

INTERPRETATION OF FEDERAL FINANCIAL ACCOUNTING STANDARDS

INTERPRETATION NUMBER 5

Recognition by recipient entities
of receivable nonexchange revenue:
an interpretation of SFFAS 7

Recognition by recipient entities
of receivable nonexchange revenue:
an interpretation of SFFAS 7

INTRODUCTION

1. Paragraph 60 of SFFAS 7, Accounting for Revenue and Other Financing Sources, requires entities that receive nonexchange revenue collected for them by other entities to recognize ". . . the net change in any related inter-entity balances between collecting and receiving entities." The Internal Revenue Service (IRS) is the primary collecting entity for the United States Government, although Customs and other entities also collect substantial amounts of nonexchange revenue on behalf of the General Fund and other federal entities. Some of those involved with preparing and auditing IRS's financial statements have asked whether this should be interpreted to require entities such as trust funds that receive taxes collected on their behalf to recognize a portion of IRS's net taxes receivable. This is sometimes described as "push down" accounting. The Board did not intend to impose "push down" accounting, as is further explained by this interpretation.

INTERPRETATION

2. Entities that receive nonexchange revenue collected on their behalf by another entity should recognize the revenue based on the best available evidence at the time the financial report is prepared. This provision of paragraph 60 of SFFAS 7 is intended to require recognition of the excise tax "true up" of the difference between amounts transferred to trust funds based on estimates by Treasury's Office of Tax Analysis and the actual amount subsequently determined by IRS. IRS certifies the third quarter actual amount in December. The intent of paragraph 60 is to recognize this "true up" amount as a receivable or payable.¹

¹Certification of the actual amount for the fourth quarter is not currently available from IRS until the end of March, which is too late to be included in the financial statements for the prior fiscal year.

EFFECTIVE DATE

3. The interpretation is effective upon implementation of SFFAS 7.

APPENDIX: BASIS FOR CONCLUSIONS

4. The Board understood, when it recommended the standards contained in SFFAS 7, that the information available to IRS and its information systems do not presently permit "push down" accounting as described above. It was not the Board's intent to establish a standard in this regard that recipient entities could not comply with because of factors outside their control. The recognition, measurement, and disclosure standards in SFFAS 7 for collecting entities such as IRS were designed to provide for accountability and useful information regarding tax revenues from the collecting entities. Therefore, as noted above, this provision of SFFAS 7 is intended only to require recognition of the most recent available "true up" of the difference between amounts of nonexchange revenue transferred to recipient entities based on estimates by Treasury's Office of Tax Analysis and the actual amount subsequently determined by IRS.

5. One Board member notes that it is not possible to accrue something that is not measurable. He believes that, if the fourth quarter is not measurable, no accrual can be made, and no interpretation is needed. If any entity can "true up" a given tax revenue number, that should be done.

That is, it should report the best available information. From this perspective, the standard does not call for more than the best estimate that is possible for a given revenue. This member believes that if someone needs clarification, it should be provided, but the clarification need not be elevated to an interpretation.

6. The Board concluded that, because there is confusion, and because this issue could affect more than one entity, an interpretation would be appropriate to assure that the guidance is readily available to all who need it.

SIGNATURE PAGE FOR
INTERPRETATION OF FEDERAL FINANCIAL ACCOUNTING STANDARDS
INTERPRETATION 5

Recognition by recipient entities
of receivable nonexchange revenue:
an interpretation of SFFAS 7

APPROVED:

Philip T. Calder
Chief Accountant
General Accounting Office

Norwood Jackson
Deputy Controller
Office of Management and Budget

Donald V. Hammond
Fiscal Assistant Secretary
Department of the Treasury