LESS IS MORE: PRINCIPLES FOR GOVERNMENT ACCOUNTING

In the interest of greater accountability, governments are often required to comply with uniform accounting rules. For example, due to its federal system, the United States has two government accounting standards boards: the Federal Accounting Standards Advisory Board (FASAB) for the Federal Government, and the Governmental Accounting Standards Board (GASB) for the 50 states and over 87,000 local governments. To date, the FASAB has issued 34 standards and the GASB 48 standards, with more standards to come. Each of the standards was set to address a legitimate issue, developed through a carefully designed due process, and presumably passed a cost-benefit test. Over time, the number of standards has grown considerably.

This paper proposes an accounting policy space of ten dimensions to organize existing and future government accounting standards. The options along each dimension are identified, and the choices made by the FASAB and GASB are briefly described. Finally, a tentative set of government *accounting principles* are offered.

Government Accounting Policy Space

Introduction. In setting standards, the GASB and FASAB have in effect been accepting some options and rejecting others. What are these options? The author proposes the concept of *government accounting policy space* to encompass all conceivable government accounting policy alternatives. For example, {accrual basis, a fund, cash basis, a whole government} are a set of alternative accounting policy options. But accrual basis and cash basis are alternative bases of accounting, while a fund and a whole government are alternative reporting entities. Therefore the government accounting policy space is defined in terms of various *dimensions,* such as reporting entity and basis of accounting, just as length, width and depth define a three-dimensional space. Once the dimensions are identified, the *alternative policies* can be identified and arrayed along each one of these dimensions. The reader who finds the concepts of dimension and accounting policy space too abstract can try to see their relevance in the following way. American government financial statements are accompanied by many notes, the first of which is a summary of significant accounting and financial reporting policies. That summary is not intended to be a reproduction of GASB or FASAB standards that are used in preparing the financial statements. If the summary is going to tell a coherent story, it has to first answer the question: policies about what? The aspects or dimensions of government accounting policies should be smaller than the number of alternative government accounting policies, because, after all, the dimensions are intended to generalize those alternatives. For example, the budgetary basis, cash basis, modified accrual basis, accrual basis are four alternatives along the “basis of accounting” dimension.

The next section will attempt to identify all the dimensions of the government accounting policy space.

Ten Dimensions of the Accounting Policy Space. The dimensions of the government accounting policy space correspond to the areas of concern to government accountants:

1. What should be the capability and objectives of a government's accounting system?
2. What should be the relationship between a government's budget and its accounts and financial statements?
3. What should be a government's accounting and reporting entities?
4. How should a government's accounts be kept?
5. What financial statements are necessary and how are they related?
6. Should financial accounting deal only with the past?
7. What criteria should be used to recognize some resources as assets and some obligations as liabilities?
8. What kinds of assets and liabilities should be reported in the balance sheet?
9. How should revenues and expenses or expenditures be measured?
10. What should be the unit of financial measurement?

These questions are affirmatively stated as ten dimensions as follows:

1. Capacity and objectives
2. Relation with the budget
3. Accounting and reporting entity
4. Accounting system architecture
5. Financial statements
6. Realization (or time orientation)
7. Recognition
8. Measurement focus
9. Basis of accounting
10. Unit of measurement

Multiple Choices Along Each Dimension. Each one of the above questions can be answered in more than one way. Thus standard setting amounts to answering a series of multiple choice questions. The choices are identified below.

1. Capacity and Objectives. A government's accounting system can be designed to achieve one or more of the following objectives:

(a) monitoring legal - including budgetary - and contractual compliance
(b) accurately measure and communicate financial consequences of past decisions and actions
(c) prepare budgets and cost analyses

2. Relation with the Budget. Possible relationships between accounting and budgeting include:

(a) accounting follows budget concepts and measurement rules
(b) budgeting rules are used in making actual-to-budget comparisons
(c) accounting concepts and measurement rules are independent of those of budgeting
(d) budgeting uses accounting concepts and measurement rules

3. Accounting and Financial Reporting Entity. Possible accounting and financial reporting entities include:

(a) the government as a whole, along with the entities it owns or controls
(b) only the government as a whole
(c) major lines of activities (e.g. governmental, business, fiduciary) and the government as a whole
(d) components of a government, e.g. funds, organizational units

4. Accounting System Architecture. The accounting system could be:

(a) a single entry system
(b) a double entry system, which is based on the accounting equation: assets = liabilities + net assets. Since virtually all financial accounting systems are based on the double-entry system, from now on, this recording system is assumed.

