GASB Exposure Draft

May 20, 2021

Comments Due: August 31, 2021

Proposed Statement

of the Governmental Accounting Standards Board

Accounting Changes and Error Corrections

an amendment of GASB Statement No. 62

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the GASB for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 32-1

ACCOUNTING CHANGES AND ERROR CORRECTIONS

WRITTEN COMMENTS

Deadline for submitting written comments: August 31, 2021

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 32-1, and emailed to director@gasb.org.

OTHER INFORMATION

Public hearing. The GASB has not scheduled a public hearing on the issues addressed in this Exposure Draft.

Public files. Written comments will become part of the GASB's public file and are posted on the GASB's website.

This Exposure Draft may be downloaded from the GASB's website at www.gasb.org.

Final GASB publications may be ordered at www.gasb.org.

Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for (1) establishing and improving standards of state and local governmental accounting and financial reporting to provide useful information to users of financial reports and (2) educating stakeholders—including issuers, auditors, and users of those financial reports—on how to most effectively understand and implement those standards.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, the GASB is issuing this Exposure Draft setting forth proposed standards that would address the accounting and financial reporting for accounting changes and error corrections.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to all Board members and to staff members assigned to this project, and comments are considered during the deliberative process leading to a final Statement. In deciding on changes in accounting and financial reporting standards, the GASB also takes into consideration the expected benefits and the perceived costs associated with the changes. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications have been made as considered appropriate, will a vote be taken to issue a final Statement. A majority vote of the Board is required for adoption.

Summary

The primary objective of this proposed Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This proposed Statement would define *accounting changes* as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and would describe the transactions or other events that constitute those changes. As part of those descriptions, for (1) a change in accounting principle and (2) a change in accounting estimate that results from a change in measurement methodology, the new principle or methodology would be required to be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability would be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This proposed Statement also would address corrections of errors in previously issued financial statements. This proposed Statement would describe the first-time adoption of the U.S. generally accepted accounting principles established by the GASB as the adoption of a new financial reporting framework, not as an accounting change or error correction.

This proposed Statement would prescribe the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This proposed Statement would require that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. This proposed Statement also would establish display requirements by requiring the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, to be displayed by reporting unit in the financial statements.

This proposed Statement would require disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects of each accounting change and error correction would be required to be disclosed in a tabular format by reporting unit to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this proposed Statement would address how information for prior periods that is affected by a change in accounting principle or error correction would be presented in required supplementary information and supplementary information. For periods that are not presented in the basic financial statements but for which information is presented in required supplementary information or supplementary information, information would be required to be restated in required supplementary information and supplementary information for error corrections but not for changes in accounting principles.

Effective Date and Transition

The requirements of this proposed Statement would be effective for accounting changes and error corrections made in reporting periods beginning after June 15, 2023. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which would result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information would be provided to financial statement users. In addition, the proposed display and note disclosure requirements would result in more decision useful, understandable, and comprehensive information for users about accounting changes and error corrections.

How the Board Considered Costs and Benefits in the Development of This Proposed Statement

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits of implementing this proposed Statement—more understandable, reliable, relevant, consistent, and comparable information about accounting changes and error corrections—are significant and justify the perceived costs of implementation and ongoing compliance.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Accounting Changes and Error Corrections

an amendment of GASB Statement No. 62

May 20, 2021

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Proposed Statement of the Governmental Accounting Standards Board

Accounting Changes and Error Corrections

an amendment of GASB Statement No. 62

May 20, 2021

INTRODUCTION

1. The primary objective of this Statement is to enhance the accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements. The requirements of this Statement apply to the financial statements of all state and local governments.

3. This Statement supersedes Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraphs 58–89, and *Implementation Guide No. 2015-1,* Questions 1.57.2, 4.38.3, 4.38.4, 7.22.16, 7.22.17, 7.104.17, and 10.20.5. This Statement amends Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* paragraph 11; Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,* paragraph 14; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraph 112; Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* paragraph 14; Statement 62, paragraphs 50, 53, 94, 209, and 361; Statement No. 69, *Government Combinations and Disposals of Government Operations,* paragraph 43; Statement No. 79, *Certain External Investment Pools and Pool Participants,* paragraph 7; and Implementation Guide 2015-1, Questions 3.28.1, 7.14.4, 7.55.7, and Z.51.26.

Classification

Accounting Changes

4. Accounting changes are (a) changes in accounting principles, (b) changes in accounting estimates, and (c) changes to or within the financial reporting entity.

Change in Accounting Principle

5. Once adopted, an accounting principle should be applied consistently to account for and report transactions and other events of a similar type, except as described in this paragraph. A change in accounting principle results from either:

a. A change from one generally accepted accounting principle to another generally accepted accounting principle that is justified on the basis that the newly adopted accounting principle is preferable to the accounting principle applied before the change. The qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability—should be the basis for determining whether a new accounting principle would be preferable.
b. The implementation of new authoritative accounting or financial reporting pronouncements (hereafter referred to as new pronouncements).

6. A change in accounting principle is the application of an accounting principle to transactions or other events of a similar type that is different from the accounting principle previously applied to those transactions or other events. Therefore, the initial adoption and application of an accounting principle to transactions or other events that (a) are clearly different in substance from those previously occurring, (b) are occurring for the first time, or (c) were previously insignificant in their effect is not a change in accounting principle. A change from (1) applying an accounting principle that is *not* generally accepted to transactions or other events that previously were significant to (2) applying a generally accepted accounting principle to those transactions or other events is an error correction. (See paragraphs 12 and 13.)

Change in Accounting Estimate

7. Accounting estimates are outputs determined based on inputs such as data, assumptions, and measurement methodologies. As outputs, accounting estimates are amounts subject to measurement uncertainty that are recognized or disclosed in the basic financial statements. A *change* in an accounting estimate results from changes to the inputs of that estimate. Changes to inputs result from a change in circumstance, new information, or more experience.

