



Federal Accounting Standards Advisory Board

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**The Hierarchy of Generally Accepted Accounting Principles,  
Including the Application of Standards Issued by the Financial  
Accounting Standards Board**

**Statement of Federal Financial Accounting Standards 34**

July 28, 2009

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Summary

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.<sup>1</sup> As such, the FASAB is responsible for identifying the **GAAP hierarchy** for federal reporting entities. The GAAP hierarchy consists of the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports<sup>2</sup> of federal reporting entities that are presented in conformity with generally accepted accounting principles. However, the hierarchy for selecting the principles used in the preparation of general purpose financial reports by federal reporting entities was set forth in the AICPA Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, rather than in the authoritative literature of the FASAB. This Statement incorporates the hierarchy into the FASAB's authoritative literature.

Incorporating the GAAP hierarchy into the authoritative literature of the FASAB is not intended to cause a sudden and dramatic change in practice for federal entities. This Statement permits those federal entities currently applying financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB) to continue to do so. In addition, given that the FASAB is the source of GAAP for federal entities, the Statement clarifies that a federal entity that is preparing GAAP-based general purpose financial reports for the first time is required to implement FASAB standards unless, in consultation with its auditors and bodies with oversight authority, the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

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<sup>1</sup> Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display*, discusses the criteria for defining federal reporting entities. Also, the terms federal reporting entity and federal entity are used interchangeably throughout this Statement.

<sup>2</sup> The term general purpose financial report is used throughout this Statement as a generic term to refer to the report that contains the entity's financial statements that are prepared pursuant to generally accepted accounting principles. In the federal government, the report is known as the Performance and Accountability Report or the Agency Financial Report.

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## **Introduction**

### **Purpose**

1. The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports of federal reporting entities<sup>3</sup> that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy).
  - a. This Statement responds to a request from the American Institute of Certified Public Accountants (AICPA) that FASAB incorporate the GAAP hierarchy, which currently resides in the professional auditing literature, into the accounting literature.
  - b. This Statement also addresses (1) whether federal entities currently applying standards issued by the Financial Accounting Standards Board (FASB) may continue that practice, and (2) whether federal entities that are preparing GAAP-based general purpose financial reports for the first time may also apply FASB standards.

### **Materiality**

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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<sup>3</sup> Statement of Federal Financial Accounting Concepts 2, *Entity and Display*, provides criteria for identifying federal reporting entities. In addition, the Board is currently developing standards defining the federal reporting entity.

**Effective Date**

3. The requirements in this standard are effective upon its issuance.

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## Accounting Standards

### Scope

4. This Statement applies to the general purpose financial reports of all federal reporting entities that are presented in conformity with generally accepted accounting principles (GAAP).<sup>4</sup>

### The Hierarchy of Generally Accepted Accounting Principles

5. The hierarchy of generally accepted accounting principles, hereafter referred to as the GAAP hierarchy, governs what constitutes GAAP for federal reporting entities. It lists the priority sequence of pronouncements that a federal reporting entity should look to for accounting and financial reporting authoritative guidance. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:
  - a. Officially established accounting principles consist of FASAB Statements of Federal Financial Accounting Standards (Standards) and Interpretations. FASAB Standards and Interpretations will be periodically incorporated in a publication by the FASAB.
  - b. FASAB Technical Bulletins and, if specifically made applicable to federal reporting entities by the AICPA and cleared<sup>5</sup> by the FASAB, AICPA Industry Audit and Accounting Guides.<sup>6</sup>
  - c. Technical Releases of the Accounting and Auditing Policy Committee of the FASAB.

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<sup>4</sup> The AICPA has designated the FASAB as the source of GAAP for federal reporting entities. Therefore, FASAB GAAP would be the appropriate accounting standards for federal reporting entities in the executive, legislative, and judicial branches.

<sup>5</sup> For purposes of interpreting category (b), the word *cleared* means that the FASAB does not object to the pronouncement's issuance.

<sup>6</sup> Such pronouncements specifically made applicable to federal reporting entities are presumed to have been cleared by the FASAB, unless the pronouncement indicates otherwise.

