



ACCOUNTING NEWS

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This report is prepared by the Accounting and Financial Management (AFM) Division. It is intended to help keep managers abreast of accounting matters that are of concern to professional organizations. Matters included in this report were topics of discussion at recent professional conferences or meetings attended by AFM Division representatives or were topics that were brought to the AFM Division's attention as part of its official liaison responsibility with professional accounting organizations.

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FEDERAL ACCOUNTING AND FINANCIAL REPORTING
PRINCIPLES AND STANDARDS, AS REPORTED BY RONALD J. POINTS

GAO issued its third exposure draft on the conceptual framework entitled, "Measurement Concepts of Accounting and Financial Reporting in the Federal Government." This draft is one of many GAO plans to issue as a result of its re-examination of the Federal accounting and financial reporting standards. This draft addresses the basis for measuring the attributes of elements of financial reports. It establishes three basic measurement bases for assigning dollar amounts to the elements such as historical cost, constant dollar, and current value. Also, it discusses the propriety of each basis for financial reporting and suggests the circumstances under which each would be appropriate.

SINGLE AUDIT STEERING COMMITTEE,
AS REPORTED BY DONALD L. SCANTLEBURY

An intergovernmental Single Audit Steering Committee has been organized to facilitate the implementation of the single audit approach. The Committee is sponsored by the Joint Financial Management Improvement Program and is composed of representatives of Federal, State and local, and private sector auditing organizations. The Committee was formed as a result of a number of questions and problems raised by those involved in the single audit implementation. Because these issues deal with several agencies and governments, an intergovernmental mechanism was needed to effectively deal with them.

The single audit approach differs significantly from prior approaches because one group of auditors is responsible for auditing the use of all Federal funds received by an organization rather than several groups of auditors from different Federal agencies, each auditing only the funds provided by just their agency.

TRACKING FUNDS TO GRANT RECIPIENTS,

AS REPORTED BY SUSUMU UYEDA

The Joint Financial Management Improvement Program is initiating a study of the capability and feasibility of tracking Federal assistance that primary recipients have subgranted to other recipients. This information is valuable to members of the Congress, managers and auditors at all levels of government, and public interest groups and other organizations.

This study is part of OMB's effort to develop the Federal Assistance Award Data System (FAADS) which will collect uniform information on Federal domestic financial assistance.

10TH ANNUAL FINANCIAL MANAGEMENT CONFERENCE,

AS REPORTED BY SUSUMU UYEDA

JFMIP is sponsoring its tenth annual Financial Management Conference on March 23, 1981, at the Mayflower Hotel in Washington, D. C. The theme, "Financial Management--A Key Element Of Total Management" will be addressed by prominent and distinguished Government officials throughout the day-long conference. One of the keynote speakers is Mr. Dale McOmber, Assistant Director for Budget Review, from the Office of Management and Budget.

Workshops will be held on internal controls, financial management techniques, performance management, and financial management information. The luncheon session will be highlighted with the presentation of the Financial Management Improvement Awards and an appreciation testimonial for Comptroller General Elmer B. Staats, who has been a staunch supporter and a Principal of JFMIP for the past 15 years. Nominees should be submitted by March 11, 1981, along with the \$60 registration fee to:

Management Sciences Training Center
Attention: TOS
OPM-WED-MSTC
P. O. Box 7230
Washington, D. C. 20044

For further information, contact Sam Smith or Ed Murphy
at (202) 632-5600.

RAILROAD ACCOUNTING PRINCIPLES BOARD,
AS REPORTED BY DONALD L. SCANTLEBURY

Arthur L. Litke was designated by the Comptroller General as GAO's liaison for the Railroad Accounting Principles Board. Mr. Like is an Assistant to the Director in the Accounting and Financial Management Division. All contacts and activity concerning the Board should be coordinated with Mr. Litke.

FEDERAL GOVERNMENT EXECUTIVE COMMITTEE
OF THE AICPA, AS REPORTED BY DONALD L. SCANTLEBURY

At its December meeting, the Committee approved publication of a booklet to help CPA's who are considering Government service. The booklet is entitled, "Federal Conflict of Interest Laws as Applied to Government Service by Partners and Employees of Accounting Firms." The Committee also agreed to seek 35 volunteers from CPA firms to assist the Presidential Inaugural Committee. Similar assistance was provided to President Carter's Inaugural Committee in 1977.