8. A change in an accounting estimate that results from a change in the measurement methodology that is used to determine that estimate should be justified on the basis that the change in measurement methodology is preferable to the measurement methodology used before the change. The qualitative characteristics of financial reporting—understandability,

reliability, relevance, timeliness, consistency, and comparability—should be the basis for determining whether a new measurement methodology would be preferable.

Change to or within the Financial Reporting Entity

9. Changes to or within the financial reporting entity result from:

a. The addition or removal of a fund that results from the movement of resources within the primary government, including its blended component units
b. A change in the fund presentation as major or nonmajor
c. Except as described in paragraph 10, the addition of a component unit to the financial reporting entity or removal of a component unit from the financial reporting entity
d. A change in the presentation (blended or discretely presented) of a component unit.

10. Acquisitions, mergers, or transfers of operations (as defined by Statement 69) that result in the addition or removal of a discretely presented component unit and component units reported pursuant to Statement No. 90, *Majority Equity Interests,* should not be considered changes to or within the financial reporting entity, as described by paragraph 9.

11. Transactions or other events that could be classified as either a change in accounting principle in accordance with paragraph 5a or a change to or within the financial reporting entity should be considered a change to or within the financial reporting entity.

Correction of an Error in Previously Issued Financial Statements

12. An error results from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date. Facts that existed at the time the financial statements were issued are those facts that could reasonably be expected to have been obtained and taken into account at that time about conditions that existed as of the financial statement date.

13. A change from (a) applying an accounting principle that is *not* generally accepted to transactions or other events that previously were significant to (b) applying a generally accepted accounting principle to those transactions or other events is an error correction.

First-Time Adoption of the U.S. Generally Accepted Accounting Principles Established by the GASB Financial Reporting Framework

14. The first-time adoption of U.S. generally accepted accounting principles established by the GASB (hereafter referred to as U.S. GAAP) is an adoption of a new financial reporting framework whereby a government asserts for the first time that its basic financial statements are prepared in accordance with U.S. GAAP. The first-time adoption of U.S. GAAP as a financial reporting framework is neither an accounting change nor an error correction.

Accounting and Financial Reporting for Accounting Changes and Error Corrections

Change in Accounting Principle

15. The requirements in paragraphs 16–19 apply in the absence of other specific requirements that address how a change in accounting principle should be reported.

16. A change in accounting principle should be reported retroactively by restating financial statements for all prior periods presented, if practicable. The cumulative effect, if any, of the change to the newly adopted accounting principle on periods prior to those presented should be reported as a restatement of beginning net position, fund balance, or fund net position, as applicable, of the earliest period presented. Each individual prior period presented should be restated to reflect the period-specific effects of applying the newly adopted accounting principle.

17. If restatement of all prior periods presented is not practicable, the cumulative effect, if any, of applying the newly adopted accounting principle should be reported as a restatement of beginning net position, fund balance, or fund net position, as applicable, of the earliest period restated (that is, for the earliest period for which it is practicable to apply the newly adopted accounting principle).

Notes to Financial Statements

18. A government should disclose the following in notes to financial statements for each change in accounting principle:

a. The nature of the change in accounting principle, including identification of the financial statement line items (excluding totals and subtotals) affected
b. Except for the implementation of a new pronouncement, the reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable
c. If prior periods presented are not restated because it is not practicable to do so, the reason why the restatement is not practicable.

19. In addition, the effects on beginning net position, fund balance, or fund net position, as applicable, should be disclosed as required by paragraph 32.

Change in Accounting Estimate

20. The requirements in paragraphs 21 and 22 apply in the absence of other specific requirements that address how a change in accounting estimate should be reported.

21. A change in accounting estimate, as described in paragraph 7, should be reported prospectively by recognizing the change in accounting estimate in the reporting period in which the change occurs.

Notes to Financial Statements

22. A government should disclose the following in notes to financial statements for each significant change in accounting estimate:

a. The nature of the change in accounting estimate, including identification of the financial statement line items (excluding totals and subtotals) affected
b. If the change in accounting estimate results from a change in measurement methodology, the reason for the change in measurement methodology, including an explanation of why the new measurement methodology is preferable.

Change to or within the Financial Reporting Entity

23. A change to or within the financial reporting entity should be reported by adjusting beginning net position, fund balance, or fund net position, as applicable, for the effect of the change as if the change occurred as of the beginning of the reporting period.

Notes to Financial Statements

24. A government should disclose in notes to financial statements the nature of and reason for each change to or within the financial reporting entity.

25. In addition, the effects on beginning net position, fund balance, or fund net position, as applicable, should be disclosed as required by paragraph 32.

Correction of an Error in Previously Issued Financial Statements

26. A correction of an error in previously issued financial statements should be reported retroactively by restating financial statements for all prior periods presented. The cumulative effect of the error correction on periods prior to those presented should be reported as a restatement of beginning net position, fund balance, or fund net position, as applicable, of the earliest period presented. Each individual prior period presented should be restated to reflect the period-specific effects of correcting the error.

Notes to Financial Statements

27. A government should disclose the following in notes to financial statements for each error correction:

a. The nature of the error and its correction, including the periods affected by the error and identification of the financial statement line items (excluding totals and subtotals) affected by the correction
b. The effect of the error correction on the change in net position, fund balance, or fund net position, as applicable, of the prior period.

28. In addition, the effects on beginning net position, fund balance, or fund net position, as applicable, should be disclosed as required by paragraph 32.

Reclassification in the Financial Statements Resulting from a Change in Accounting Principle or an Error Correction

29. For a change in accounting principle that does not have an effect on beginning net position, fund balance, or fund net position but that results in a reclassification in the financial statements, amounts should be reclassified in all prior periods presented, if practicable. In such circumstances, the disclosures required by paragraphs 18a and 18b should be included in notes to financial statements. If amounts are not reclassified in prior periods presented because it is not practicable to do so, the reason why it is not practicable also should be disclosed.

