Financial Policy

Volume VI

Liabilities

Chapter 1

Definition and General Principles for Recognition of a Liability

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0101 Overview

This chapter provides the Department of Veterans Affairs’ (VA) financial policies regarding the definition and general principles for recognition of a liability.

Key points covered in this chapter:

- VA will recognize liabilities in accordance with Federal Accounting Standards Advisory Board (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

<table>
<thead>
<tr>
<th>Section</th>
<th>Revision</th>
<th>Office</th>
<th>Reason for Change</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various</td>
<td>Full review of chapter</td>
<td>OFP (047G)</td>
<td>To ensure policy contains current guidance</td>
<td>May 2022</td>
</tr>
<tr>
<td>0103 Definitions</td>
<td>Updated for clarity and consistency with other financial policies</td>
<td>OFP (047G)</td>
<td>To improve clarity of policy definitions</td>
<td>May 2022</td>
</tr>
<tr>
<td>0104 Roles and Responsibilities</td>
<td>Updated roles and responsibilities</td>
<td>OFP (047G)</td>
<td>To ensure policy reflects current responsibilities regarding accounting and recognition of liabilities</td>
<td>May 2022</td>
</tr>
<tr>
<td>0105 Policies</td>
<td>Updated policy statements in accordance with SFFAS 1, SFFAS 5, and OMB Circular A-136</td>
<td>OFP (047G)</td>
<td>To clarify policy statements and ensure they are current regarding accounting and recognition of liabilities</td>
<td>May 2022</td>
</tr>
</tbody>
</table>
### 0103 Definitions

**Contingency** – An existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

**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.

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

Under Secretaries, Assistant Secretaries, Other Key Officials, and Financial Officials are responsible for ensuring compliance with the policies set forth in this chapter.

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 Reporting (OFR) 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 (FSC) 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 including both liabilities covered by budgetary resources and liabilities not covered by budgetary resources:

- 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.
- Liabilities Not Requiring Budgetary Resources are liabilities that will not require
the use of budgetary resources, e.g., liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

B. VA will comply with SFFAS 1, Accounting for Selected Assets and Liabilities with regards to intragovernmental and governmental liabilities.

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

D. VA will report and disclose liabilities in accordance with the requirements of 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 in return for a promise to provide money or other resources in the future.

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 report liabilities on the face of the consolidated balance sheet in the Department's financial statements in compliance with SFFAS 1, SFFAS 5, and OMB Circular A-136.

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

VA Financial Policy Volume VI, Chapter 21, Contingent Liabilities

0107 Rescissions

VA Financial Policy, Volume VI, Chapter 1 – Definition and General Principles for Recognition of a Liability dated March 2019

0108 Questions

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

VHA VHA Financial 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)