



Statewide Accounting Policy & Procedure

Accounting Manual Reference:

Section: Introduction
Sub-section: GAAP Hierarchy

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Background and Link to GASB Site:

The Governmental Accounting Standards Board (GASB) issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in March 2009. This statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the GAAP hierarchy, which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP. The hierarchy also provides a framework for selecting those principles.

Prior to Statement No. 55, the GAAP hierarchy was set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*, rather than in the authoritative literature of the GASB. Statement No. 55 moved relevant portions of that SAS to the GASB literature without substantive changes. Because the GASB chose not to reconsider the guidance provided in the SAS, the order of priority for accounting and financial reporting guidance remains unchanged in practice.

Summaries of GASB Statements, Concepts Statements and Interpretations, including instructions for obtaining the full text, can be found on the GASB website: <http://www.gasb.org/st/index.html>.

Application of the Hierarchy:

The GAAP hierarchy governs what constitutes generally accepted accounting principles for all state and local governmental entities. It lists the order of priority of pronouncements that a reporting organization should look to for accounting and financial reporting guidance. Those State reporting organizations that do not use GAAP in recording day-to-day transactions must be familiar with the selection of generally accepted accounting principles in the GAAP hierarchy to facilitate preparation of GAAP reporting at fiscal year-end.

The table below summarizes the sources of accounting principles that are generally accepted, with Level-A reflecting the strongest level of authority followed by other category levels, in descending order of authority.

If the accounting treatment for a transaction or event is not specified by a pronouncement in Level-A of the hierarchy, the reporting organization should consider whether the accounting treatment is specified by an accounting principle from a source in a lower level. The reporting organization should follow the treatment specified by principles with the highest levels of authority. In other words, follow Level-B treatment over Level-C treatment, etc.

If the accounting treatment for a transaction or event is not addressed by a pronouncement or established in practice as described in Levels A-D, then a reporting organization should consider accounting principles for similar transactions or events within those authority levels, unless the accounting principles either prohibit the application of the accounting treatment to the particular transaction/event or indicate that the accounting treatment should not be applied by analogy. A reporting organization may also consider other accounting literature if a transaction or event is not addressed in Levels A-D. Examples of other literature appear in the “Other Sources” row of the hierarchy summary below.

GAAP Hierarchy – Summary:

AUTHORITY LEVEL	GASB	AICPA	OTHER
A	Statements and Interpretations (Note: Also see Proprietary Fund Accounting section below)		
B	Technical Bulletins	If specified for government and cleared by the GASB: <ul style="list-style-type: none"> • Industry Audit and Accounting Guides • Statements of Positions 	
C	Consensus positions on emerging issues (group not yet organized by GASB)	Practice Bulletins, if specified for government and cleared by the GASB	
D	Implementation Guides		Widely recognized, prevalent practices in government
Other Sources	Concepts Statements (Note: GASB Concepts Statements are normally more influential than other sources in this level)	<ul style="list-style-type: none"> • Issues Papers • Technical Information Service Inquiries and Replies included in Technical Practice Aids 	Examples (not all inclusive): <ul style="list-style-type: none"> • Private industry GAAP hierarchy categories if not specific to government (including FASB statements and topics in the FASB Codification) • FASB Concepts Statements • FASAB Statements, Interpretations, Technical Bulletins, and Concepts Statements • Pronouncements of other professional associations or regulatory agencies • Accounting textbooks, handbooks, articles (e.g. GAAFR “Blue Book”)

Proprietary Fund Accounting:

GASB Codification Section P80 defines accounting and financial reporting for proprietary funds. The following guidance applies through fiscal year 2012, but will no longer apply once GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, becomes effective for financial statements for periods beginning after December 15, 2011.

Prior to the effective date of GASB Statement No. 62, Section P80.102 states: “Proprietary funds should be reported based on all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.” In addition, section P80.103 provides the option for enterprise funds to apply FASB Statements and Interpretations issued after November 30, 1989, “except for those that conflict with or contradict GASB pronouncements.” *However, in order to insure conformity in State accounting procedures this option should not be exercised by State organizations.*

Once GASB Statement No. 62 becomes effective (in fiscal year 2013 for the State of Georgia), section P80.102 will be revised to state: “Proprietary funds should be reported based on all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect),” and the section P80.103 language that provides an option for enterprise funds to apply FASB Statements and Interpretations issued after November 30, 1989 will be deleted.

Acronyms:

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ARB	Accounting Research Bulletins
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
GAAFR	Governmental Accounting, Auditing, and Financial Reporting (“Blue Book”)
GASB	Governmental Accounting Standards Board
NCGA	National Council on Governmental Accounting
SAS	Statement on Auditing Standards