30. For an error correction that does not have an effect on beginning net position, fund balance, or fund net position but that results in a reclassification in the financial statements, amounts should be reclassified in all prior periods presented. In such circumstances, the disclosures required by paragraph 27a should be included in notes to financial statements.

Other Financial Reporting Requirements

Display in the Financial Statements

31. The aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, should be displayed for each reporting unit.[1]

Notes to Financial Statements

32. A government should disclose in notes to financial statements the effects on beginning net position, fund balance, or fund net position, as applicable, of the earliest period restated for the following that occurred during the period: (a) each change in accounting principle (including the implementation of new pronouncements that result in restatement, even if there are specific transition provisions in other pronouncements), (b) each change to or within the financial reporting entity, and (c) each error correction. Those effects should be disclosed in a tabular format that reconciles beginning balances as previously reported to beginning balances as adjusted or restated for each reporting unit. If the government has separately displayed in the financial statements the effects of *each* accounting change or error correction by reporting unit, those effects need not be repeated in notes to financial statements.

33. The note disclosures required by this Statement should correspond to the reporting units. Except for the note disclosure required by paragraph 32, disclosure by reporting unit is subject to the requirements in paragraph 63 of Statement No. 14, *The Financial Reporting Entity,* as amended. Information that is the same for more than one reporting unit should be combined in a manner that avoids unnecessary duplication.

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[1]For purposes of the requirements in paragraphs 31–33, each separate column in the basic financial statements, except for the total columns, is a reporting unit.

34. The note disclosures required by this Statement should be made in the reporting period in which the accounting change occurs or in the reporting period in which the error is discovered and corrected. If a note disclosure is included in interim financial statements, that disclosure also should be included in the related annual financial statements. For comparative financial statements, if the prior periods presented were restated in the period in which the accounting change occurred or the error was discovered and corrected, subsequent annual financial statements need not repeat the disclosures.

Required Supplementary Information and Supplementary Information

35. For prior reporting periods that are presented in the basic financial statements, information for those prior periods that is presented in required supplementary information (including management's discussion and analysis [MD&A]) or supplementary information should be consistent with the manner in which the information for those periods is presented in the basic financial statements.

36. For prior reporting periods that are not presented in the basic financial statements but that are presented in required supplementary information (including MD&A) or supplementary information, information for those prior periods that is presented in required supplementary information or supplementary information should not be restated for changes in accounting principles but should be restated for error corrections.

37. If prior-period information presented in required supplementary information or supplementary information is not consistent with current-period information as a result of an accounting change, an explanation of why the information is not consistent should be provided. In MD&A, that explanation should include a reference to the related note disclosure in the basic financial statements.

EFFECTIVE DATE AND TRANSITION

38. The requirements of this Statement are effective for accounting changes and error corrections made in reporting periods beginning after June 15, 2023. Earlier application is encouraged.

39. This Statement does not change the transition provisions of any existing GASB pronouncements, including those that are being implemented as of the effective date of this Statement.

The provisions of this Statement need not be applied to immaterial items.

Appendix A

BACKGROUND

A1. Prior to the issuance of this Statement, the requirements of GASB Statement 62, as amended, addressed the accounting and financial reporting for prior-period adjustments, accounting changes, and error corrections. Those requirements primarily were based on Accounting Principles Board Opinion No. 20, *Accounting Changes*, and FASB Statement No. 16, *Prior Period Adjustments*, issued in 1971 and 1977, respectively. Some minor modifications were made to those requirements when they were incorporated into Statement 62 to adjust for inconsistencies with other GASB literature in place at that time; however, the requirements remained largely unchanged since their initial issuance.

A2. In August 2018, the Board added a pre-agenda research activity to its technical plan to reexamine the effectiveness of the requirements of Statement 62, as amended, related to prior-period adjustments, accounting changes, and error corrections. The pre-agenda research consisted of a literature review, separate surveys of preparers and auditors, and interviews with users. In addition, previous pre-agenda research reexamining existing note disclosure requirements encompassed disclosures about prior-period adjustments, accounting changes, and error corrections.

A3. Those pre-agenda research activities identified certain issues regarding the understanding and application of the requirements of Statement 62. Specifically, the pre-agenda research identified (a) issues related to the classification of transactions or other events among the categories of accounting changes and error corrections and (b) diversity in practice regarding the disclosures in notes to financial statements. The pre-agenda research also identified information users find valuable about accounting changes and error corrections. Feedback on preliminary results of the pre-agenda research was provided by members of the Governmental Accounting Standards Advisory Council (GASAC) at their October 2019 meeting.

A4. In December 2019, the Board added a project to the practice-issue portion of its current technical agenda. Board deliberations began in February 2020. Feedback on the project was provided by members of the GASAC at several of their meetings throughout the Board's deliberations. The Board's consideration of the individual feedback from GASAC members is incorporated throughout Appendix B. When project issues are discussed with GASAC members, the GASAC does not take formal positions either in support of or in opposition to those issues.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability of This Statement

B2. This Statement addresses accounting and financial reporting for accounting changes and error corrections. As part of its deliberations, the Board considered the requirements of Statement 62, including the categories those requirements addressed: prior-period adjustments, change in accounting principle, change in accounting estimate, change in the reporting entity, and correction of an error in previously issued financial statements. The Board decided to retain categories for changes in accounting principles, changes in accounting estimates, and error corrections, with further clarification about the transactions and other events that compose those categories and the distinctions between the categories, as discussed in paragraphs B6–B14.