NATIONAL COUNCIL ON GOVERNMENTAL ACCOUNTING,
AS REPORTED BY RONALD J. POINTS

At its December 10-12, 1980, meeting NCGA approved for release 3 discussion memorandums. These discussion memorandums are: "Accounting and Financial Reporting for Pension Plans of Governmental Units," "Accounting and Financial Reporting for Joint Ventures of Governmental Units," and "Definition of Report Entity." Copies can be obtained by writing or calling the National Council on Governmental Accounting, 180 North Michigan Avenue, Suite 800, Chicago, Illinois, 60601, (312) 977-9731.

Also at this meeting, Messrs. Frank L. Greathouse and Joel M. Schlanger were voted to be the new Chairman and Vice-Chairman of NCGA's Executive Committee, respectively. Mr. Greathouse who was Vice-Chairman replaced James R. Fountain, Jr.

AICPA COMMITTEE ON RELATIONS WITH FEDERAL
ENERGY REGULATORY COMMISSIONS, AS REPORTED BY ARTHUR L. LITKE

Several issues of general interest were discussed at the December, semi-annual meeting. Issues of general interest included:

- The accounting for deferred income taxes by tax loss corporations that join in consolidated tax returns with parent companies. Many companies subject to FERC regulation have loss subsidiaries which are consolidated for tax purposes. The accounting question is how should the tax benefit to the parent from consolidation be calculated and recorded on the books of the parent and subsidiary. The majority view was the benefits should be recorded as a receivable on the loss subsidiary records, i.e. on a stand alone basis.
- The allowance for funds used during construction--
(1) should retroactive adjustments be permitted when a company failed to achieve adequate rate relief and

(2) what equity rate component should be used in calculating the annual allowance-for-funds-used-during-construction rate, when a rate case is finalized subsequent to year end but made retroactive to the year end? The views on both questions were diverse and no consensus was reached.

--Whether a depreciation rate should include a factor for (1) the cost of cleaning and maintaining nuclear facilities, (2) budgeted projects not yet under construction but have a high degree of certainty of so being and (3) an inflation factor. It was generally agreed that some provision should be made for the cost of cleaning and maintaining nuclear facilities but numerous questions were raised about its inclusion in the depreciate rate. No conclusions were reached on the last two.

--Problems related to decommissioning costs of nuclear plant and restoration costs of other projects. FERC has not proposed any accounting to date but has the subject under consideration. The accounting problem is intertwined with cost of service and capital costs considerations.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD,

AS REPORTED BY RONALD J. POINTS

The GASB Organization Committee agreed to issue an exposure draft of its report, entitled "Report of the Governmental Accounting Standards Board Organization Committee." This report sets forth the rationals and recommenations for establishing a Governmental Accounting Standards Board for State and local governments. For copies call Ron Points at 275-6222.

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL,

AS REPORTED BY DONALD L. SCANTLEBURY

At its January 21, 1981, meeting several significant accounting issues were discussed. One issue concerned changes in Funds statements. Several formats for new types of statements were discussed. Comments seem to indicate a trend toward showing changes in cash balances instead of changes in working capital. Other issues included:

--Don Kirk, Chairman, Financial Accounting Standards Board (which is the accounting and reporting standards-setting body for the private sector) said FASB will particularly focus next year on resolving oil and gas accounting and reporting problems.

--Comments received by FASB indicate significant support for both the exposure draft which is a reconsideration of Statement No. 8 and the Statement No. 8 approach to handling foreign currency translations. The Board plans to consider these plans plus two other alternatives:

1. Single unit of measure approach to use the current rate method (for instance, U.S. dollar).
2. Quick fix of problems with Statement No. 8 coupled with research and field tests.

Not much detail was given on these alternatives. The staff is recommending going ahead with the method in the current exposure draft.

3. The general tenor of the discussion seemed to be that FASB should proceed slowly because of the extent of divergent views. A number favor a test period to decide which is the best approach.

--Clarence Sampson gave the Securities Exchange Commission report. Mr. Sampson said that they have established a task force to receive data submitted with 10K's on fund flow. They may have recommendations on what should be included after this work is done. Also, regarding oil and gas accounting--Mr. Sampson reported that they are drafting a memo that states that RRA (Reserve Recognition Accounting) data need not be included in financial statements.

