
Technical Bulletin 2020-1: Loss Allowance for Intragovernmental Receivables

Status

Issued	February 20, 2020
Effective Date	Effective upon issuance.
Affects	This TB clarifies SFFAS 1, paragraphs 40-52 by providing that recognition of losses applies to both intragovernmental receivables and receivables from nonfederal entities.
Affected by	None.

Summary

This Technical Bulletin (TB) clarifies 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 clarifies SFFAS 1 by establishing that even though SFFAS 1 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 also clarifies that recognition of losses, provided in paragraphs 40-52 of SFFAS 1, applies to both intragovernmental receivables and receivables from nonfederal entities.

The TB also clarifies 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.

This TB facilitates consistent reporting of accounts receivable in accordance with generally accepted accounting principles.

Materiality

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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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 (GPFRRs), 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" incorporate both intragovernmental receivables and receivables from nonfederal entities.

- 10. Does the guidance regarding recognition of losses provided in paragraphs 40-52 of SFFAS 1 apply to both intragovernmental receivables and receivables from nonfederal entities?**
11. Yes, guidance regarding recognition of losses provided in paragraphs 40-52 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 (that is, 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. In paragraph 131 of SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Board acknowledges in

the basis for conclusions that an allowance for intragovernmental receivables may be appropriate, but may not always be needed:

16. The factors and criteria that are considered regarding intragovernmental receivables and recognition of losses should be documented in the reporting entity's departmental policy.
17. 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.
18. Reporting entities are encouraged to disclose information that would provide transparency and explain intragovernmental receivables, such as what the receivables represent and efforts made to collect them.

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.
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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

Department of the Treasury Request

- 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 did not believe it was 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 believed SFFAS 1, paragraph 44 was 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.

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- 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 to ensure consistent treatment government-wide.
- A5. However, some auditors raised concerns that Treasury's 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 believed that the intent of SFFAS 1, with respect to the accounting for and reporting of losses on intragovernmental receivables, was unclear. The Board agreed that guidance would 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 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 concluded that this position does not justify 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, and the recognition of an allowance does not eliminate the need for the payment or collection of the receivable.
- A12. Therefore, it is important that a reporting entity policy regarding allowances and criteria for assessing collectability be documented. Reporting entities should consult with appropriate

government-wide offices to ensure proper monitoring, follow-up, and other practices are followed to the fullest extent practicable and comply with government-wide efforts to ensure timely payment and collection of intragovernmental receivables.

A13. Reporting entities are encouraged to disclose information that would provide transparency and explain 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).

Summary of Outreach Efforts and Responses

A14. The exposure draft (ED), *Loss Allowance for Intragovernmental Receivables*, was issued August 30, 2019, with comments requested by October 1, 2019.

A15. Upon release of the ED, FASAB provided notices and press releases to the FASAB subscription email list, the Federal Register, the FASAB newsletter, the Journal of Accountancy, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, and committees of professional associations generally commenting on EDs in the past (for example, the Greater Washington Society of CPAs and the Association of Government Accountants Financial Management Standards Board).

A16. Fourteen comment letters were received from preparers, auditors, professional associations, and users of federal financial information. The Board considered responses to the ED at its October 2019 meeting. Staff did not rely on the number in favor of or opposed to a given position. Staff considered each response and weighed the merits of the points raised. The respondents' comments are summarized below.

A17. Respondents generally agreed with the proposed guidance. Specifically, respondents generally believed the TB clarifies guidance covered in existing Statements. The respondents generally agreed that the absence of explicit guidance distinguishing between the accounting of intragovernmental receivables and receivables from nonfederal entities in SFFAS 1 does not mean the standards only apply to receivables from nonfederal entities.

A18. Respondents also generally agreed that the TB clarifies that recognition of losses provided in paragraphs 40-52 of SFFAS 1 applies to both intragovernmental receivables and receivables from nonfederal entities. In addition, it clarifies 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.

A19. Although certain respondents agreed with the guidance, some expressed concern about the unresolved intragovernmental eliminations issue. There is much complexity regarding intragovernmental receivables and payables between federal entities. Further, the issues the federal government faces when there are differences prevents proper elimination during the preparation of the consolidated financial statements. Specific guidance regarding the elimination process and the related communications between federal agencies regarding the receivable/payable process should come from central federal agencies (Treasury and the Office of Management and Budget) and not contradict FASAB standards. The TB encourages reporting entities to disclose information that would provide transparency and explain intragovernmental receivables.

A20. Two respondents that noted agreement with the proposals suggested the guidance should provide examples of when a loss for an intragovernmental receivable should be recognized. Similarly, one respondent that disagreed stated that a loss allowance should not apply to a particular type of transaction. Developing and documenting criteria for evaluating collectability of intragovernmental receivables is more appropriate by management in departmental policy or guidance. In addition, there is an element of judgment regarding collectability of receivables and this cannot be prescribed or included in specific examples. The guidance in the TB does not mandate an allowance for doubtful accounts for any particular account to be recorded; it requires that an assessment be made.

Board Review

A21. The Board has reviewed this Technical Bulletin, and a majority of members do not object to its issuance.

Appendix B: Abbreviations

ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin