

February 16, 2021

Mr. David Bean, Director of Research and Technical Activities  
Project Number 3-20  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Submitted via email to [director@gasb.org](mailto:director@gasb.org)

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the Exposure Draft of the Governmental Accounting Standards Board (GASB, the Board), *Recognition of Elements of Financial Statements* (ED, the ED). The Board is to be commended for extensive time and due process spent on this project to get to the ED. I appreciate this opportunity to respond and my comments reflect my views as a former government finance officer and a recently retired academician responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

### **General Comments**

While I do not necessarily agree with all of the concepts proposed, I do agree they will provide a conceptual framework for the Board to use in establishing consistent accounting and financial reporting standards. I understand and appreciate the logistical challenges associated with coordinating this project with the financial reporting model and recognition projects.

As stated in the Summary to the ED, Concepts Statements provide a framework that “can be used” to establish accounting and financial reporting Standards. Issuing this ED at the same time as the Exposure Draft, *Financial Reporting Model Improvements*, and the Preliminary Views, *Revenue and Expense Recognition*, could appear to be presumptive. Anecdotally, issuing these three interrelated exposure documents has further discouraged the preparer and auditor community to participate in due process as they believe the proposals are “already a done deal”. To counter this type of growing frustration I would suggest the Board work to adopt Concepts Statements prior to beginning significant work on projects to establish accounting and financial reporting standards. This would be especially important with projects expected to have a significant effect on accounting and financial reporting such as the three noted above.

As I stated in my comments to the Preliminary Views relating to this project, comparability among governments may not be achieved through the application of accounting standards due to the various types and geographic locations of state and local governments. Similarly, I do not believe the concepts in this ED will achieve a significant increase in comparability of information among governments. Having said this, I do believe the approach set forth in the ED will improve comparability among governments.

Other than the items discussed below, I am in agreement with the proposals in the ED.

### **Short-Term Financial Resources Measurement Focus and Accrual Basis of Accounting**

#### **Paragraph 9**

In “financial” accounting standards, the accrual basis of accounting records transactions when they occur and the matching concept is inherent in this basis of accounting. “Government” accounting standards do

not (and by all evidence will not) incorporate the matching concept but rather the concept of interperiod equity. This is a nuance I do not believe many users (and preparers and auditors based on a recent GASB webcast) of government financial statements understand.

Applying the concept of interperiod equity to government financial statements prepared using the economic resources measurement focus is, conceptually, the same as applying the matching concept. Use of the “accrual” basis of accounting in this case is not likely to affect decisions made by the financial statement user even though the user may be unaware the matching concept is not applicable.

Under the proposed short-term financial resources measurement focus the *accrual basis of accounting* recognizes short-term transactions and other events “as they occur” and long-term transactions and other events “when payments are due”. While I believe this definition better reflects budgetary accounting, I am concerned it will be confusing to stakeholders. This could be especially confusing to those who use financial statements of both government and nongovernment entities. Additionally, I believe using separate definitions for the same term (“accrual”) would be more confusing to preparers, auditors, and statement users than the current “modified accrual” basis of accounting.

Therefore, I would ask the Board to consider using the modified accrual basis of accounting to measure short-term financial resources and redefining it using the definition proposed in paragraph 9. In doing this, the confusion associated with two different definitions for the same term is eliminated and the potential for increased comparability among governments is not affected. Alternatively, the Board could develop another term for the basis of accounting such as “modified cash” or some other descriptive but not misleading term.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (321) 277-1536 or [lkmdennis@gmail.com](mailto:lkmdennis@gmail.com).

Sincerely,

s/Lynda M. Dennis

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