



Letter of Comment No. 094
File Reference: REC
Project No. 3-20
Date Received: 02/26/2021

INVITATION TO COMMENT

on the Proposed Statement of the Governmental Accounting
Standards Board on concepts related to:
Recognition of Elements of Financial Statements

Response by the State of Arkansas
Department of Finance and Administration, Office of Accounting

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February 26, 2021

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

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Dear Mr. Bean,

RE: Project 3-20, Recognition of Elements of Financial Statements

On behalf of the State of Arkansas, we appreciate the opportunity to provide our feedback on concepts related to recognition of elements of financial statements as they are presented in the Exposure Draft. The information needs of decision makers and users of financial information require careful study and input from preparers.

In summary, we understand the need to enhance the effectiveness of the financial reporting model by creating a more consistent and conceptually sound foundation and agree with the combination approach which resulted in the current revised short-term financial resources measurement focus. However, we have concerns about whether this statement meets the Board's overall objective.

Our specific comments and detailed recommendations we would like the Board to consider are provided on the following pages.

Thank you for your consideration.

Defining Accrual Basis of Accounting:

As this is a concept statement and intended as a framework that can be used to establish consistent accounting and financial reporting standards, it is imperative that the definition of accrual basis of accounting be better distinguished between ¶7 & ¶9. Although we understand and agree with the Board’s conclusion as stated in ¶B23, we believe that clarification on the difference between these two terms could easily be stated within the separate paragraphs.

We would recommend changing the wording in ¶7 to instead state, “An accrual basis of accounting under the economic resources measurement focus recognizes items when the underlying transaction or other event occurs.”

And similarly, we would recommend changing the wording in ¶9 to instead state, “An accrual basis of accounting under the short-term financial resources measurement focus recognizes elements of financial statements arising from short-term transactions and other events as they occur, and elements of financial statements arising from long-term transactions and other events when payments are due.”

Short-Term Financial Resources Measurement Focus & Accrual Basis of Accounting Recognition Concepts:

The Board should consider moving the information in ¶11 before ¶10. In applying this concept statement, it is important to understand the basis of recognition prior to determining which items should be recognized.

We agree with the definition of Short-term transactions as stated in ¶11 as “those for which the period from inception to conclusion is one year or less.” We believe that if the Board were to define this period beginning with the balance sheet date, this could result in 2 similar transactions being reported differently based on the date of occurrence; therefore, for consistency and clarity we agree this period should begin at the inception date.

General Comments:

Overall, we agree with the alternative view as detailed in ¶B39 – ¶B55 and ¶B62 – ¶B64. However, we have significant concerns regarding the future costs that could result from the possible alternative approach as explained in ¶B56 – ¶B61.