

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

Changes are identified in this table and also 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 [February 2016](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reformatted chapter and updated hyperlinks to comply with current administrative instruction.	Revision
1.3.5. (020103.E)	Updated the authoritative guidance paragraph.	Revision
3.1 (020301)	Replaced Financial Improvement and Audit Remediation (FIAR) with Financial Management Policy and Reporting (FMPR) as the responsible directorate for guidance and clarification regarding federal accounting standards.	Revision
3.2.1. (020302.A)	Replaced FIAR with FMPR as the responsible directorate for correspondence with the Federal Accounting Standards Advisory Board (FASAB) and the Accounting and Auditing Policy Committee (AAPC).	Revision
3.3.2. (020303.B)	Added FMPR directorate as a recipient of notification by Task Force participants of membership in FASAB and AAPC Task Forces.	Addition

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CHAPTER 2

FEDERAL ACCOUNTING STANDARDS HIERARCHY

1.0 GENERAL (0201)

1.1 Overview (020101)

The Federal Accounting Standards Advisory Board (FASAB) is the body designated by the American Institute of Certified Public Accountants (AICPA) as the source of generally accepted accounting principles (GAAP) for federal reporting entities. As such, the FASAB is responsible for identifying the sources of accounting principles and providing federal entities with a framework for selecting the principles used in the preparation of general purpose financial reports that are presented in conformity with GAAP. FASAB promulgates accounting standards for U.S. government agencies 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 Standards (SFFAS) that become GAAP for federal government entities. FASAB Standards and other FASAB authoritative publications, including FASAB Interpretations, Technical Bulletins, and Technical Releases are published on the [FASAB website](#). Documents recently issued and not yet codified are also presented at this location.

1.2 Purpose (020102)

1.2.1. 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.

1.2.2. 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.

1.2.3. 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.

1.3 Authoritative Guidance (020103)

1.3.1. The [Chief Financial Officers \(CFO\) Act of 1990](#), as amended, requires federal financial managers, accountants and auditors to apply appropriate accounting principles and standards.

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

1.3.3. The [AICPA Code of Professional Conduct](#), Part 1.320.020 recognized FASAB as the board that promulgates GAAP for federal entities.

1.3.4. [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.

* 1.3.5. The [Government Management Reform Act of 1994 \(GMRA\)](#) mandates executive agencies prepare their financial statement in accordance with GAAP.

2.0 HIERARCHY (0202)

2.1 Hierarchy of Accounting Standards (020201)

2.1.1. The SFFASs are GAAP applicable to the federal government and must be followed by all federal agencies in reporting under the GMRA. DoD Components must 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:

2.1.1.1. FASAB SFFAS and Interpretations;

2.1.1.2. 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;

2.1.1.3. Technical Releases of the Accounting and Auditing Policy Committee (AAPC) of the FASAB; and

2.1.1.4. Implementation guides published by FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.

2.1.2. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in subparagraph [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](#).

2.1.3. 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.

2.2 Other Pronouncements and Practices (020202)

2.2.1. Other Accounting Literature includes

2.2.1.1. FASAB Concepts Statements;

2.2.1.2. AICPA Industry Audit and Accounting Guides that have not specifically been made applicable to federal reporting entities by FASAB;

2.2.1.3. 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;

2.2.1.4. Publications of professional associations or regulatory agencies; and

2.2.1.5. Accounting textbooks, handbooks, and articles.

2.2.2. 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.

3.0 COMMUNICATION AND COORDINATION (0203)

*3.1 Guidance and Clarification (020301)

To ensure the consistent application of SFFAS throughout DoD, the OUSD(C), Office of the Deputy Chief Financial Officer (ODCFO), [Financial Management Policy and Reporting \(FMPR\) Directorate](#) must be contacted when clarification, technical guidance, implementation guidance or other information regarding federal accounting standards is needed.

3.2 Correspondence (020302)

* 3.2.1. Formal and informal requests addressed to FASAB or the AAPC for an interpretation, clarification, technical guidance, implementation guidance or other information regarding SFFAS must be submitted through the OUSD(C), ODCFO, [FMPR Directorate](#).

3.2.2. 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, DCFO or ADCFO.

3.2.3. 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.

3.2.4. 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 ODCFO.

3.3 Task Force Participation (020303)

3.3.1. 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.

* 3.3.2. To ensure complete coverage by DoD, Task Force participants should notify the OUSD(C), ODCFO, [Financial Improvement and Audit Remediation](#), and [FMPR Directorates](#) 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 the [FMPR Directorate](#) and other DoD components will ensure that DoD is properly represented as government-wide accounting standards are formulated.