B3. The Board concluded that the changes in reporting entity category in Statement 62 should be expanded to address not only changes in the legally separate entities that compose the financial reporting entity but also additions or removals of funds resulting from the movement of primary government resources and changes in fund and component unit presentations. The Board believes that expansion more fully considers the governmental financial reporting model and addresses certain transactions or other events that were not previously addressed by GASB literature, such as the reclassification of a fund, for example, from a major enterprise fund to a major special revenue fund. To signal a change in the scope of the category, the Board concluded that the name of the category should be modified to *changes to or within the financial reporting entity*. Paragraphs B10–B12 more fully discuss the Board's conclusions related to the transactions or other events that compose that category.

B4. Regarding a separate category for prior-period adjustments, the Board concluded that such a category would be duplicative of other categories. The prior-period adjustments category in GASB Statement 62 originated from FASB Statement 16. However, no formal criteria for the transactions or events that make up the category of prior-period adjustments was brought forward to GASB literature; Statement 62 only explicitly provides that error corrections be reported as prior-period adjustments. In addition, the pre-agenda research for the project that led to this Statement indicated that the term *prior-period adjustment* generally is used broadly to refer to any transaction or other event that results in an adjustment to or restatement of prior periods. That is, the term often is used to describe a method of recognition rather than a type of transaction or other event; thus, when used in that manner, the term is applicable to any transaction or other event that is reported retroactively (including changes in accounting principles). The Board believes that the categories in this Statement will appropriately address the transactions or other events that should result in an adjustment to or restatement of prior periods. Therefore, the Board concluded that the separate category for prior-period adjustments in Statement 62 should be eliminated in order to remove redundancy and alleviate confusion in practice.

B5. The Board also considered whether this Statement should address the first-time adoption of the U.S. GAAP financial reporting framework. The Board concluded that to facilitate an understanding of the other categories, this Statement should clarify that the adoption of U.S. GAAP as a new financial reporting framework is not an accounting change or an error correction. However, the Board decided that establishing accounting and financial reporting requirements for the first-time adoption of U.S. GAAP would go beyond the objectives of this project.

Classification

Accounting Changes

B6. The Board considered the types of transactions or other events that constitute each type of accounting change to assist in the development of the descriptions of each category. Those considerations are described in paragraphs B7–B12.

Change in Accounting Principle

B7. The Board determined that a change in accounting principle results from circumstances in which (a) a government chooses to apply a different accounting principle than that previously used and (b) a government implements a new pronouncement. Regarding (a), the Board considered the circumstances in which it would be appropriate for a government to apply a different accounting principle. The Board affirmed the conclusion in Statement 62 that a government should change its accounting principle only on the basis that the new generally accepted accounting principle is preferable. The Board concluded that preferability should be based on the qualitative characteristics of information in financial reporting. Use of the same accounting principles over multiple reporting periods supports the qualitative characteristic of consistency; consequently, reduced consistency is inherent in changing accounting principles. Therefore, the Board believes that to conclude that a new accounting principle would be preferable, that accounting principle would need to result in information that better satisfies other qualitative characteristics (understandability, reliability, relevance, timeliness, or comparability), such that collectively, the qualitative characteristics are enhanced. Regarding (b), the Board does not believe further justification is necessary because the issuance of those pronouncements implies that the new accounting principles are preferable and constitutes sufficient support for making the change.

Change in Accounting Estimate

B8. For purposes of this Statement, the Board concluded that an accounting estimate is an amount subject to measurement uncertainty that is recognized or disclosed in the basic financial statements. In addition, this Statement clarifies that accounting estimates are *outputs*, which are determined based on inputs such as data, assumptions, or measurement methodologies. The Board acknowledges that the term *accounting estimate* is used more broadly in Statement 62 to refer to both outputs and inputs. The Board believes that the delineation between outputs and inputs helps to clarify the accounting and financial reporting for changes in accounting estimates, as discussed further in paragraphs B22 and B23.

B9. The Board believes it is important that there be clear distinctions between the types of accounting changes. In addition to the foundational notion that an accounting estimate is subject to measurement uncertainty, the Board believes that a defining characteristic of a change in accounting estimate is that it ultimately results from a change in circumstance, new information, or more experience. The Board also determined that a change in accounting estimate that results from a change in measurement methodology (for example, a change in valuation technique) is similar in some respects to a change in accounting principle and noted that Statement 62 considered a change in accounting estimate that is effected by a change in accounting principle to be a change in accounting estimate for purposes of accounting and financial reporting. Because of the similarities, the Board determined that a change in accounting estimate that results from a change in measurement methodology should be justified on the basis that the new measurement methodology is preferable. Consistent with its decisions regarding changes in accounting principles, the Board believes that preferability is based on whether the new measurement methodology better satisfies the qualitative characteristics of financial reporting. The Board acknowledges that requiring such a justification is a change from Statement 62 but believes that it will enhance consistency by limiting the frequency of changes. The Board also considered how to differentiate between a change in accounting estimate and an error correction. The Board determined that the distinction is that for an error correction, the government *should have known* facts at the time the financial statements were issued about conditions that existed as of the financial statement date; that is, those facts could reasonably be expected to have been obtained and taken into account (as discussed further in paragraph B13).

Change to or within the Financial Reporting Entity

B10. As previously discussed, the Board determined that the transactions or other events that compose this type of accounting change should be expanded from those in Statement 62. Accordingly, changes to or within the financial reporting entity include (a) changes in the legally separate entities that compose the financial reporting entity, (b) changes in the funds that compose the fund structure of the primary government, and (c) changes in the presentation of funds (as major or nonmajor) and component units (as blended or discretely presented). The Board believes that addressing changes in funds supports a "bottom-up" approach, which is consistent with how financial statements are prepared. Furthermore, as previously discussed, the Board believes that including fund reclassifications as part of this category addresses an identified practice issue.

