



Bulletin: OCFO 15-02

Date: April 2, 2015

To: USDA Agencies

Subject: Changes in Significant Accounting Estimates

OCFO
BULLETIN

PURPOSE

The purpose of this bulletin is to provide guidance for changes in significant accounting estimates.

DEFINITIONS

Accounting change. An accounting change is one of three types of modifications that affect an enterprise's accounting principles and practices, or its application of them. The three types of accounting changes are: (1) a change in accounting principle from one generally accepted accounting principle to another alternative that is considered preferable, (2) a change in an accounting estimate, and (3) a change in the reporting entity.

Change in accounting estimate. A revision of an accounting measurement based on the occurrence of new events, additional experience, subsequent developments, better insight, and improved judgment. Refining previously made estimates is an inherent part of the accounting process.

BACKGROUND

The preparation of financial statements requires frequent use of estimates for such items as asset service lives, salvage values, lease residuals, asset impairments, collectability of accounts receivable, warranty costs, pension costs, etc. Future condition and events that affect these estimates cannot be estimated with certainty. Therefore, changes in estimates will be inevitable as new information and more experience is obtained. Changes in estimates are handled currently and prospectively. The effect of the change in accounting estimate is accounted for in (1) the period of change if the change affects that period only or (2) the period of change and future periods if the change affects both.

POLICY

Agencies will request approval from the Office of the Chief Financial Officer (OCFO) for significant changes in accounting estimates when the effect of the change is more than 10% and \$100 million in the financial statements.

RESPONSIBILITIES

Agencies are responsible for justifying significant changes in accounting estimates.

OCFO is responsible for approving significant changes in accounting estimates proposed by agencies.

PROCEDURES

- a. Develop a requirements document.

The requirements document should contain: (1) an Executive Summary explaining the reason for the change, including a brief history of the current process and a description of the proposed change; (2) a section that describes the current process, including an analysis of the current system to gain an understanding of the functions performed by the current model, review of applicable regulations and guidance to ensure that the proposed model will comply with them, and a review of the model's structure, inputs and basic calculations; and (3) a section that describes the proposed process, benefits of the new process, narrative of model concept and design, and explanation of the basic model concepts and design features.

- b. Perform verification and validation analysis.

Management should demonstrate that the new method or assumption is more appropriate or is responsive to such changes. Verification and validation analysis is a necessary component of implementing a new or enhanced model. Testing should be done by both the developer and the end user and must include, but is not limited to the following:

- 1) Comparative analysis between the current and revised models to review the extent of the model changes on the outcome;
- 2) Data validation to ensure that all data input is accurately reflected in the output of the model (if appropriate);
- 3) Sensitivity analysis performed by using a set of alternative assumptions to ensure that they produce the expected results, i.e., generally a symmetrical input/output set of changes for each variable;
- 4) Out-of-time (OOT) analysis to test the accuracy of the model's forecast by using data from older fiscal years to forecast results for more recent years. The forecasts are then compared to the actual data to determine how closely the model's projections approximate reality.

- c. Request approval from the OCFO before implementing a new or enhanced model.
- d. Notify the Office of Inspector General (OIG) before implementing a new or enhanced model.

- e. Implement the new or enhanced model.

INQUIRIES

Any questions concerning this bulletin should be directed to Kevin Close at kevin.close@cfo.usda.gov or (202) 720-0990.

EFFECTIVE DATE

This bulletin supersedes OCFO Bulletin 15-01, Changes in Significant Accounting Estimates, dated March 3, 2015, and is effective immediately.

/s/

JOHN G. BREWER
Deputy Chief Financial Officer