--Sam Dereaux's AICPA committee dealing with small business reported the view that measurement criteria should be the same for small and large businesses but that disclosure requirements should be less. Small businesses interviewed by the Committee insisted that part of their problem was with measurement criteria. A committee is being formed in the AICPA to determine whether a separate basis of accounting should be created for small businesses that would have less onerous accounting requirements. The FASAC Committee, however, is opposed to separate GAAP for small businesses.

--Regarding State and local governmental accounting standards, Don Beatty said that the FASB takes too narrow a view in its "Statement of Financial Accounting Concepts No. 4--Objectives of Financial Reporting by Nonbusiness Organizations," dated December 1980, which troubles governmental people. Copies of Statement No. 4 can be obtained by calling Ron Points at 275-6222.

AUDITING STANDARDS ADVISORY COUNCIL,
AS REPORTED BY DONALD L. SCANTLEBURY

Revision of the language of the auditor's opinion was proposed and discussed at the January 23, 1981, Auditing Standards Advisory Council which, among other things, is to provide the Auditing Standards Board with the perspective of people outside the public accounting profession. The Auditing Standards Board has voted to ballot the draft of the new opinion statement. James J. Leisenring, Chairman of the Auditing Standards Board, predicts that it will fail a written vote. The proposed revision is as follows:

Report of Independent Auditors

We have audited the accompanying balance sheet of X Company as of December 31, 19XX, and the related statements of income, retained earnings, and changes in financial position for the year then ended in accordance with generally accepted auditing standards. Application of those standards requires judgment in determining the nature, timing, and extent of tests and other procedures and in evaluating their results. Financial statements are management's representations, and an audit is intended to

provide reasonable, rather than absolute, assurance as to whether financial statements taken as a whole are free of material misstatements within the framework of generally accepted accounting principles.

In our opinion, the financial statements referred to above present the financial position of X company as of December 31, 19XX, and the results of its operations and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles.

IRS wants access to audit workpapers on tax accruals and related matters. The AICPA hopes IRS will change its position when the new Commissioner of IRS is appointed.

ANNUAL CONVENTION OF REGULATORY UTILITY
COMMISSIONERS INTERESTED IN COST ACCOUNTING ISSUES,
AS REPORTED BY THOMAS F. O'CONNOR

There is a need for better cost accounting, even with trend toward deregulation. "Deregulation" and its many implications were the focus during the ninety-second annual convention of the National Association of Regulatory Utility Commissioners, November 10-13, in Houston. The telecommunications industry, which is gradually being deregulated, received considerable attention in several sessions.

Several times during the conference, the need for more detailed cost accounting in the telecommunications industry was addressed. The need for more detailed cost accounting may seem inconsistent with "deregulation"; however, the interest exists because:

- despite the general trend toward deregulation, some telecommunications services will likely remain monopolistic and subject to regulation for some time; and
- the traditional regulatory approach--establishing service or product rates based on overall rate of return--for the historically monopolistic industry has not required detailed cost information on individual services offered.

Because the industry will likely have both competitive (deregulated) and monopolistic (regulated) segments for some time, many people believe a different cost accounting approach is necessary.

The Congress, regulators, and others are concerned about possible "cross-subsidies" in the telecommunications industry. One concern is that rates in the competitive areas (e.g., some long-distance services) of the industry may be set below costs while rates in the monopolistic (e.g., local service) areas are set above costs. This could interfere with the desired competitiveness of the market. Better cost accounting approaches theoretically would identify the extent of any cross-subsidies.

The issues are complex and not likely to be fully resolved for several years. In addition to the telecommunications industry, cost accounting issues continue to be important in other regulated industries such as energy and transportation, despite the recent deregulation trend.

DEPRECIATION ACCOUNTING FOR RAILROADS,

AS REPORTED BY SAMUEL N. MENTO

GAO recommended in a February 4, 1981, report that the Interstate Commerce Commission and the Securities and Exchange Commission require railroads to use depreciation accounting not betterment accounting. This would enhance the comparability of railroads' financial reporting, assist the Congress in deliberations on regulatory reform and financial assistance to railroads, and provide better information to shippers and small investors. The report entitled "Accounting Changes Needed in the Railroad Industry" (AFMD-81-26) also recommended that railroads include information on their maintenance and replacement practices, including deferred maintenance, in financial reports.

This report discusses the railroads use of retirement-replacement-betterment accounting (more commonly called betterment accounting) which is unique to the railroad industry. Betterment accounting allows railroads to capitalize the original cost of track structure, but the cost of subsequent replacements of track structure of equal quality is charged as an expense.