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Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-20
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Rutgers Center for Governmental Accounting Education and Research (CGAER), kindly accept the following comments on the Governmental Accounting Standard Board's (GASB) Preliminary Views (PV) document, *Recognition of Elements of Financial Statements*.

We agree that the proposed short-term financial resources measurement focus will be an improvement to the current financial resources measurement focus. The short-term financial resources measurement focus and the proposed recognition hierarchy will help the Board establish greater consistency in financial reporting for certain types of transactions. In particular, the updated conceptual framework will assist in the further development of high-quality and conceptually consistent accounting and financial reporting standards for state and local governments.

That said, while we recognize that the current financial resources measurement focus in some areas is conceptually inconsistent, the Board should nevertheless consider the cost and benefits of implementing the proposed short-term financial resources measurement focus. An alternative approach could be to directly address the current inconsistencies through additional guidance. We believe the complexity of the proposed changes is directly related to the concept of interpretation of short-term transactions that "normally are due."

The PV proposes recognition concepts based on classification of transactions into long and short-term items. It further defines short-term transactions as those that *normally are due* to convert to or generate or use cash (or other financial assets) within one year from the inception of the transaction. Furthermore, the classification into short-term or long-term is based on entire classes of transactions rather than on their individual treatment, which could lead to issues with complexity, interpretation and discretion on how these would occur in practice.

We recommend that the Board further examine the alternative views enumerated in the PV regarding the areas dealing with the definition of short-term financial resources as well as addressing the concept of "normally" described in the PV. Despite the conceptually sound

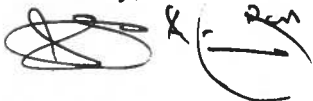
framework which recognizes short-term transactions and events as they *occur* and long-term transactions and events being recognized when payments are *due*, the recommendation to expand this recognition to include financial resources that can be converted to cash or other fund financial resources within one year from the date of the financial statements would be advantageous towards a less complex implementation. The expanded definition which most accounting and financial professionals are familiar with through their study of basic accounting practice in the commercial sector will be better harmonized with the use of "short-term" used in current accounting nomenclature. In fact, it would be counterintuitive for most government finance professionals not to include principal of notes, long-term debt, compensated absences, claims and judgements, or long-term receivables which are due within the next year using the short-term financial resources measurement focus.

Regarding the use of the concept "normally" and how this could be interpreted due to the current varying financial practices among state and local governments, could also lead to implementation issues which could prove to be substantial. There is a strong likelihood that a significant amount of time could be spent by preparers and auditors on determining classification based on this concept. Even when the Board presents additional guidance in this area, many government transactions may not neatly fit into certain classes of transactions and could lead to numerous interpretation questions for the Board.

In conclusion, we believe that the proposed short-term financial resources measurement focus, together with the recognition hierarchy, are positive steps towards promoting clarity and conceptual consistency in future standards-setting and government financial reporting. However, the final decision on the new measurement focus should be predicated on the results of field tests and further discussion. The Board should also consider expanding the definition of the short-term financial resources measurement focus to include all financial assets that are expected to be converted to cash within one year from the date of the financial statements. Finally, the Board should deliberate on the concept of "normally" which could be problematic due to its varying interpretation, with a more objective basis based on stated maturities of assets and liabilities.

Thank you for this opportunity to share our views with the GASB. We would be pleased to assist GASB on this project and to answer any further questions regarding this important matter.

Sincerely,



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