5. Financial Statements. The choice of the double-entry recording system and the underlying conceptual model leads to two fundamental financial statements: a statement of financial position at the end of a period, and a statement of financial performance for a period, with financial performance expressed in terms of changes in net assets, and therefore changes in assets and liabilities (see Exhibit 1).

Stock and Flow Measures	Accounting Equation		
Financial position at the end of period t	Assets_t –	Liabilities_t	= Net Assets_t
Financial performance in period 1 :	increase decrease	decrease increase	increase decrease
Financial position at the end of period t+1	Assets_{t+1} –	Liabilities_{t+1}	= Net Assets $_{t+1}$

Exhibit 1: Financial Position and Performance

6. Realization. Realization means waiting for actual transactions or events to confirm estimates about the value of an asset or liability. Financial accounting could admit into the accounting system

(a) only with the consequences of what has happened, and/or
(b) estimates about what has not happened in limited circumstances (e.g. unrealized gains or losses of financial investments)
(c) estimates about what has not happened in many situations

7. Recognition. Related to "realization" are the criteria used to define certain resources as assets arid certain obligations are liabilities. The asset recognition criteria could include one or more of the following:

(a) future service potential
(b) ownership
(c) control

(d) as a consequence of past transactions or events

The liability recognition criteria could include:

(a) future cash outflow or service delivery
(b) cannot be avoided
(c) definite amounts and timing
(d) as a consequence of past transactions or events

8. Measurement Focus. Measurement focus refers to the extent to which the scope of assets and liabilities is stretched as described in Exhibit 2. In both cases, there is the issue of timing: short-term and/or long-term, as well as the type of assets and liabilities.

<table>
<tr><th colspan="4">Panel A: Assets</th></tr>
<tr><th rowspan="2">Type
Timing</th><th rowspan="2">Financial Resources</th><th colspan="2">Non-financial Resources</th></tr>
<tr><th>Non-capital</th><th>Capital</th></tr>
<tr><td>Current</td><td>yes/no</td><td>yes/no</td><td>(null)</td></tr>
<tr><td>Non-current</td><td>yes/no</td><td>yes/no</td><td>yes/no</td></tr>
<tr><th colspan="4">Panel B: Liabilities</th></tr>
<tr><th>Type
Timing</th><th colspan="2">Operating Debts</th><th>Capital Debts</th></tr>
<tr><td>Current</td><td colspan="2">yes/no</td><td>yes/no</td></tr>
<tr><td>Non-current</td><td colspan="2">yes/no</td><td>yes/no</td></tr>
</table>

Exhibit 2: Measurement Focus Possibilities

Operating debts are service costs deferred to the future for payment (e.g. employee retirement pension and health care benefits). Capital debts are borrowings to finance acquisition or construction of fixed assets.

9. Basis of Accounting. Basis of accounting refers to the method used to measure revenue, expenses or expenditures. In addition to the “budgetary basis,” which does not have standard meaning (other than including contractual obligations as spending), two major alternatives are:

(a) cash basis
(b) accrual basis

In business accounting, where most transactions are reciprocal exchanges, the accrual basis has a more standard meaning: revenue is recognized to the extent of goods sold or service delivered, i.e. based on service efforts and accomplishments (SEA), with far more emphasis on accomplishment (sale) than on effort (production). Expenses are all the assets used and liabilities incurred in generating the revenue so recognized. The matching of revenues and expenses in this manner results in income. This SEA-based accrual is sometimes called full accrual, and is also used in measuring the performance of business-type activities of government.

Accounting for governmental activities and governmental funds uses a basis that falls short of the full accrual basis of accounting. Exact what it is has not been fully clarified. The government-wide financial statements required by GASB Statement *No. 34* uses an accrual basis, in contrast to the modified accrual basis used to prepare governmental fund financial statements. In order to clarify the extent of modification of accrual and to convey the idea that accrual is a continuum and can be stretched a little bit or very far, the author has suggested the notion *of degrees of accrual* (Exhibit 3).

