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Steve Kurker

Federal - Auditor

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Kind Regards,

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## Questions for Respondents

Please see the instructions presented in the body of the exposure draft at page 8. All responses are requested by February 2, 2009.

### Hierarchy of Generally Accepted Accounting Principles

Q1. This Exposure Draft (ED) proposes to incorporate the hierarchy of generally accepted accounting principles (GAAP) that currently resides in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the hierarchy presented in the Exposure Draft (see paragraphs 5 – 8)? Please explain the reasons for your position in as much detail as possible.

A1. I disagree. See accompanying document markup for points of disagreement.

### Application of Standards Issued by the Financial Accounting Standards Board

Q2. This ED proposes to regard general purpose financial reports prepared in conformity with accounting standards issued by the Financial Accounting Standards Board (FASB) as being in conformity with GAAP for those federal entities that have in the past issued such reports (see paragraph 9). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible. To help you in preparing your response, a listing of some of the entities that apply FASB standards as well as some of the areas where differences occur is included in **Error! Reference source not found..**

A2. I agree.

Q3. This ED proposes to clarify that a federal entity that is preparing GAAP-based financial statements for the first time is required to implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards (see paragraphs 10 and 11). Do you agree or disagree with the Board's position? Please explain the reasons for your position in as much detail as possible.

A3. I agree.

### Separate Project on Reporting By Federal Entities That Primarily Apply Standards Issued By the FASB

The Board would greatly appreciate your responses to the following questions to aid in the Board's future deliberations on its companion project on reporting by federal entities that primarily apply standards issued by the FASB. Further information on this project may be found in paragraphs A7 through A16 of Appendix A: Basis for Conclusions and on the FASAB website at <http://www.fasab.gov/projectsqaap.html>.

- Q4. The Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether additional reporting may be required in order to meet the objectives of federal financial reporting (e.g., budgetary reporting, cost accounting, management's discussion and analysis). What FASAB reporting requirements are you aware of that would complement or enhance current reporting by federal entities following FASB standards (see paragraphs A8 through A12 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.
- A4. None.
- Q5. As noted in the previous question, the Board has tentatively decided that no federal entities will be required to convert to FASAB standards for their stand-alone general purpose financial reports at this time; however, the Board is considering whether information provided by these entities to a parent agency or the U.S. Department of the Treasury for the consolidated financial report of the U.S. Government (CFR) should conform with accounting and reporting principles issued by the FASAB where there are material differences between the two sources (see paragraphs A13 through A15 of Appendix A: Basis for Conclusions). Do you agree or disagree that the information provided for consolidated financial reports should conform to FASAB accounting and reporting standards? Please explain the reasons for your position in as much detail as possible.
- A5. Disagree. The reporting needs of the subsidiary are more important than those of the parent in this case. The parent would be able to consolidate and disclose measures taken to accommodate consolidation of entities in differential reporting situations.
- Q6. Do you have a current opinion on whether federal entities that report in conformance with FASB standards should be permitted to convert to International Financial Reporting Standards (IFRS), given the discussions regarding whether public companies should use IFRS (see paragraph A16 of Appendix A: Basis for Conclusions)? Please explain the reasons for your position in as much detail as possible.
- A6. There is no doubt in my mind that IFRSs will soon overtake FASB reporting standards. However, I recommend that Federal entities hold-off in applying IFRSs until FASB makes more definitive determinations concerning the applicability of IFRSs. Whereas I would encourage early adoption of IFRSs for an international or multi-national business entity, U.S. quasi-governmental entities have no reason to rush-in.

Pages 13 and 17 (see next 2 pages) also included suggested edits with comments as follows:

Comment at par. 5(d) regarding deleted text – “This far too vague and wide-open to creative interpretation. It also promotes GAAP noncompliance. Currently, some Federal entities are allocating costs on Statements of Net Cost in the same manner as intragovernmental and non-Federal (to the Public) liabilities are allocated ignoring completely the GAAP requirement to allocate costs based upon proportional measures of productive output. That is, matching costs to associated revenues.”

Comments at par. 6, 7 and 8 – Insert “5” before each reference to subparagraphs a through d.

Comments at par. 8 – “don't forget about IFRSs!!!!” [Insert “and International Financial Reporting Standards (IFRS)” following International Accounting Standards

Par. A2 – insert “significantly modifies or alters” in place of deleted text.

- d. Implementation guides published by the FASAB staff, ~~as well as practices that are widely recognized and prevalent in the federal government.~~
6. If the accounting treatment for a transaction or event is not specified by a pronouncement in category (a), a federal reporting entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or event, the federal reporting entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.
7. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a federal reporting entity should then consider accounting principles for similar transactions or events within categories (a)–(d) before considering Other Accounting Literature discussed in paragraph 8. For example, it might be appropriate to report the event or transaction by applying, in a similar manner, an accounting principle established within categories (a)–(d) for an analogous transaction or event on the basis of its substance.<sup>5</sup> A federal reporting entity should not follow the accounting treatment specified in accounting principles for similar transactions or events in cases in which those accounting principles either (a) specifically prohibit the application of the accounting treatment to the particular transaction or event or (b) indicate that the accounting treatment should not be applied to other transactions or events by analogy.
8. Other Accounting Literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in categories (a) through (d) of paragraph 5 when not specifically made applicable to federal reporting entities by the FASAB; FASB Standards, Interpretations, Technical Bulletins, Staff Positions, and Concepts Statements; GASB Standards, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Public Sector Accounting Standards of the International Public Sector Accounting Standards Board, (IPSASB), or International Accounting Standards of the International Accounting Standards Board (IASB);

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<sup>5</sup> Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. Consideration should be given to whether the substance of transactions or events differs materially from their form.

**Appendix A: Basis for Conclusions**17

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**Appendix A: Basis for Conclusions**

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting and reporting for specific transactions, events, or conditions.

**Project History**

- A1. Representatives of the American Institute of Certified Public Accountants (AICPA) requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.
- A2. The Board believes that incorporation of the GAAP hierarchy into the FASAB's authoritative literature would more clearly convey that financial statement preparers are responsible for selecting the sources of the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. The structure presented in this Statement ~~generally carries forward~~ the hierarchy as set forth in SAS 91 and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

**Application of Standards Issued by the Financial Accounting Standards Board**

- A3. Since October 1999, the AICPA has recognized the FASAB as the standards-setting body for federal governmental entities; therefore, the pronouncements resulting from the FASAB process represent GAAP for the entire federal government (FASAB GAAP). Nevertheless, some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the U.S. Postal Service, certain component entities of the U.S. Department of the Treasury, and some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.