

Eliminations

Why Eliminate?

Consolidated financial statements are not simply the sum of the subsidiary financial statements, because the entity differs. The subsidiary statements' entity might be an agency, while the consolidated statement's entity might be a department; or the subsidiary might be a department and the consolidated be for the federal government as a whole. Generally accepted accounting principles hold that transactions within an entity are not to be reported in the financial statements.

Most of the transactions that are eliminated are reimbursable work performed by one agency for another, or by a working capital fund for the same agency's appropriated funds. Also eliminated are any appropriation or non-expenditure transfers between agencies.

Determining Elimination Amounts

In order to determine the amounts to be eliminated, Treasury's Financial Management Service (FMS) requires that trial balances submitted to them include information on the trading partner for receivables, payables, revenues, expenses, reimbursements, and transfers of authority. In the Federal Agencies' Centralized Trial-balance System (FACTS), only the two-digit department ID is required. In FACTS II, both the department ID and the four-digit fund group are required.

Not every account is used for eliminations. For example, cash, fixed assets, and obligations incurred do not record a trading partner. Only those accounts for which FMS needs to reduce internal activity for the consolidated statements require a trading partner.

Determining When to Record a Federal Vendor

An agency should report balances in these accounts with another agency as the vendor only if they believe the other agency will report the reciprocal entry. For example, if an agency has revenue for work performed for another agency but not billed as of year end, they should not report that as revenue and a receivable, because the other agency has not been billed and won't know to report an expense and a payable. FMS has added functionality to its automated payment system IPAC to allow agencies to notify one another of these types of transactions so both sides can report them properly.

Agencies particularly need to look closely at transactions that list themselves as the vendor. Agencies should refrain from putting themselves down as the vendor for correcting entries; only a true transaction between appropriations or organizations within the agency should use the agency as the vendor. To determine if your agency is recording intra-agency transactions properly, extract all postings from the journals that list your own agency as the vendor, and then run a trial balance against the extracted records. Check to see whether expenses equal revenues, obligations equal reimbursable

agreements, and so on. If not, then a more detailed listing of the extract records would probably be needed to see who is posting what, so your agency can formulate new procedures to prevent unbalanced entries.

Comments, suggestions, and critiques are welcome. Send them to Simcha.Kuritzky@ams.com, and not to the AGA.