B11. The Board did not broadly reconsider the requirements of other Statements (primarily Statements 69 and 90) that address transactions or other events that might result in a change to (a) the legally separate entities that compose the financial reporting entity or (b) the funds that compose the fund structure of the primary government. However, the Board specifically considered the relationship between the requirements of this Statement and those Statements and concluded that because of the expanded scope of the category, amendments were necessary to Statement 69. Specifically, the Board believes that because blended component units are so intertwined with the primary government, transactions or other events with a blended component unit that result in the addition or removal of a fund or component unit (including a transfer of operations from the primary government that results in a new blended component unit) should be reported in the same manner as other events that occur within the primary government that result in the addition or removal of a fund. In contrast, the Board believes that discretely presented component units maintain a greater degree of separation from the primary government, and, therefore, this Statement does not consider transactions or other events with discretely presented component units (including a transfer of operations from the primary government that results in a new discretely presented component unit) to be changes to or within the financial reporting entity for purposes of applying this Statement. The Board believes that conclusion is consistent with the general concepts related to the relationship of the primary government to its blended and discretely presented component units established in Statement 14, as amended. As a result, although Statement 69 continues to apply to the separately issued financial statements of a blended component unit, the Board concluded that this Statement should address how transactions or other events with blended component units should be reported in the reporting entity's financial statements.

B12. In considering the differences between types of accounting changes, the Board believes that a change to or within the financial reporting entity generally reflects a change in circumstance, whereas a change in accounting principle reflects the application of different accounting or financial reporting to the same circumstance. However, the Board acknowledges the potential for an overlap between changes in accounting principles and changes to or within the financial reporting entity. For example, in most cases, a government reports funds as major or nonmajor based on the quantitative analysis that determines the major funds, as required by Statement 34, as amended. If a major fund becomes a nonmajor fund because it no longer meets the quantitative threshold, the Board views that change as a change in circumstance. However, in other cases, a government may voluntarily choose to report a fund as major even though it does not meet the quantitative threshold. In that case, if the government subsequently chooses to report that fund as nonmajor, the circumstance has not changed; rather, the government's policy regarding which funds it voluntarily chooses to report as major has changed. To alleviate confusion and reduce inconsistency in practice, the Board decided that this Statement should specify that except for changes resulting from the implementation of a new pronouncement, a change that could meet the description of both categories should be reported as a change to or within the financial reporting entity, regardless of whether the change was due to a change in the government's policies or a change in circumstance.

Correction of an Error in Previously Issued Financial Statements

B13. The Board generally carried forward the description of a correction of an error in previously issued financial statements from Statement 62. As previously discussed, the Board acknowledges the need to differentiate between a change in accounting estimate and an error correction. The Board believes that an error occurs when a government *should have known* facts at the time the financial statements were issued about conditions that existed as of the financial statement date, whereas a change in accounting estimate results from *new* developments (a change in circumstance, new information, or more experience). This Statement emphasizes that point, which the Board believes will assist preparers and auditors in making determinations regarding the appropriate classification of a transaction or other event.

First-Time Adoption of the U.S. GAAP Financial Reporting Framework

B14. As discussed in paragraph B5, the Board decided to include a description of a first-time adoption of the U.S. GAAP financial reporting framework primarily to indicate that the initial adoption of that framework is not an accounting change or an error correction. The Board believes that accounting changes represent changes within the U.S. GAAP financial reporting framework. On the other hand, the Board believes that a correction of an error represents an individual instance in which a transaction or other event previously was not reported appropriately in accordance with U.S. GAAP. As such, the Board does not believe that the first-time adoption of U.S. GAAP as a financial reporting framework satisfies either of those descriptions because the intent of the first-time adoption category is to address those circumstances in which a government is adopting a new financial reporting framework (U.S. GAAP) altogether, not circumstances in which a government changes or appropriately applies individual accounting principles. Accordingly, the Board concluded that the first-time adoption of U.S. GAAP centers on a government's assertion that the basic financial statements are prepared in accordance with U.S. GAAP. That is, the Board believes that if a government has asserted that its basic financial statements are prepared in accordance with U.S. GAAP (regardless of the audit opinion received on those financial statements), any changes made subsequent to that assertion to report in accordance with U.S. GAAP would not be considered a first-time adoption of the U.S. GAAP financial reporting framework. As previously discussed, the Board concluded that establishing requirements regarding how to adopt U.S. GAAP for the first time was outside the scope of the project that led to this Statement.

Accounting and Financial Reporting for Accounting Changes and Error Corrections

B15. The requirements of Statement 62 related to accounting changes and error corrections applied only to governmental activities, business-type activities, and proprietary funds. The Board is not aware of any conceptual or practical reasons that the requirements for accounting changes and error corrections should not be applicable to governmental funds (to the extent that the change or error affects amounts reported in accordance with the measurement focus and basis of accounting for governmental funds) or fiduciary funds and believes that such accounting and financial reporting provides better information for a user of those fund financial statements. By requiring that the standards for accounting changes and error corrections also be applied to governmental and fiduciary funds, the Board believes that this Statement resolves a significant shortcoming of Statement 62.

Change in Accounting Principle

B16. The Board concluded that a change in accounting principle should be reported retroactively by restating all prior periods presented, if practicable, primarily because the effect of a change in accounting principle is not attributable to the current period and, therefore, should not be reported in current-period flows. In addition, the Board believes that retroactive application enhances consistency because the financial statements are presented as if the newly adopted principle had been applied in prior periods. For governments that present more than a single period, the Board recognizes that there may be circumstances in which the information necessary to restate all prior periods presented would not be obtainable. Therefore, the Board concluded that if prior periods are presented, those periods should be restated, if practicable. The phrase *if practicable* has been used in other GASB standards with respect to transition provisions in a similar context as used in this Statement. The Board believes that reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable.* Consistent with that decision, the Board also concluded that if it is not practicable to restate all prior periods presented, the reason why it is not practicable should be disclosed.

