

VOLUME 1, CHAPTER 2: “FEDERAL ACCOUNTING STANDARDS HIERARCHY”**SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated **January 2011** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
020201	Added an Overview section to explain Federal Accounting Standards Advisory Board (FASAB)’s role in setting the federal accounting standard hierarchy.	Addition
020203	Added an Authoritative Guidance section listing all applicable laws and regulations.	Addition
020301	Assigned responsibilities to the Financial Improvement and Audit Readiness (FIAR) Directorate for clarification, technical guidance, implementation guidance or other information regarding federal accounting standards.	Addition
020302	Added a requirement for Department of Defense intelligence agencies to coordinate with the Office of the Deputy Chief Financial Officer any input into the Office of the Director of National Intelligence correspondence with accounting standards-setting bodies.	Addition
020303	Required Task Force sponsored by FASAB and the Accounting and Auditing Policy Committee participants to notify the FIAR Directorate of membership in FASAB and AAPC Task Forces.	Addition
All	Verified and corrected, where applicable, all references and hyperlinks.	Revision
Multiple	Minor editorial corrections and reworded chapter for clarity.	Revision

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CHAPTER 2

FEDERAL ACCOUNTING STANDARDS HIERARCHY***0201 GENERAL*****020101. Overview**

A. The Federal Accounting Standards Advisory Board (FASAB) promulgates accounting standards after considering financial and budgetary information needs of Congress, executive agencies, and other users of federal financial information. FASAB considers comments from the public on its proposed Statements, which are widely distributed as “exposure drafts.” FASAB publishes adopted statements as Statement of Federal Financial Accounting Standard (SFFAS) and become generally accepted accounting principles (GAAP) for federal government entities.

B. A listing of FASAB Standards and other FASAB authoritative publications, including FASAB Interpretations, Technical Bulletins, and Technical Releases, is located at <http://www.fasab.gov>. Documents recently issued and not yet codified are also presented at this location.

020102. Purpose

A. This chapter includes the FASAB hierarchy of accounting principles and standards. These standards are used to promulgate accounting and financial reporting policy within the Department of Defense (DoD) **Financial Management Regulation** (FMR). The purpose of these principles and standards is to improve the usefulness of federal financial reports.

B. The provisions of this chapter apply to all DoD Components, including the Defense Working Capital Fund activities. However, this chapter does not apply to Nonappropriated Fund (NAF) accounting. NAF accounting policies are in Volume 13.

C. Interim policies and guidance issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) through various memoranda can be found on the OUSD(C) DoD FMR website. Such interim guidance will be incorporated into the DoD FMR once it is finalized.

***020103. Authoritative Guidance**

A. **Chief Financial Officers (CFO) Act of 1990**, as amended, requires federal financial managers, accountants and auditors to apply appropriate accounting principles and standards.

B. **FASAB** develops accounting standards and principles for the United States Government.

B. The American Institute of Certified Public Accountants (AICPA)'s Code of Professional Conduct 1.320.020 recognized FASAB as the board that promulgates GAAP for federal entities.

C. SFFAS 34, "The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board" identifies the GAAP hierarchy for federal reporting entities.

*0202 HIERARCHY

020201. Hierarchy of Accounting Standards

A. The SFFASs are GAAP applicable to the federal government and shall be followed by all federal agencies in reporting under the Government Management Reform Act of 1994 (GMRA). DoD Components shall adhere to the GAAP hierarchy prescribed in SFFAS 34. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:

1. FASAB SFFAS and Interpretations;
2. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared by FASAB, AICPA Industry Audit and Accounting Guides. Such pronouncements specifically made applicable to federal reporting entities are presumed to have been cleared by FASAB, unless the pronouncement indicates otherwise;
3. Technical Releases of the Accounting and Auditing Policy Committee (AAPC) of the FASAB; and
4. Implementation guides published by FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

B. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in paragraph 020201.A, a federal reporting entity should first consider accounting principles for similar transactions or events within categories in subparagraphs 020201.A before considering Other Accounting Literature discussed in paragraph 020202.

C. 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.

020202. Other Pronouncements and Practices

A. Other Accounting Literature includes

1. FASAB Concepts Statements,
2. AICPA Industry Audit and Accounting Guides that have not specifically been made applicable to federal reporting entities by FASAB,
3. Pronouncements of other accounting and financial reporting standards-setting bodies, such as Financial Accounting Standards Board, Governmental Accounting Standards Board, the International Accounting Standards Board, and the International Public Sector Accounting Standards Board,
4. Publications of professional associations or regulatory agencies, and
5. Accounting textbooks, handbooks, and articles.

B. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. FASAB Concepts Statements would normally be more influential than other sources in this category.

0203 COMMUNICATION AND COORDINATION

*020301. Guidance and Clarification

To ensure the consistent application of SFFAS throughout DoD, the Office of the Deputy Chief Financial Officer (DCFO), Directorate for [Financial Improvement and Audit Readiness \(FIAR\)](#), OUSD(C) shall be contacted when clarification, technical guidance, implementation guidance or other information regarding federal accounting standards is needed.

*020302. Correspondence

A. Formal and informal requests addressed to FASAB or the [AAPC](#) for an interpretation, clarification, technical guidance, implementation guidance or other information regarding SFFAS shall be submitted through the Office of the DCFO, [FIAR](#) Directorate, OUSD(C).

B. All correspondence presenting a DoD position on FASAB Exposure Drafts and on any other matters before FASAB or the AAPC will be signed by either the DoD CFO or DoD DCFO.

C. Individuals submitting responses to exposure drafts will clearly indicate in the correspondence that the opinions expressed are those of the individual and do not represent the official position of DoD.

* D. The Office of the Director of National Intelligence (ODNI) is not a component of DoD and, accordingly, may communicate with accounting standards-setting bodies in the same manner as other federal agencies. DoD components, including the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, and the National Security Agency, provide input into ODNI correspondence with accounting standards-setting bodies. DoD components should ensure that ODNI communications are not presented as official DoD positions. Further, to ensure the completeness of DoD communications, any DoD component input into ODNI correspondence with accounting standards-setting bodies should be coordinated with the Office of the DCFO.

*020303. Task Force Participation

A. Full participation by DoD in Task Forces sponsored by FASAB and the AAPC is critical to ensuring that DoD's views are considered as accounting standards and guidance are formulated. This participation includes **Task Force membership**, meeting attendance, participation in group discussions, preparing draft documents, and commenting on draft Task Force documents.

* B. To ensure complete coverage by DoD, Task Force participants should notify the Office of the DCFO, **FIAR**, OUSD(C) of **membership** in FASAB and AAPC Task Forces. Task Force participants should also remain alert to the fact that many issues will impact multiple DoD components. **Coordination** with A&FP and other DoD components **will** ensure that DoD is properly represented **as government-wide accounting standards are formulated**.