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**FEDERAL ACCOUNTING STANDARDS  
ADVISORY BOARD**

**Newsletter**

July 1992

Issue 3

**USER NEEDS AND OBJECTIVES**

A working group made up of various members of the Board and representatives from several federal agencies has developed a draft of the objectives of federal financial reporting. The group was chaired by Ed Mazur. This internal working draft was presented to the Board on July 9, 1992. It begins with a description of the federal environment, goes on to list users and user needs for federal financial reports, and concludes with a proposed statement of objectives for federal accounting. It suggests that:

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 results. These reports must accurately reflect the distinctive nature of the Federal Government, and must provide information to answer the questions of the people and their representatives.

Four major objectives are proposed around which financial reports could be organized. These objectives are designed to increase the accountability of the Federal Government and to improve its management. Each re-

flects the federal environment and meets many of the needs expressed by potential users. Together, they provide a framework for arraying accounting and other data in a way that would help to assess how well the Federal Government is doing, as well as answer specific questions.

**Overview**

Potential users want accounting and other data arrayed in a way that would permit them to assess how well the Government is doing in four major areas.

**Budgetary Integrity:** How did the government raise monies? What legal authority was provided for spending the monies? Was the 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 key assets and how effectively are they managed? What are the liabilities and how are they provided for?

**Stewardship:** Did the Government's financial position improve or dete-

riorate? What provision was made for the future?

**Prevention of fraud and abuse:** Is the Government preventing unwarranted loss of its assets? Is it able to detect likely problems?

The draft objectives also note that, "these objectives are met by more than annual financial statements. They are also met by budget documents [and other reports]."

In discussing the draft, members expressed support for its ideas. Some of the Board emphasized that the objectives really are a statement of objectives for the federal management and accountability reporting system as a whole. No one report or series of reports, including those required by the CFOs Act, can accomplish all these objectives by itself. Indeed, accounting and accountants cannot, by themselves, fully address all of these objectives. This comprehensive statement provides a framework within which the Board can evaluate current and proposed accounting standards to determine how accounting and financial reporting can best contribute to accomplishing these objectives.

The Board also heard a presentation on a project to develop cost information which GAO is conducting with the Department of Veteran's Affairs. The purpose of the project is to design and pilot test a set of financial statements that will better address these objectives than do present financial reports. It is expected that the pilot study will indicate areas where system changes will be necessary to collect information that is relevant to some of the stated objectives.

FASAB staff members are working with OMB and GAO to combine these ideas in a conceptual document to be published

for comment later this year. The Board will be discussing the initial draft at the September meeting.

## STATUS OF ED'S 1 AND 2

The staff has been working with the comments received from Board members on the most recent drafts of both ED's. Revisions of these drafts, based on the comments, will be submitted to the Board for final approval.

ED No. 1: Statement of Recommended Accounting Standards No. 1, Selected Financial Resources and Funded Liabilities. Seven Board members favor issuing the Statement after making the changes recommended in their comments. Two members suggest that it should not be issued until completion of the project on user needs and objectives. They are concerned that the recommended standards may later have to be changed if the recognition and measurement criteria to be defined in conjunction with the user needs and objectives are different from those of the proposed standards.

The staff will proceed with revising the Statement, including incorporating the changes recommended by the Board members and conforming the language in the Statement to user needs and objectives. A revised draft will be given to the Board prior to the September meeting. It is anticipated that the Board will reach a decision on releasing the recommended standard at that time.

ED No. 2: Accounting for Direct Loans and Loan Guarantees. After their final review of this ED all Board members except one have approved it for immediate issuance. The one member does not favor the Board decision not to require agen-

cies to restate pre-1992 direct loans and loan guarantees at present value. However, he does not request a change in the Board's position.

Also, the following issues have been raised, on which the staff is polling all Board members to solicit responses:

-Issue a: Whether a probability criterion, such as "more likely than not" should be incorporated in the loss recognition standard.

-Issue b: Whether a default loss measurement standard should be added to provide guidance on sampling criteria and confidence and precision requirements.

-Issue c: Whether the entire amount of change in book value of a direct loan or loan guarantee due to a modification be recognized as expense in the operating statement.

Revisions to the ED will be made, based on the responses of the Board members.

