



## Following Suit

By Michele Mark Levine

GASB's *Revenue and Expense Recognition* invitation to comment suggests two possible paths to follow in refining revenue recognition.

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued a standard on recognition of revenue from contracts with customers (FASB Codification Topic 606). For entities that follow the FASB financial reporting standards, the new guidance required: 1) the identification of performance obligations, or promises, made by a covered reporting entity in a contract with a customer; 2) the allocation of the transaction price to the obligation; and 3) the recognition of revenue when, or as, the reporting entity satisfies the performance obligations.

Fast forward nearly four years and that private-sector guidance, once delayed and twice modified, is becoming effective for the first (publicly traded) companies for fiscal years and interim reporting periods beginning after December 15, 2017. And something else is happening: the Governmental Accounting Standards Board (GASB) is testing the waters for a possible move in the same direction.

In January 2018, GASB issued an invitation to comment (ITC), *Revenue and Expense Recognition*, which addresses such recognition in accrual-based financial statements.<sup>1</sup> In the ITC, GASB suggests two possible paths to follow in refining revenue recognition. The first option is to build a comprehensive reporting model around the current exchange/nonexchange dichotomy,

while the second tries on a performance obligation model for size.<sup>2</sup>

What might be gained by moving away from something familiar toward something new? A few things. To start with, the presence of performance obligations in many grant arrangements could add a more intuitive logic to identifying when grant revenue is recognized.<sup>3</sup> More significant, however, is that the use of a performance obligation approach in government accounting would mirror the approach used in private-sector accounting, aligning the approach used by GASB with the approach used by FASB. Alas, it would not render government financial statements suddenly recognizable by those familiar only with private-sector reports, but it could be one accounting principle that translates easily from private-sector accounting — which is emphasized in college and university curriculums and is familiar to most experienced accounting professionals — to government accounting, making it easier for those largely experienced with private-sector accounting to transition into public service.

Precedents support common ground between public- and private-sector accounting. GFOA's Committee on Accounting, Auditing, and Financial Reporting (CAAFR) has followed ten principles when responding to proposed accounting standards, one of which is that "unnecessary differences with private-sector standards should

be avoided for accrual based presentations.”<sup>4</sup> In addition, the ITC points out that current guidance on revenue recognition for exchange transactions is based on older FASB guidance that was incorporated into the GASB literature by Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.<sup>5</sup> Once upon a time, there was a clear link between private- and public-sector accounting and reporting for similar transactions.<sup>6</sup>

Is the performance obligation approach really the right approach for a state, city, or public utility? Maybe not. Are there legal and environmental differences that make a different model for governments a better alternative? There could be. Those questions will

be among the considerations when CAAFR develops a position on the project. Without answering those questions, and without prejudice toward any specific matter at hand, this seems like a good time to reflect on the value — in terms of accessibility of government financial statements and succession planning in governmental accounting — of not *always* being different. ■

#### Notes

1. For a more complete discussion of this ITC, please refer to related articles in the February and March 2018 issues of the *GAAFR Review*. GASB has deferred consideration for governmental fund revenue and expense recognition pending the outcome of its reporting model project, which is expected to address the measurement focus and basis of accounting for governmental funds.
2. An “also ran” alternative model, proposed as an example of other possible approaches, raises the prospect of blending the two by applying a performance obligation lens only to those transactions first deemed to be exchanges.

3. For example, one might ask how exactly the fiscal year of a state, which passes federal money through to a locality in a voluntary non-exchange transaction, is a logical determinant of when the locality should recognize that federal revenue.
4. GFOA Guidelines for Responding to Proposed Accounting Standards, Principle 4.
5. By contrast, the current nonexchange revenue recognition standards in GASB Codification Section (Cod) N50 seem almost current, at less than 20 years old. They are based on GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which was issued in 1998.
6. The benefits of similarity notwithstanding, the environmental differences between governmental and private sector entities necessitates careful consideration and due process prior to the adoption of private sector accounting standards to government.

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