Revenue	**Degrees of Accrual**	**Expense/Expenditure**
recognition on the basis of service efforts and accomplishments (SEA)	full (accrual basis)	recognition triggered by matching revenues with the economic resources used to generate them, and the incurrence of liabilities regardless of timing
recognition on the basis of legally enforceable claim	strong	expense: use of economic resources (i.e. capital asset depreciation), and the incurrence of liabilities regardless of timing
recognition on the basis of the availability of financial resources regardless of timing of conversion of cash	moderate	expense: use of financial resources, and incurrence of financial liabilities regardless of timing of future cash outflows
recognition on the basis of the availability of current financial resources	mild (equivalent to the GASB's modified accrual)	expenditure: use of current financial resources, and the incurrence of current liabilities

Exhibit 3: The Degrees of Accrual

10. Unit of Measurement. In the United States, it is taken for granted that the U.S. dollar is the unit of measurement in government accounting and financial reporting. Also historical cost is assumed as the valuation basis for assets and liabilities. But there are other possibilities, which have been extensively discussed in the business accounting literature, but have hardly been explored in governmental accounting: Possibilities for unit of measurement:

(a) unadjusted U.S. dollar
(b) U.S. dollar adjusted for general price-level changes (i.e., inflation)
(c) U.S. dollar adjusted for specific price-level changes

Possibilities for asset valuation basis:

(a) historical cost
(b) historical cost adjusted for price level changes
(c) net realizable value
(d) current replacement cost

(e) present value of future cash flows

Possibilities for liability valuation basis:

(a) contractual amount
(b) present value of future amounts
(c) actuarial value (with uncertainty and other factors taken into account) of future amounts

To sum up, there are ten dimensions in the government accounting policy space. Along each dimension, there is often more than one possible choice. Accounting standard setting involves activities at two levels: (1) sequencing the dimensions for setting the agenda for standard setting, and (2) for each dimension, deciding which option or options to require or permit their use.

Academics and practitioners in other countries may not have the time, even if they have the interest, to know all the more than eighty FASAB and GASB standards. Therefore next section casts the choices embodied in the GASB and FASAB standards in the context of the ten dimensions.

A Characterization of American Government Accounting Standards

Characterization of American government accounting standards means to describe those standards in terms of the choices identified above. This is a high-level characterization intended to inform the reader about the significant features of the two sets of American government accounting standards. Additional information is available from the boards publications and websites: www.fasab.gov and www.gasb.org.

Capacity and Objectives; Relation with the Budget. Both the FASAB and GASB focus their standards on financial accounting - the measurement and communication of financial consequences of past decisions and actions - and general purpose external financial reports. However, both boards recognize that a government accounting system requires the capacity to monitoring legal - including budgetary - and contractual compliance, and the necessity of other (special purpose) reports. This external reporting emphasis has to be seen as building upon the earlier objectives of eliminating pervasive financial corruption and supporting financial management.

With regard to the relationship between financial accounting and the budget, both the FASAB and GASB are not empowered or permitted to determine budget concepts or set budgeting standards. However, government accounting cannot avoid interacting with government budgeting. The interactions take place in several ways under different rules:

– Budget concepts and measurement rules are used in the preparation of budget execution reports during the fiscal year in both the Federal Government and state and local governments.
– Actual-to-budget comparisons are made in year-end financial statements in state and local governments, but not in the Federal whole-of-government or agency financial statements.

– When the budgetary basis differs from the accounting basis, numbers prepared under different rules are reconciled (i.e. explained) in both Federal and state/local government reports.
– GASB and FASAB standards are not constrained by budget rules (e.g. liabilities are recognized regardless of whether they are funded or not). Similarly, American government budgeting generally does not use accounting concepts and measurement rules (e.g. the long-term perspective of the balance sheet, and accrual basis in recognizing revenues and expenses).

Accounting and Financial Reporting Entity. Both the FASAB and GASB require the preparation of government-wide financial statements, which do not include fiduciary activities. However, the Federal Government's whole-of-government financial statements are consolidated, with one column for the entire government. A state or local government's financial reporting entity includes the primary government and discretely presented component units for which the primary government is financially accountable. Furthermore, the primary government's governmental activities and business-type activities are separately reported, before they are summed up in the government-wide totals. The interactions among Federal activities (e.g. the general fund and social security trust funds) are described in a financial statement.

Virtually all major Federal Government agencies prepare and separately issue agency-wide financial statements using FASAB standards. State and local governments typically do not publish departmental financial statements. Rather, fund financial statements are considered to be an integral part of a government's basic financial statements, along with the government-wide financial statements, in the government's comprehensive annual financial statements (CAFR).

Accounting System Architecture and Financial Statement. FASAB and GASB standards are based on the premise that governments use the double-entry recording system. Both boards do not prescribe charts of accounts, leaving this task to the governments themselves. In the case of the Federal Government, the Financial Management Service in the Treasury Department requires Federal agencies to adopt the requirements of the Standard General Ledger. GASB only requires governments to have uniform terminology and account classification.