B17. The Board acknowledges that Statement 62 previously required that only the beginning balances of the current period be restated with certain disclosures to show pro forma amounts of what prior periods would have been if the newly adopted accounting principle had been applied. The Board believes that restating prior periods presented, if practicable, better supports consistency than pro forma disclosures. The Board also believes that the requirements of this Statement will be better understood by preparers and auditors.

B18. This Statement generally carries forward from Statement 62 the requirement to disclose in notes to financial statements the nature of and justification for a change in accounting principle and clarifies what those disclosures should include. The Board decided that the disclosure about the nature of the change in accounting principle should identify the financial statement line items affected to provide users with more relevant and understandable information, particularly in cases in which the effects of the change in accounting principle are not readily apparent. In addition, this Statement carries forward the requirement to disclose the effect of a change in accounting principle on beginning balances; however, as discussed in paragraph B31, the Board concluded that information should be disclosed as part of a comprehensive note that provides information about the effects of all adjustments and restatements to beginning balances.

B19. The Board also considered whether other quantitative information about the effects of a change in accounting principle should be disclosed in notes to financial statements, including certain note disclosures required by Statement 62 regarding (a) the effects on prior-period flows statements as if the newly adopted accounting principle had been applied during those prior periods and (b) the effects on current-period flows statements as if the newly adopted accounting principle had not been adopted. The Board was not convinced that such information is essential and generally believes the expected benefits of that information do not justify the perceived costs of providing it. Therefore, the Board determined that those disclosure requirements should not be carried forward to this Statement.

Implementation of a New Pronouncement

B20. The Board concluded that because the implementation of a new pronouncement is a change in accounting principle, the accounting and financial reporting requirements of this Statement for a change in accounting principle should apply to the implementation of a new pronouncement in the absence of specific transition provisions. The Board acknowledges that such an approach establishes retroactive application as the default transition method for new pronouncements. However, the Board noted that establishing transition provisions in future pronouncements that differ from the default requirements for a change in accounting principle is not precluded, and the Board generally expects that transition provisions will continue to be considered individually for each new pronouncement to develop the most appropriate requirements for those specific circumstances.

B21. The Board also considered whether information about newly issued GASB pronouncements that are not yet effective should be disclosed. The Board generally believes that broad information about the pronouncements issued by GASB is not especially useful and noted that in some cases, that information may be considered general or educational information that is not specific to the government. Consequently, the Board considered whether to require disclosure of information about a new pronouncement that is specific to the government—for example, the expected effects, if known and reasonably estimable, of a new pronouncement. The Board was concerned that such a requirement would result in either (a) the incurrence of significant additional costs to obtain the information necessary to make such a disclosure or (b) a boilerplate disclosure that the effects were not known or reasonably estimable. As such, the Board was not convinced that the information is essential or that its expected benefits justify the perceived costs.

Change in Accounting Estimate

B22. The Board carried forward the requirement in Statement 62 that a change in accounting estimate be reported prospectively. The Board continues to believe that prospective accounting treatment is appropriate because a change in accounting estimate is the result of a change in circumstance, new information, or more experience. As previously discussed, the Board believes that differentiating accounting estimates as outputs from the inputs that result in a change in accounting estimate clarifies the resultant accounting and financial reporting. In addition, the Board recognizes that other authoritative literature may specify how a change in accounting estimate should be reported, for example, reporting a change in the pension liability in accordance with Statement No. 68, *Accounting and Financial Reporting for Pensions,* as amended. Accordingly, the Board concluded that the requirements of this Statement for a change in accounting estimate apply only in the absence of other specific requirements regarding how to account for and report the change.

B23. The Board determined that information about the nature of the change in accounting estimate, including identification of the financial statement line items affected, is essential based on feedback from users who participated in the pre-agenda research and, therefore, should be disclosed in notes to financial statements. In addition, as previously discussed, the Board determined that a change in accounting estimate that results from a change in measurement methodology should be justified on the basis that the new measurement methodology is preferable. Accordingly, the Board decided that for changes in estimates resulting from changes in measurement methodologies, a government should disclose the reason for the change, including an explanation of why the new measurement methodology is preferable, to provide users with information about why the change was made so that they are able to appropriately incorporate the estimates into their analyses. Furthermore, the Board recognizes that there are many estimates in the financial statements and, therefore, decided to emphasize that the note disclosures for a change in accounting estimate should be made only in circumstances in which the change is significant.

Change to or within the Financial Reporting Entity

B24. The Board concluded that a change to or within the financial reporting entity should be reported by adjusting beginning balances of the current period. In contrast to a change in accounting principle, the Board believes that prior periods should not be restated for a change to or within the financial reporting entity because, as previously discussed, the Board believes that a change to or within the financial reporting entity generally reflects a change in circumstance, whereas a change in accounting principle reflects the application of different accounting and financial reporting to the same circumstance.

B25. The Board determined that information about the nature of and reason for the change to or within the financial reporting entity is essential to users for (a) understanding the transaction or other event that occurred and (b) utilizing the information disclosed about the quantitative effect of the change on beginning balances (as discussed in paragraph B31).

Correction of an Error in Previously Issued Financial Statements

B26. The Board carried forward the requirement in Statement 62 that an error correction be accounted for retroactively by restating all prior periods presented (to the extent affected by the error). The Board believes that the effects of the error are not attributable to the current period and, therefore, should not be reported in current-period flows. The Board considered whether a practicability exception to restating prior periods presented should be permitted; however, it determined that it would be misleading to present prior periods that include known errors that have not been corrected.

B27. This Statement generally carries forward the note disclosure requirements in Statement 62 related to descriptive information (the nature of the error and its correction), with additions that the disclosure should include identification of the financial statement line items affected and the periods affected by the error. Similar to its decisions regarding a change in accounting principle and a change in accounting estimate, the Board believes that including identification of the line items affected will provide users with essential information for making decisions or assessing accountability. Regarding the periods affected by the error, based on feedback provided by users in the pre-agenda research, the Board believes that disclosure will provide valuable information related to the nature of the error, which may affect how a user views the error for purposes of making decisions or assessing accountability.

