (i.e., interest). The Board directed staff to explore these options further and raise the issue again at the April meeting. Staff will be providing the Board with a draft outline of the Exposure Draft at that time and expects to incorporate these options.

#### **Deferred Maintenance**

The Board reached consensus on the bulk of the deferred maintenance proposal at the March meeting. Generally, the Board recognized that measurement of deferred maintenance is in an evolutionary phase. The Board concluded that the accounting standard should be evolutionary as well.

The Board consensus is that deferred maintenance should be:

- reported by any entities having assets that meet criteria for being at risk for deferred maintenance,
- measured through either condition assessment studies or comparison between planned maintenance expenditures and actual,
- shown as a line item on the operating statement with a footnote reference in lieu of a dollar amount to highlight that this is an operating cost despite difficulties in measurement, and
- disclosed in a footnote the accumulated amount of deferred maintenance and other information on the physical condition of assets.

The Board directed staff to work with agency contacts in the facility management field to develop a definition for deferred maintenance and criteria for identifying at-risk assets. Although the discussions focus on structures, it is anticipated that the definition and criteria will encompass land as well as other fixed assets.

#### **REVENUE RECOGNITION**

Board Member Don Chapin gave a brief summary of the work of the Revenue Recognition Task Force. The group has been debating a paper that deals with several important issues such as: whether different standards should apply for "business-type" activities of the government and its "government-type" activities, how to account for the "tax gap" or underground economy, and how to deal with mandated activities that are equivalent to federal activities. The paper has both a discussion of the issues as well as several questions. The task force members responses to the questions have given Mr. Chapin an idea where the group is leaning on certain important issues. Mr. Chapin plans to develop an issues and options paper with conceptual revenue recognition issues for the April Board meeting.

**DETAILEES ASSIGNED TO FASAB**

As a result of responses to the announcement in the November 1993 FASAB News offering opportunities for qualified individuals to serve three to six month detail assignments at the Board, FASAB now has selected two such detailees: Gordon Peterson and April Moock, as noted in last month's Newsletter.

Gordon, a staff accountant with the Department of the Treasury at the Bureau of the Public Debt, began his six month detail at the end of calendar year 1993. He is assisting Wendy Comes and Rick Wascak on the Physical Assets and Land project.

April is a staff accountant and intern at the General Services Administration. She began her three month detail in early March 1994. April is assisting Lucy Lomax and Bob Bramlett on the Human Capital and Research and Development projects.

**FASAB TO USE NETRESULTS**

Created in the fall of 1993, NetResults is an umbrella technical network of networks. Its purpose is to explore a team-based, open-network approach to implementing the recommendations of the National Performance Review (NPR). To assist in this effort, FASAB is working with the NPR team to include FASAB standards, exposure drafts, and other material on Internet. Including FASAB material on Internet

will help make accounting standards more available to a wider audience. We will publish instructions for accessing FASAB material when we are operational.

**AGENDA FOR APRIL 21 MEETING**

The current agenda for the next scheduled Board meeting on Thursday, April 21, includes discussions on:

- the Entity and Display Exposure Draft,
- the options paper on Revenue Recognition,
- options for Physical Property and Land, and
- Measurement and Recognition.

The meeting will be held in room 7313, 441 G St., N.W., Washington, D.C., beginning at 9:00 A.M.

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