



Department of Veterans Affairs

Financial Policy

Volume VI

Liabilities

Chapter 1

Definition and General Principles for Recognition of a Liability

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0101 Overview	2
0102 Revisions	2
0103 Definitions.....	3
0104 Roles and Responsibilities.....	4
0105 Policies.....	4
010501 Recognition of a Liability	4
010502 Measurability and Probability of a Liability	5
010503 Reporting of a Liability	5
0106 Authorities and References.....	6
0107 Rescissions	6
0108 Questions.....	6
Appendix A: Liability Recognition Summary.....	7

0101 Overview

This chapter provides the Department of Veterans Affairs (VA) financial policies regarding the definition and general principles for recognition of a liability. The Federal Accounting Standards Advisory Board (FASAB) develops the principles for recognition of a liability and both FASAB and the Office of Management and Budget (OMB) provide guidance on financial reporting requirements for liabilities for Federal agencies. This chapter is the overarching policy chapter regarding liabilities. Additional VA financial policies detailing accounting and reporting for liabilities are described in the following chapters of this volume:

- Chapter 2 Intragovernmental vs. Governmental Liabilities;
- Chapter 3, Accounts Payable;
- Chapter 4, Interest Payable;
- Chapter 5, Treasury Debt Borrowing;
- Chapter 6, Liabilities for Loan Guarantees;
- Chapter 7, Federal Employees' and Veterans' Benefits Liability;
- Chapter 8, Environmental and Disposal Liabilities;
- Chapter 9, Insurance Liabilities;
- Chapter 10, Other Liabilities;
- Chapter 11, Employees' Accrued Salaries and Benefits;
- Chapter 13, Unredeemed Coupons;
- Chapter 18, Capital Lease Liability;
- Chapter 19, Accounts Payable in Closed Appropriation Accounts;
- Chapter 20, Judgment Fund Liabilities; and
- Chapter 21, Contingent Liabilities

Key points covered in this chapter:

- VA will recognize liabilities in accordance with FASAB Statement of Federal Financial Accounting Standards (SFFAS) 5, Accounting for Liabilities of the Federal Government;
- VA will measure a liability and assess its associated probability according to FASAB guidance; and
- VA will report and classify its liabilities on its consolidated balance sheet and notes as required by FASAB standards and OMB Circular A -136, Financial Reporting Requirements - Revised.

0102 Revisions

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year review	OFP (047G)	Reorganize chapter layout	March 2019
0105 Policies	Updated policy statements	OFP (047G)	Properly reflect VA's current policies regarding accounting and recognition of liabilities	March 2019

0103 Definitions

Event – A happening of financial consequence that is important or significant to an entity.

Exchange Transaction – A transaction in which each party to the transaction sacrifices value and receives value in return.

Government-Acknowledged Events – Nontransaction-based events that are of financial consequence to the Federal government because it chooses to respond to the event.

Government-Related Events – Nontransaction-based events that involve interaction between the Federal government and its environment.

Intragovernmental Liabilities – A probable future outflow or other sacrifice of resources as a result of a past transaction or event between Federal entities.

Liability – A probable future outflow or other sacrifice of resources as a result of a past transaction or event.

Measurable – Reasonably estimable.

Nonexchange Transaction – A transaction that arises when one party to a transaction receives value without giving or promising value in return, i.e., there is a one-way flow of resources or promises.

Probable – That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

Public Liabilities – Claims against the Government arising from transactions with individuals and entities outside the U.S. Government.

Recognize – To formally record or incorporate an item into the Agency’s financial statements as an asset, liability, revenue, expense, etc.

0104 Roles and Responsibilities

Administration/Staff Office Fiscal Staff and Chief Financial Officers (CFOs) are primarily responsible for the appropriate recording and reporting of liabilities under their jurisdiction.

Office of Financial Policy (OFP) is responsible for Department-wide accounting, reporting, and disclosure of liabilities per FASAB and OMB guidance and requirements via coordination and cooperation with Administrations, Staff Offices, and the Financial Services Center (FSC).

Financial Services Center is responsible for providing support for the accounting and reporting of VA’s liabilities, including posting, reconciling, and recording liability transactions and events, as requested.

0105 Policies

010501 General Policies

A. VA will comply with SFFAS 5 guidance to recognize a liability:

- When a future outflow of resources or other sacrifice is probable and measurable, regardless of what classification the liability belongs to; and
- Based on the liability recognition criteria for exchange and nonexchange transactions and Government-related and Government-acknowledged events. (See Appendix A, Liability Recognition Summary)

B. VA will measure, record, and report liabilities in accordance with Generally Accepted Accounting Principles (GAAP) promulgated by FASAB and OMB Circular A-136.

010502 Recognition of a Liability

A. VA will recognize an exchange transaction as a liability in the period that goods or services are received.

- B. VA will recognize a nonexchange transaction as a liability when VA is expected to provide value without receiving value in return. The liability will be any unpaid amounts associated with nonexchange transactions due or an estimate of the amount due as of the reporting date.
- C. For a Government-related event, VA will recognize a liability when the event occurs if the future outflow of resources is probable and measurable, or as soon thereafter as it becomes probable and measurable.
- D. For a Government-acknowledged event utilizing congressionally appropriated or authorized resources, VA will recognize a liability when, and to the extent that, VA formally acknowledges financial responsibility for the event and a nonexchange or exchange transaction has occurred.