B28. The Board also decided to carry forward from Statement 62 the quantitative note disclosures about the effect of the error correction on (a) beginning net position, fund balance, or fund net position, as applicable (as discussed further in paragraph B31) and (b) the prior period's change in net position, fund balance, or fund net position, as applicable. The Board believes that information about the quantitative effects of the error correction is essential because it informs users about the magnitude of the error, which may affect users' analyses for making decisions or assessing accountability.

Reclassification in the Financial Statements Resulting from a Change in Accounting Principle or an Error Correction

B29. This Statement specifically addresses reclassifications that result from a change in accounting principle or an error correction. The Board's intent in addressing those circumstances is to reduce diversity in practice by clarifying that even if a change in accounting principle or an error correction does not result in a restatement of beginning balances (for example, an error in classification in the statement of cash flows), prior periods presented should reflect the reclassified amounts and governments should include the applicable note disclosures. The Board believes that including a practicability exception for reclassifications resulting from a change in accounting principle but not for an error correction is consistent with its decisions related to each of those categories.

Other Financial Reporting Requirements

Display

B30. The Board considered whether to establish display requirements related to accounting changes and error corrections that have an effect on beginning net position. Feedback in the pre-agenda research indicated diversity in practice regarding display in the financial statements of accounting changes and error corrections, and, therefore, the Board believes that establishing display requirements will enhance comparability across governments. In addition, the Board believes that, in many cases, presenting the aggregate amount of the adjustments and restatements by reporting unit in the financial statements will facilitate users' understanding of the magnitude of the effects of accounting changes and error corrections and allow them to more easily determine whether they need to obtain additional information.

Notes to Financial Statements

B31. This Statement requires the effects on beginning balances for each accounting change or error correction to be disclosed by reporting unit in a tabular format that reconciles beginning balances as previously reported to beginning balances as restated. The Board noted that the effects on beginning net position generally were required to be disclosed by

Statement 62; however, it believes that the note disclosure required by paragraph 32 of this Statement will provide users with a comprehensive explanation of the aggregate amount of adjustments and restatements that is displayed in the financial statements in a more understandable and useful format.

B32. In addition, the Board considered the periods in which the note disclosures required by this Statement should be made. The Board determined that the disclosures should be made in the period of the change or error correction and need not be repeated in subsequent periods. The Board considered whether this Statement should prohibit disclosure in subsequent periods about accounting changes and error corrections that occurred in prior periods but decided that because the financial statements are the government's responsibility, it would be inappropriate to prohibit a note disclosure, unless that information is inappropriate for notes to financial statements as described in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*. The Board also concluded that, for understandability, consistency, and comparability, if a note disclosure is first made in interim financial statements, the note disclosure also should be made in the related annual financial statements.

B33. This Statement also requires that information be disclosed by reporting unit in notes to financial statements. To mitigate costs associated with this requirement and enhance understandability, the Board concluded that in circumstances in which the information to be disclosed is the same for more than one reporting unit, that information should be combined to avoid unnecessary duplication.

Required Supplementary Information and Supplementary Information

B34. Because this Statement requires changes in accounting principles and error corrections to be reported retroactively by restating prior periods presented, the Board believes that it is necessary for this Statement to provide guidance on how information affected by changes in accounting principles or error corrections should be reported in required supplementary information and supplementary information, which may present information for more prior periods than the basic financial statements.

B35. For prior reporting periods that are presented in the basic financial statements, the Board believes that the presentations in required supplementary information and supplementary information for those periods should be the same as the amounts recognized in the financial statements for consistency throughout the report. For prior reporting periods that are *not* presented in the basic financial statements but are presented in required supplementary information or supplementary information, the Board acknowledges that presenting restated information for changes in accounting principles would enhance consistency of the reported information across periods. However, the Board does not believe that the expected benefits of restating information for changes in accounting principles, including for the implementation of new pronouncements, for purposes of required supplementary information or supplementary information would justify the perceived costs of doing so. Therefore, the Board concluded that information for prior periods affected by a change in accounting principle should not be restated in required supplementary information or supplementary information. By contrast, the Board believes that it would be inappropriate to knowingly include misstated information that has not been corrected. Therefore, the Board concluded that information for prior periods should be restated in required supplementary information and supplementary information for error corrections.

B36. This Statement also requires that an explanation be provided in circumstances in which information presented in required supplementary information or supplementary information for prior periods is not consistent with information for the current period to inform users about their ability to make comparisons to prior periods.

Considerations Related to Benefits and Costs

B37. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B38. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B39. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes the assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B40. The Board believes that the requirements of this Statement that clarify the transactions or other events that constitute (a) the different types of accounting changes and (b) error corrections will produce significant benefits by reducing confusion and diversity in practice among preparers and auditors, thereby increasing the understandability, reliability, relevance, consistency, and comparability of the information to users. For example, the category of changes to or within the financial reporting entity addresses reclassifications of funds—events for which guidance did not previously exist in GASB literature. Furthermore, the requirements of this Statement will provide more useful and understandable information through clearer display in the financial statements and enhanced note disclosure requirements.