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- d. Implementation guides published by the FASAB staff, as well as practices that are widely recognized and prevalent in the federal government.
  6. If the accounting treatment for a transaction or event is not specified by a pronouncement in category (a), a federal reporting entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or event, the federal reporting entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.
  7. If the accounting treatment for a transaction or event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a federal reporting entity should then consider accounting principles for similar transactions or events within categories (a)–(d) before considering Other Accounting Literature discussed in paragraph 8. For example, it might be appropriate to report the event or transaction by applying, in a similar manner, an accounting principle established within categories (a)–(d) for an analogous transaction or event on the basis of its substance.<sup>7</sup> 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.

### **Other Accounting Literature**

8. Other Accounting Literature includes, for example, FASAB Concepts Statements; the pronouncements referred to in category (b) of paragraph 5 when not specifically made applicable to federal reporting entities by the FASAB; pronouncements of other accounting and financial reporting standards-setting bodies, such as the FASB, Governmental Accounting Standards Board, International Accounting Standards Board, and

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<sup>7</sup> Generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance. Consideration should be given to whether the substance of transactions or events differs materially from their form.

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International Public Sector Accounting Standards Board; professional associations or regulatory agencies; 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, FASAB Concepts Statements would normally be more influential than other sources in this category.

### **Application of Standards Issued by the Financial Accounting Standards Board**

9. Some federal entities, including government corporations listed in the Government Corporation Control Act and certain others, such as the United States Postal Service, continue to publish financial reports pursuant to the accounting and reporting standards issued by the FASB. Some entities also may be required to prepare statements pursuant to standards set by a regulatory agency (e.g., the Federal Energy Regulatory Commission (FERC)). General purpose financial reports prepared in conformity with accounting standards issued by the FASB also may be regarded as in conformity with GAAP for those entities that have in the past issued such reports.<sup>8</sup>
10. Except as provided in paragraph 11, a federal entity that is preparing GAAP-based general purpose financial reports for the first time should implement FASAB standards as FASAB is the preferred method of reporting for federal entities.
11. In rare instances, a federal entity that is preparing GAAP-based general purpose financial reports for the first time may, in consultation with its auditors and bodies with oversight authority, elect to apply standards issued by the FASB if the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards. Unique user needs can arise from various sources that include, but are not limited to, investors, SEC requirements, bondholders, and customers. Entities may determine that the application of standards issued by the FASB more

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<sup>8</sup> The FASAB has an existing project underway that will assist the Board in determining whether certain federal entities should be permitted to continue applying FASB GAAP and, if so, whether additional reporting should be required. This project will also consider whether federal entities should be permitted to convert from FASB standards to International Financial Reporting Standards published by the International Accounting Standards Board.

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appropriately meets these unique user needs. This determination should involve a number of considerations. Examples of factors to consider include but are not limited to:

- a. The entity's primary funding is derived from a source other than through annual federal appropriations.
  - b. The entity has been delegated the financial and operational authority to carry on its activities in a manner similar to private business enterprises.
  - c. The entity sells goods and/or services to individuals outside of the government reporting entity as its principal activity.
  - d. The entity is intended to, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the federal government reporting entity.
  - e. It is desirable to compare general purpose financial reports of the federal entity that is preparing GAAP-based general purpose financial reports for the first time with an existing entity that is already following FASB GAAP.
12. While the application of standards issued by the FASB may be acceptable for a limited number of federal entities as noted above, entities that have already implemented standards issued by the FASAB should continue to apply the federal standards, as FASAB is the preferred method of reporting for federal entities.

### **Effective Date**

13. The requirements in this standard are effective upon its issuance.

<p>The provisions of this Statement need not be applied to immaterial items.</p>
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## **Appendix A: Basis for Conclusions**

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting and reporting for specific transactions, events, or conditions.

### **Project History**

- A1. Representatives of the American Institute of Certified Public Accountants (AICPA) requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.
- A2. In October 1999, The AICPA designated the FASAB as the standards-setting body for federal 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 (GAAP hierarchy). The Board believes that incorporation of the GAAP hierarchy into the FASAB's authoritative literature would more clearly convey that financial statement preparers are responsible for selecting the sources of the principles to be used in the preparation of general purpose financial reports that are presented in conformity with GAAP. The structure presented in this Statement generally carries forward the hierarchy as set forth in SAS 91 and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements.

