



**The Comptroller General
of the United States**

Washington, D.C. 20548

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December 1, 1993

HEADS OF DEPARTMENTS AND AGENCIES

Subject: Accounting Principles and Standards

Accounting principles, standards, and related requirements for executive agencies are published in Title 2, "Accounting," of the General Accounting Office's (GAO) Policy and Procedures Manual for Guidance of Federal Agencies, in accordance with 31 U.S.C. 3511. Historically, the Comptroller General has issued new standards after consultation with the Secretary of the Treasury and the Director of the Office of Management and Budget (OMB), and after considering the needs of executive agencies.

Since the previous revision of Title 2, in 1984, a new process has been adopted to develop accounting standards. To facilitate the consultative process, in October 1990, the Comptroller General, the Secretary of the Treasury, and the Director of OMB agreed to establish the Federal Accounting Standards Advisory Board (FASAB). FASAB's purpose is to consider and recommend accounting principles, standards, and requirements to GAO, Treasury, and OMB. The Comptroller General, the Secretary of the Treasury, and the Director of OMB will decide upon new principles, standards, and requirements after considering FASAB's recommendations. The Comptroller General and the Director of OMB will each publish the principles, standards, and requirements.

This memorandum describes the comprehensive basis of accounting to be followed by executive agencies and announces GAO's policy for revising Title 2 to reflect accounting principles, standards, and related requirements agreed upon by the three principals.

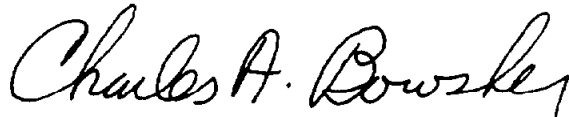
The Comptroller General, the Secretary of the Treasury, and the Director of OMB, have approved for issue FASAB's recommended statements on (1) Objectives of Federal Financial Reporting, (2) Accounting for Selected Assets and Liabilities, (3) Accounting for Direct Loans and Loan Guarantees, and (4) Accounting for Inventories and Related Property. The FASAB is currently addressing additional issues.

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A comprehensive basis of accounting recognized by GAO as the appropriate basis for preparing financial statements by executive agencies includes the following hierarchy of requirements.

1. The accounting principles, standards, and requirements approved by the three principals.
2. Form and content requirements for financial statements included in OMB Bulletin 93-02, dated October 22, 1992, and subsequent issuances.
3. Other accounting standards and related disclosure requirements contained in agency accounting policy procedures manuals, and/or related guidance as of March 29, 1991, so long as they are prevalent practices. (As of March 29, 1991, most agencies' manuals and related guidance adopted the Title 2 requirements existing prior to the approval of FASAB's recommended accounting standards.)
4. Accounting principles published by authoritative standard-setting bodies or other authoritative sources (1) in the absence of other guidance listed above, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

Title 2 will be reprinted after a sufficient number of new standards are approved. The next printed version of Title 2 will include the approved standards and commentary on implementing the standards.



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