### ACCOUNTING FOR TANGIBLE PROPERTY OTHER THAN LONG-TERM FIXED ASSETS

#### July Meeting Discussion

The Board discussed a revised exposure draft that addresses inventory, operating materials and supplies, stockpile materials, seized and forfeited property, foreclosed property and goods held under price support and stabilization programs. The exposure draft was last discussed by the Board at the May meeting. The revisions to the exposure draft since May did not relate to foreclosed property or goods held under price

support and stabilization programs, therefore, these sections were not presented for discussion at the July meeting. These two sections are scheduled to be distributed to the Board members for comment before the August meeting.

The technical revisions made since May and reviewed at the July meeting are summarized below.

Revisions to the proposed standard for inventory:

- allow the use of either the standard price method, historical cost, or the standard cost method,
- establish categories to separately identify inventory held in reserve for future use and inventory held for disposal (e.g., excess, obsolete or damaged inventory),
- disclosure of the criteria that management uses to identify inventory held in reserve for future use and the estimated annual cost of holding this inventory, and
- allow the use of either the repair allowance method or the direct method of accounting for estimated repair expense.

Revisions to the proposed standard for operating materials and supplies:

- establish criteria for applying the consumption method of accounting, and
- establish categories to separately identify operating materials and supplies held in reserve for future use and operating materials and supplies held for disposal (e.g., excess, obsolete or damaged inventory).

Revisions to stockpile materials:

- apply the consumption method of accounting for stockpile materials, and
- provide for the reclassification of stockpile materials authorized for sale to financial resources and valuation on the same basis as that applied prior to reclassification.

The Board discussed the standard price method of valuing inventory. One Board member voiced strong opposition to this method and offered to develop an alternative proposal based on latest acquisition cost. The Board accepted his offer and directed the staff to include the alternative proposal in the exposure draft for discussion at the August meeting.

The Board decided on the following technical changes to the Exposure Draft:

- (1) any variances calculated under the standard price method are to be charged to current period operations rather than being allocated between ending inventory and current period operations,
- (2) excess, obsolete and damaged inventory are to be included in a single category, and
- (3) currency and monetary instruments included in seized and forfeited property are to be combined.

A revised exposure draft will be discussed at the August meeting.

**FEDERAL LIABILITIES (FORMERLY "UNFUNDED LIABILITIES")**

The staff presented an internal working paper on Federal liabilities at the July meeting. The paper offered definitions and criteria for the

terms "liability" and "expense," and presented six hypothetical case studies to illustrate certain points about liabilities and expenses for the Board's consideration.

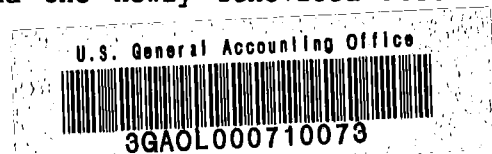
The Board discussed the issues and alternatives. The members decided to broaden the focus of the project to include all Federal liabilities. (At the April meeting there was a preference for dealing only with "unpaid expenses;" that is, only those liabilities incurred in association with an expense.)

The Board tentatively approved the basic definitions, concepts, and points presented by the staff. Board members accepted the recommendation that the staff prepare a preliminary exposure draft for their consideration at the September meeting.

For consideration of the impact that entitlement programs could have upon liabilities, representatives from the Department of Agriculture, Food and Nutrition Service, presented information on financial accounting for the redemption of food coupons of the Food Stamp program. They explained in detail how the accounting for coupon redemption works, and, particularly, how an unfunded liability could result.

**FASAB STAFF TO MOVE**

The National Building Museum management, landlord of the building in which FASAB staff are housed, has advised us that our lease will not be renewed because of the Museum's expansion plans. Consequently, we are developing plans to move to leased space at 750 First St., N.E., Washington, D.C. The new location is beside Union Station and directly behind the newly renovated Post Of-



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Office Building (Postal Square). A recently constructed building, it houses both commercial and federal government tenants. Federal tenants include the Department of Energy. The majority of the space is leased to commercial tenants.

The building is about one block from the Union Station Metro stop and has good public access. Excellent conference facilities in an adjoining building are available for the monthly Board meetings.

We expect to move in the latter part of October.

GAO

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