### **Application of Standards Issued by the Financial Accounting Standards Board**

- A3. Although the FASAB's standards have been recognized as GAAP for federal entities (FASAB GAAP) since October 1999, some federal entities follow GAAP for nongovernmental entities promulgated by the private sector Financial Accounting Standards Board (FASB GAAP). For example, federal government corporations, the U.S. Postal Service, certain component entities of the U.S. Department of the Treasury, and

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some smaller entities in the executive and legislative branches have historically applied FASB GAAP and continue to do so.

- A4. In early 2000, the FASAB recognized this practice as acceptable for those entities that had been following FASB GAAP to avoid an immediate and unanticipated requirement that these federal entities follow federal GAAP after the FASAB was recognized as the Rule 203 standards-setting body for the federal government. This guidance was published in the January – March 2000 issue of *FASAB News*<sup>9</sup> and was intended as a temporary measure in light of the unanticipated consequences of Rule 203 recognition. The existence of the issue has also been acknowledged in Statement of Federal Financial Accounting Concepts (SFFAC) 2, *Entity and Display* (paragraph 78); Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government* (inside front cover and Appendix A, paragraph 142); SFFAS 8, *Supplementary Stewardship Reporting* (Introduction paragraph 40); and, SFFAS 24, *Selected Standards for the Consolidated Financial Report of the United States Government* (Appendix A, paragraph 20).
- A5. Providing interim guidance on the application of standards issued by the FASB serves to proactively address entity concerns that moving the hierarchy of generally accepted accounting principles into the accounting literature without addressing the use of FASB GAAP would require a sudden and dramatic change in practice.

### **Application to Legislative and Judicial Branches**

- A6. The FASAB's sponsors do not prescribe accounting standards for the legislative and judicial branches. The legislative and judicial branches, and most entities within those branches, are not currently required to prepare general purpose financial reports and those that do prepare statements are not subject to any requirements by the FASAB's sponsors to follow FASAB GAAP or prepare a reconciliation between FASAB GAAP and FASB GAAP. However, as the source of GAAP for federal reporting entities, FASAB GAAP would be the appropriate accounting standards for these entities to adopt if they prepare GAAP-based general purpose financial reports.

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<sup>9</sup> FASAB News, Jan.-March 2000, p. 2.

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**Exposure Draft**

- A7. The Board published the exposure draft (ED), *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board*, on December 2, 2008, with comments requested by February 3, 2009. Upon release of the ED, notices and press releases were provided to: The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, the *CPA Journal*, *Government Executive*, the *CPA Letter*, and *Government Accounting and Auditing Update*, The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council, and committees of professional associations generally commenting on EDs in the past.
- A8. This broad announcement was followed by direct mailings of the ED to the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate; and the Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform, House of Representatives.
- A9. The Board received 31 response letters from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON-FEDERAL (External)</b>
Users, academics, others		3
Auditors	5	1
Preparers and financial managers	22	
Totals	27	4

- A10. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized below.
- A11. Respondents generally agreed that the hierarchy of GAAP that currently resides in the professional auditing literature should be incorporated into

the FASAB's authoritative literature. Also, respondents generally agreed that: 1) general purpose financial reports prepared in conformity with accounting standards issued by the FASB should be regarded as being in conformity with GAAP for those federal entities that have in the past issued such reports, and 2) a federal reporting entity that is preparing GAAP-based general purpose financial reports for the first time should implement FASAB standards unless the entity clearly demonstrates that the needs of its primary users would be best met through the application of FASB standards.

- A12. However, some respondents believed it would be useful to clarify certain aspects of the Statement. Some respondents believed it would be useful to clarify where administrative directives (e.g. OMB, Government Accountability Office, and Department of the Treasury guidance) would be considered in the hierarchy. Some respondents questioned if "Other Accounting Literature" was a part of or separate from the hierarchy.
- A13. In addition, some respondents believed that those federal entities following FASB standards could be required to reconsider their practices. For example, if they receive federal appropriations, they should follow FASAB standards.