The implicit adoption of the double-entry recording system by the FASAB and GASB results in two fundamental financial statements: a statement of financial position at the end of a period, and a statement of financial performance for a period for all governments. However, the Federal Government also separately publishes a whole-of-government statement of cash receipts, outlays and balances; therefore there are two schedules to reconcile the accrual-based deficit numbers to cash deficits and to the cash balance numbers. There is, however, a stand-alone statement of social insurance. There are additional financial statements mainly related to budget performance in Federal agency reporting and in state/local fund reporting.

Realization. Both the FASAB and GASB are limited by their charters to focus their standard setting to accounting in general and financial accounting in particular. (The FASAB has devoted a limited amount of time and two standards to cost accounting, even though it explicitly identifies its standards as financial accounting standards.) This strategic direction implies a commitment to the realization principle in financial accounting. The realization principle basically says that financial accounting deals mainly with the consequences of what has happened, and does not engage in projections or speculations about what will (or will not) happen. Thus deferred maintenance is not measured for reporting in the financial statements, but could be disclosed in the notes to the financial statements or elsewhere in the financial report.

The commitment to the realization principle does not preclude financial accounting from estimating the present and future financial consequences of past transactions or events. For example, the calculation of depreciation expense and allowance for uncollectible accounts both require estimates about the future. But in both cases, the starting point is the transactions or events that have happened.

Recognition, Measurement Focus and Basis of Accounting. Both the FASAB and GASB use similar criteria to recognize certain resources as assets and certain obligations are liabilities. The asset recognition criteria include all of the following: (a) having future service potential, (b) the government's ownership or effective control, and (c) a consequence of past transactions or events. In order to complement the partial disclosure, the Federal Government describes its "stewardship assets" in separate schedules. The GASB has not given specific guidance regarding the disclosure of off-balance sheet assets.

The liability recognition criteria include all of the following: (a) necessitating future cash outflow or service delivery; (b) unavoidable and having definite amounts and timing, and (c) a consequence of past transactions or events. In order to complement the partial disclosure, the Federal Government describes its "stewardship responsibilities" in separate schedules. (Currently there are debates on whether the Federal Government social insurance obligations are an off-balance sheet responsibility or an on-balance sheet liability.)

The application of the liability recognition criteria rules out the recognition of obligations under executory (i.e. unperformed) contracts as liability. GASB standards requires contractual obligations be reported as a classification of fund balance (an increase in reserved fund balance, offset by a decrease in unreserved fund balance). FASAB standards require the disclosure of these obligations as part of the statement on the sources and uses of budgetary resources at the agency level.

The above recognition criteria are designed with the government's interactions with external parties in mind. Federal agency balance sheets report intra-govern-mental assets and intra-governmental liabilities. In particular, in a practice that seems to deviate from the realization principle, Federal government agencies recognize budgetary resources (appropriations by Congress) as an asset. This lead to recognizing the appropriations as an increase in intra-governmental asset, i.e., "fund balance with Treasury," which then triggers the recognition of unexpended appropriations as part of the agency's net asset.

In terms of the big picture, both the GASB and FASAB have taken giant steps in broadening the measurement focus of the balance sheet. In particular, the Federal Government makes a point of extensively reporting Stewardship Assets and Stewardship Responsibilities - Federal resources and responsibilities that do not meet the above recognition criteria, or cannot be feasibly measured in financial terms. Thus American governments at all levels report a full range of financial resources and non-financial resources, including infrastructure and other capital assets (Exhibit 4).

Type / Timing	Financial Resources	Non-financial Resources	
		Non-capital	Capital
Current	yes	yes	not applicable
Non-current	yes	yes	yes

Exhibit 4: Measurement Focus: Assets

American governments have done well in recognizing, measuring and reporting short-term liabilities. However, it is in the long-term liability area that problems and controversies abound. Recall that Panel B of Exhibit 2 sets forth a conceptual classification scheme for liabilities along two dimensions: current vs. non-current, and operating debts vs. capital debts. This classification can help us analyze the distinctive liability recognition problems of the Federal Government, and state/local governments.

The Federal Government does not classify its liabilities in terms of operating debts and capital debts, in part because the Federal Government as a whole does not have a capital budget to be financed by borrowing specifically for capital expenditures. Thus it is impossible to know (a) the size of the Federal Government's operating deficit, and (b) how much of the borrowing is for capital acquisition. The Federal Government does recognize pension and benefits payable to civilian and military employees - both current and retired.