B41. Regarding the perceived costs, the Board believes that to a certain extent, the requirements of this Statement may mitigate costs through enhanced clarity of the requirements themselves—that is, the Board believes that in many cases, the requirements of this Statement may be less challenging to apply than the requirements of Statement 62. In addition, as discussed in paragraph B19, the Board concluded that certain note disclosure requirements in Statement 62 should not be carried forward to this Statement because it was not convinced that the expected benefits justify the perceived costs. The Board acknowledges that this Statement includes certain new note disclosures (such as the reconciliation table and other descriptive information about accounting changes and error corrections) and requires that the note disclosures generally should be presented by reporting unit. As a result, the Board believes that there may be some costs associated with disclosing that new information or presenting information by reporting unit, particularly in reporting periods in which more than one accounting change or error correction has occurred. However, the Board generally believes that the costs associated with those disclosures are related more to compiling and presenting the information. The Board generally believes that the information should be obtainable. Furthermore, the Board noted that this Statement indicates that information should be combined in certain circumstances to avoid unnecessary duplication. Therefore, the Board believes that those costs may decrease over time as governments gain more experience with the requirements. Lastly, the Board believes that the prospective transition provisions of this Statement will alleviate costs associated with implementation of the requirements.

Effective Date and Transition

B42. The requirements of this Statement are effective for accounting changes and error corrections made in reporting periods beginning after June 15, 2023. Regarding transition provisions, the Board concluded that the expected benefits of retroactive application do not justify the perceived costs. Specifically, the Board acknowledges that accounting changes and error corrections generally are not recurring, and, therefore, the primary benefit typically provided by a retroactive transition approach—consistency—is not as significant, whereas the costs of a retroactive approach may be significant. Accordingly, the Board decided that prospective application of the requirements is appropriate. Furthermore, the Board believes that the effective date provides sufficient time for education about the new requirements. The Board also noted that some governments may wish to implement the guidance earlier than the effective date, which this Statement encourages.

Appendix C

ILLUSTRATIONS

C1. This appendix illustrates the requirement in paragraph 32 of this Statement regarding the effects on beginning balances of accounting changes and error corrections. The facts assumed are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board’s endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. In some instances, amounts that may be considered immaterial are used to illustrate specific requirements or alternatives. No inferences about determining materiality should be drawn from these illustrations.

Illustrations 1 and 2 use the same facts to show two different presentations in accordance with the requirements in paragraph 32. Other presentations also may satisfy the requirements in paragraph 32.

Illustration 1

During fiscal year 20X2, changes to or within the financial reporting entity and an error correction resulted in restatements to beginning fund balance, fund net position, and net position, as follows (amounts in thousands):

	12/31/20X1 As Previously Reported	Change to or within the Financial Reporting Entity (A)	Change to or within the Financial Reporting Entity (B)	Error Correction (C)	12/31/20X1 As Restated
Governmental Funds and Activities					
Major Funds:					
General Fund	$ 631,607	$ -	$ -	$ -	$ 631,607
Fund A	100,922	-	-	-	100,922
Nonmajor Funds	40,486	-	-	-	40,486
Total Governmental Funds	773,015	-	-	-	773,015
Government-Wide Adjustments					
Capital Assets, Net of Depreciation	2,496,305	-	-	(2,361)	2,493,944
Deferred Outflows of Resources	1,104,697	-	-	-	1,104,697
Total Long-Term Liabilities	(3,167,019)	-	-	-	(3,167,019)
Deferred Inflows of Resources	(490,866)	-	-	-	(490,866)
Inclusion of Internal Service Funds in Governmental Activities	51,901	-	-	-	51,901
Total Governmental Activities	**$ 768,033**	**$ -**	**$ -**	**$ (2,361)**	**$ 765,672**
Proprietary Funds and Business-Type Activities					
Major Funds:					
Enterprise Fund C	$ 418,910	$ -	$ -	$ -	$ 418,910
Enterprise Fund D	74,831	(2,184)	-	-	72,647
Nonmajor Funds	49,422	-	-	-	49,422
Total Proprietary Funds	543,163	(2,184)	-	-	540,979
Removal of Internal Service Funds in Governmental Activities	(51,901)	-	-	-	(51,901)
Total Business-Type Activities	**$ 491,262**	**$ (2,184)**	**$ -**	**$ -**	**$ 489,078**
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	$ 3,071,227	$ -	$ -	$ -	$ 3,071,227
Total Fiduciary Funds	**$ 3,071,227**	**$ -**	**$ -**	**$ -**	**$ 3,071,227**
Discretely Presented Component Units					
ABC Authority	$ 1,696	$ -	$ -	$ -	$ 1,696
QRS Foundation	-	2,184	-	-	2,184
XYZ Foundation	-	-	1,500	-	1,500
Nonmajor Component Units	2,730	-	-	-	2,730
Total Discretely Presented Component Units	**$ 4,426**	**$ 2,184**	**$ 1,500**	**$ -**	**$ 8,110**
Total Reporting Entity	**$ 4,334,948**	**$ -**	**$ 1,500**	**$ (2,361)**	**$ 4,334,087**

(A) Changes to or within the financial reporting entity resulting from a change in presentation of QRS Foundation from blended to discretely presented.

(B) Changes to or within the financial reporting entity resulting from a determination that XYZ Foundation met the requirements for inclusion as a discretely presented component unit.

(C) Error correction resulting from overstatement of capital assets in prior years.

Illustration 2

During fiscal year 20X2, changes to or within the financial reporting entity and an error correction resulted in restatements to beginning fund balance, fund net position, and net position, as follows (amounts in thousands):

	Reporting Units Affected by Restatements to Beginning Balances				
	Funds	Government-Wide		Major Discretely Presented Component Units	
	Enterprise Fund D	Governmental Activities	Business-Type Activities	QRS Foundation	XYZ Foundation
12/31/X1, as previously reported	**$ 74,831**	**$ 768,033**	**$ 491,262**	**$ -**	**$ -**
Change to or within the financial reporting entity (A)	(2,184)	-	(2,184)	2,184	-
Change to or within the financial reporting entity (B)	-	-	-	-	1,500
Error correction (C)	-	(2,361)	-	-	-
12/31/X1, as restated	**$ 72,647**	**$ 765,672**	**$ 489,078**	**$ 2,184**	**$ 1,500**

(A) