

CHAPTER 8

HIERARCHY OF ACCOUNTING STANDARDS0801 OVERVIEW

080101. To comply with the “Chief Financial Officers (CFO) Act of 1990,” as amended, federal financial managers, accountants and auditors need to apply new accounting concepts and standards. These concepts and standards have evolved from the due process of the Federal Accounting Standards Advisory Board (FASAB). The FASAB was established in October 1990 by the Director of the Office of Management and Budget (OMB); the Secretary of the Treasury; and the Comptroller General, General Accounting Office (GAO) to consider and recommend accounting principles for the federal government. The nine member Board is composed of representatives from the three principals (OMB, Treasury and GAO), one representative from the Congressional Budget Office, one representative from the Department of Defense (DoD)/international agencies, one representative from civilian agencies and three nonfederal representatives. When the FASAB adopts the recommendations, they are published as Statements of Federal Financial Accounting Standards (SFFASs). These SFFASs are the body of standards that are the federal generally accepted accounting principles (GAAP), or Federal GAAP.

★ 080102. On October 19, 1999, the American Institute of Certified Public Accountants’ (AICPA) Council designated the FASAB as the accounting standards-setting body for federal government entities under Rule 203 of the AICPA’s Code of Professional Conduct. Rule 203 provides, in part, that an AICPA member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with GAAP or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles, that has a material effect on the statements or data taken as a whole. The AICPA Council designated the Financial Accounting Standards Board (FASB) as the standards-setter for the private sector in 1973 and the Governmental Accounting Standards Board (GASB) as the standards-setter for states and local governments in 1986. These are authoritative standard-setting bodies under Rule 203. Until the AICPA action, the federal government did not have a Rule 203 designated accounting standards setter. With this designation, federal government reporting entities will be able to obtain audit opinions that indicate that the financial statements are presented in conformity with GAAP rather than an “other comprehensive basis of accounting.”

★ 080103. The FASAB develops accounting standards taking into consideration the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information and comments from the public. The FASAB then exposes the proposed standard for public comment. The Board considers comments and then decides whether to adopt the standard with or without modification. The standards are published by the FASAB as Statements of Federal Financial Accounting Standards.

★ 080104. A listing of approved SFFASs can be found, electronically, at the following Internet address: <http://www.financenet.gov/financenet/fed/fasab/concepts.htm> and also at [Appendix A](#) of this chapter.

0802 PURPOSE

This chapter sets forth the hierarchy of accounting principles and standards that shall be followed by federal agencies, including the DoD. The purpose of these principles and standards is to improve the usefulness of the federal financial reports. These principles and standards provide a frame of reference for resolving accounting issues and cover most transactions.

0803 HIERARCHY OF ACCOUNTING STANDARDS

★ 080301. Statements of Federal Financial Accounting Standards. The SFFASs are the federal generally accepted accounting principles and shall be followed by all federal agencies, including each DoD Component, in reporting under the “Government Management Reform Act of 1994.” Accordingly, the DoD Components shall adhere to the hierarchy of federal generally accepted accounting principles in the order of precedence listed below in paragraphs A through E.

★ A. The FASAB Statements and Interpretations, as well as the AICPA and FASB pronouncements specifically made applicable to federal government entities by FASAB Statements or Interpretations. The Interpretations may be viewed at the following: <http://www.financenet.gov/financenet/fed/fasab/interp.htm> on the Internet.

1. To ensure the consistent application of SFFASs throughout the Department, the Directorate for Accounting Policy, Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), shall be contacted when clarification, technical guidance, implementation guidance or other information regarding SFFASs is needed.

2. Any requests--whether informal or formal--addressed to the FASAB or the Accounting and Auditing Policy Committee for an interpretation, clarification, technical guidance, implementation guidance or other information regarding the SFFASs shall be submitted through the Directorate for Accounting Policy, OUSD(C).

★ B. The FASAB Technical Bulletins and, if specifically made applicable to federal government entities by the AICPA and cleared by the FASAB, AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.

★ C. The AICPA Accounting Standards Executive Committee Practice Bulletins, if specifically made applicable to federal governmental entities and cleared by the FASAB, as well as Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

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

★ E. In the absence of a pronouncement covered by Rule 203 or another source of established accounting principles, the auditor of financial statements of a federal governmental entity may consider other accounting literature, depending on its relevance in the circumstances. For example, FASAB Concepts Statements; pronouncements not specifically made applicable to federal government entities by the FASAB; FASB Concepts Statements; GASB Statements, Interpretations, Technical Bulletins, and Concepts Statements; AICPA Issues Papers; International Accounting Standards of the International Accounting Standards Committee; pronouncements of other professional associations of regulatory agencies; Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids; and accounting textbooks, handbooks, and articles. 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. For example, the FASAB Concepts Statements would normally be more influential than other sources in this category.

0804 OTHER AUTHORITATIVE REQUIREMENTS

The following list encompasses other requirements that must be used by the DoD Components.

080401. Requirements contained in the OMB's Form and Content Bulletin in effect for the period covered by the financial statements.

080402. United States Government Standard General Ledger published by the Department of the Treasury, Financial Management Service, through its Treasury Financial Manual.

080403. Policies and guidance published in the "DoD Financial Management Regulation" ("DoDFMR"). This Regulation may be viewed electronically at: <http://www.dtic.mil/comptroller/fmr/> on the Internet.

080404. Interim policies and guidance issued by OUSD(C) through various memoranda. These interim policies may be found at: <http://www.dtic.mil/comptroller/fmr/> electronically on the Internet. Such interim guidance subsequently will be incorporated into the "DoDFMR" once it is finalized.