American state and local governments typically separate their budgets into operating budgets and capital budgets. Operating budgets are usually required by law to be balanced, and capital budgets are generally financed by long-term borrowing and capital grants, and some current revenues if possible. As bonds issued for capital acquisition are subject to extensive capital market surveillance and scrutiny, it is in the area of operating debts that the GASB has exerted more effort and influence. There are two kind of operating debts: the first kind is explicit borrowing to cover operating deficit; the second kind is the costs of current services deferred to the future for payment. The GASB has issued a number of standards to require state and local governments - as employers and as sponsors of public employee retirement plans/systems - to disclosure long-term information about their unfunded actuarial liabilities for both pension benefits and other post-employment benefits (OPEB), notably health care.

The recognition of long-term operating debt is coordinated with the push in the direction of higher degrees of accrual. In principle, both GASB and FASAB standards are in favor of the strong degree of accrual. At that level, cost of government services includes not only cash outlays (e.g. salaries paid), increase in current liabilities (e.g. salaries payable soon), but also increase in long-term liabilities (e.g. pension and OPEB payable), and the cost of using capital assets (i.e. depreciation expense). The challenge lies in the implementation of these far-sighted standards in reporting, and ultimately in motivating politicians to raise taxes to amortize unfunded liabilities.

On the revenue side, both the GASB and FASAB are also committed to the strong degree of accrual in principle in recognizing taxes, grants and other revenues form non-exchange transactions. The Federal Government has candidly admitted that it uses a nearcash basis in recognizing income taxes (which account for about 90% of its total revenues) probably because (a) the government already collects most of the taxes in cash through the employee payroll withholding system and periodic payments of estimated taxes of businesses, and (b) it is too costly to measure tax revenue on the basis of legally enforceable claim.

Unit of Measurement. Neither the FASAB nor the GASB has issued standards specifically dealing with the unit of measurement issue. The lack of valid and reliable financial measurement has hampered the integration of “Stewardship assets” onto the Federal Government balance sheet. Furthermore, since financial measurement is inadequate for gauging service efforts and accomplishments, the GASB has kept its SEA reporting project alive.

By default, American governments use the nominal U.S. dollar as unit of measurement in accounting and financial reporting. There are no adjustments for either general or specific price-level changes. Similarly, the historical cost basis is used without active consideration of systematic use of alternatives such as net realizable value, current replacement cost and the present value of future cash flows. However, actuarial valuations are commonly used in connection with measuring the amounts of pension and OPEB liabilities.

In conclusion, even without overt coordination, GASB and FASAB standards have achieved a degree of convergence to the point we can at least attempt to make some general statements about American government accounting and financial reporting standards. This is done in the next section.

Ten Government Accounting Principles

For jurisdictional reasons, the FASAB and the GASB have been respectively setting generally accepted accounting principles (GAAP) applicable to the Federal Government, and to state and local governments. Despite the numerous differences in their standards, both boards favor full disclosure for demonstrating and assessing government accountability, and both use essentially the same due process, even though their larger governance structures are quite dissimilar. Consequently, there are enough common features to constitute a set general American government accounting principles.

Following is the author’s tentative formulation of such a set of general American government accounting principles. The word “principles” is chosen to distinguish them from the “standards” set by the GASB and FASAB, and to make the point that these are broader and more general than most of the standards. But the principles are intended to be more concrete than a conceptual framework. As the FASAB and GASB have produced so many statements of standards by now, it is both necessary and worthwhile to generalize them to the extent possible. Both the GASB and FASAB have produced periodic “codifications” of their standards. But codifications are largely compilations of existing provisions of the standards to take into account additions, amendments and repeals. The following principles, however, are more in the nature of a distillation than a condensation of current standards. It goes without saying that they are the product of one academic’s attempt to make sense of American government accounting standards, and they have no official standing.

Principle 1. Accounting System Capability and Objectives. A government's accounting system should have the capacity to support financial management, as well as to provide information for demonstrating and enforcing legal and budgetary compliance, and financial accountability. When financial information is intended for external users, it is expected to be in conformity with applicable generally accepted accounting principles (GAAP).

Principle 2. Relation to the Budget. Governments should prepare and make public their annual budgets in terms of projected revenues and authorized expenditures. Actual and expected financial performance should be compared, using the budgetary basis, during the fiscal year and at year-end. When there are differences in scope of coverage and measurement methods, budgetary and accounting information should be reconciled.