010503 Measurability and Probability of a Liability

- A. VA will determine the proper measurement for a liability and record a liability in accordance with GAAP promulgated by FASAB.
- B. VA will evaluate a liability's attributes to determine if the liability may be quantified in monetary units or will require reasonable estimates.
- C. VA will assess the probability of a future outflow or other sacrifice of resources for contingencies. Refer to VA Financial Policy Volume VI, Chapter 21, Contingent Liabilities, for detailed policies guiding contingent liabilities recognition.

010504 Reporting of a Liability

- A. Administration/Staff Office Fiscal Staff and CFOs will account for and report liabilities under their jurisdictions.
- B. FSC will perform accounting tasks for liability events and transactions, such as, recording, posting, and reconciliation as requested.
- C. VA will comply with OMB Circular A-136 to present all liabilities as either intragovernmental or public liabilities on the face of the consolidated balance sheet and classify its liabilities as liabilities covered by budgetary resources, liabilities not covered by budgetary resources, or liabilities not requiring budgetary resources.
- D. VA will disclose the following required information in the notes:

- Significant accounting principles and methods that management has concluded are appropriate and fairly present liabilities;
- Liabilities not covered by budgetary resources;
- Debt to the Treasury and the Federal Financing Bank;
- Loan Guarantee Liability;
- Federal Employee and Veterans Benefits;
- Environmental and Disposal Liabilities;
- Insurance Liabilities;
- Other Liabilities; and
- Commitments and Contingencies.

E. OFP, if appropriate, will include management's explanation of significant variances in the different types or amounts of liabilities in the Management's Discussion and Analysis section of the Agency Financial Report.

0106 Authorities and References

[OMB Circular A-136, Financial Reporting Requirements - Revised](#)

[SFFAS 1: Accounting for Selected Assets and Liabilities](#)

[SFFAS 5: Accounting for Liabilities of the Federal Government](#)

0107 Rescissions

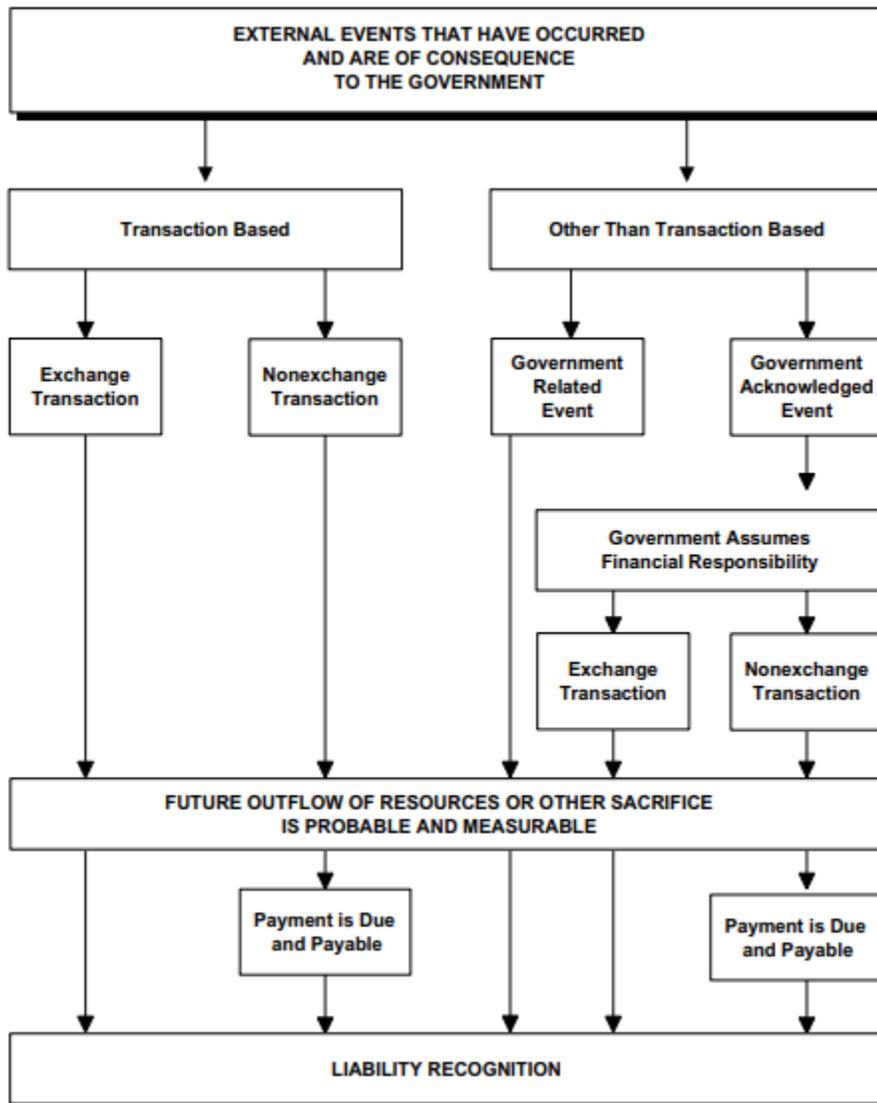
VA Financial Policy, Volume VI, Chapter 1 – Definition and General Principles for Recognition of a Liability dated January 26, 2017

0108 Questions

Questions concerning these financial policies and procedures should be directed as follows:

VHA	VHA 10A3A Accounting Policy (Outlook)
VHA	VAFSC Nationwide Accounting (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
VBA	VAVBAWAS/CO/OPERATIONS (Outlook)
NCA	NCA Financial Policy Group (Outlook)
NCA	NCA Budget Service (Outlook)
All Others	OFP Accounting Policy (Outlook)

Appendix A: Liability Recognition Summary



Source: SFFAS 5: Accounting for Liabilities of the Federal Government