### **Clarifying the GAAP Hierarchy and Other Accounting Literature**

- A14. Paragraph 5 of the Statement presents the GAAP hierarchy for federal entities, and the Board expects practice to be governed by this hierarchy. The hierarchy presented in the ED referred to AICPA Statements of Position (SOP) and Practice Bulletins specifically made applicable to federal reporting entities and cleared by the FASAB. However, the FASB is codifying its accounting standards and SOPs and Practice Bulletins will generally be incorporated into the codification and have no continued authority. Because of this matter and because no SOPs and Practice Bulletins have been specifically made applicable to federal reporting entities and cleared by the FASAB, these sources were removed from the hierarchy.
- A15. In addition, while some respondents believed that it would be useful to discuss the location of administrative directives within the hierarchy, the FASAB believes that incorporating the GAAP hierarchy in the accounting standards should be accomplished expeditiously due to the AICPA's planned removal of the hierarchy from the auditing standards. Since FASAB is unaware of any practice problems arising due to the absence of explicit guidance placing each type of administrative directive within the

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hierarchy, immediate action on this request is not warranted.<sup>10</sup> FASAB also notes that there are multiple sources of administrative directives, many types of directives, and varying processes for developing directives. Resolving placement for all administrative directives may require significant study. Therefore, the Board is acting to adopt the GAAP hierarchy essentially as it currently exists in the AICPA audit literature and does not intend to change current practices.

- A16. Paragraphs 6 and 7 of the Statement provide guidance to assist readers in understanding how the hierarchy should be considered when preparing general purpose financial reports in conformity with GAAP.
- A17. Paragraph 7 also discusses when to consider literature not discussed in the GAAP hierarchy - Other Accounting Literature. The phrase "Other Accounting Literature" is capitalized in the Statement and included under a separate heading to indicate its distinction from the GAAP literature. Other Accounting Literature is presented separately from the hierarchy because the items in this category do not establish GAAP and cannot amend existing FASAB standards, interpretations, technical bulletins or releases, or staff implementation guidance. Other Accounting Literature may only be relied upon by financial statement preparers and auditors to resolve specific accounting issues in the absence of literature in paragraph 5 of the Statement.
- A18. The Board also recognizes that other standards-setting bodies are currently considering codifying their pronouncements. As a result, listing the titles of specific pronouncements in Other Accounting Literature may cause difficulty in referencing those documents in the future. Thus, paragraph 8 of the Statement refers to pronouncements of other standards-setting bodies rather than listing specific pronouncements.

### **Entities Following FASB GAAP**

- A19. As noted above, the Board primarily intended to incorporate the GAAP hierarchy into the FASAB's accounting literature and did not intend to change existing practices at this time. The Board is continuing a separate project on reporting by federal entities that primarily apply standards issued by the FASB. The project intends to determine whether certain federal

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<sup>10</sup> This request will be considered when the Board reviews its technical agenda to select new projects.

entities should be permitted to continue following FASB GAAP and what additional reporting, if any, is needed for stand-alone financial reports of federal entities that are permitted to continue applying FASB accounting standards.

A20. Paragraph 9 of the Statement states that those federal entities preparing general purpose financial reports in conformity with FASB accounting and reporting standards are permitted to continue current practices. The Statement does not preclude those entities from reconsidering those practices.

### **Board Approval**

A21. This statement was approved for issuance by all members of the Board. The written ballots are available for public inspection at the FASAB's offices.

**Appendix B: Abbreviations**

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
IASB	International Accounting Standards Board
IPSASB	International Public Sector Accounting Standards Board
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards
SFFAC	Statement of Federal Financial Accounting Concepts

**Appendix C: Glossary**

**GAAP Hierarchy:** the sources of accounting principles used in the preparation of general purpose financial reports of federal reporting entities that are presented in conformity with generally accepted accounting principles and the framework for selecting the principles.

## **FASAB Board Members**

Tom L. Allen, Chair  
Congressional Budget Office  
Robert F. Dacey  
John A. Farrell  
Norwood J. Jackson, Jr.  
James M. Patton  
Nancy Fleetwood  
Alan H. Schumacher  
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