Principle 3. Accounting and Reporting Entity. Accounting and reporting entities are identified on the basis of accountability and decision-making authority. These entities should include the whole government and its components, as well as legally separate but financially interdependent organizations. Financial data should be sufficiently disaggregated to allow flexible combination of entities for different purposes.

Principle 4. Accounting System Architecture. Government accounting should use the double entry recording method and be based on the accounting equation: assets = liabilities + net assets, where changes in net assets are reflected by revenues and expenses. A chart of accounts elaborating the classification of these elements of the accounting equation should be used consistently throughout the budgeting, accounting and financial reporting cycle.

Principle 5. Financial Statements. Financial statements are the core of interim and annual financial reports. By virtue of the relationships between the elements of the accounting equation, the statement of financial position is related to the statement of financial performance, and the cash flow statement is related to cash balances. Every government should prepare and make public a set of government-wide financial statements, as well fund or departmental financial statements. The government-wide financial statements should be designed so as to reveal significant internal financial relationships. Additional required and discretionary disclosures could be made to supplement and complement these fundamental financial statements.

Principle 6. Realization or Historical Orientation. Financial accounting data reflect the effects of past transactions and events on the financial position, financial performance and cash flows of an entity. This historical orientation constraints financial statements to reporting mostly realized results and using the historical cost as the basic valuation method.

Principle 7. Accounting Recognition. Economic resources capable of producing future benefits and acquired, owned or controlled by an entity should be regarded as its assets. An entity's obligations to pay cash or provide services as a consequence of past transactions and events should be regarded as its liabilities. Net assets or fund balance results from assets being offset by liabilities. Contractual obligations are not liabilities and may be disclosed in the net assets or fund balance. If intra-governmental assets and liabilities are reported, they should be clearly identified.

Principle 8. Measurement Focus. The statement of financial position should have a broad measurement focus. As such, assets encompass capital assets in addition to short- and long-term financial resources, and for liabilities encompass both capital debt and operating debt regardless of the timing of their maturity. Assets and liabilities should be classified so as to facilitate the assessment of the entity's liquidity and solvency.

Principle 9. Basis of Accounting. Government should adopt an accrual basis of accounting, even though there are varying degrees of accrual. Full accrual of revenues in exchange transactions should be based on service efforts and accomplishments, and the related expenses are cost of all the assets used and all liabilities incurred to generate the revenue. Degrees of accrual range from mild accrual, to moderate accrual, and to strong accrual. They differ in terms of the assets and liabilities being included in revenues and expenses (or expenditures). Which degree of accrual to adopt depends on the objectives of measuring revenue and cost of service, and should be guided by cost and benefit considerations.

Principle 10. Measurement Unit. Financial records and financial statements usually are not adjusted for decrease (or increase) in the purchasing power of the measurement unit, i.e. the U.S. dollar. However, during periods of significant inflation, financial trend information should be so adjusted. If liabilities occur over a long period of time, actuarial valuation should be used. This paper has described the standards promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB). Since their establishments - FASAB in 1990 and GASB in 1984 - these boards have issued a total of 82 standards (FASAB's 34 and GASB's 48) and have succeeded in resolving many accounting and financial reporting issues. In the spirit of "expresso" - less volume for greater potency - this paper has offered ten principles so that at a glance the international reader can capture the essence of American government accounting.

ACKNOWLEDGEMENT

This paper is dedicated to Professor Peter Eichhorn on the occasion of his retirement from the University of Mannheim, Germany. On several occasions over the past twenty years, the author has been the beneficiary of the knowledge and hospitality of Professor Peter Eichhorn. Professor Eichhorn has dedicated his long and productive academic and professional career to the advancement of the science of nonprofit and public sector management. While the principles articulated in this paper undoubtedly fall short of being scientific, they reflect the author's modest efforts to follow Professor Eichhorn's example of distilling principles by observing practice in action.

REFERENCES AND FURTHER READINGS

Federal Accounting Standards Advisory Board (FASAB), Statements of Federal Financial Accounting Standards and Statements of Federal Financial Accounting Concepts; original pronouncements, codification and documents generated for the due process are available at www.fasab.gov.

Governmental Accounting Standards Board (GASB), Governmental Accounting and Financial Reporting Standards, Original Pronouncements and Codification, and documents generated for the due process are available for purchase from the GASB, www.gasb.org.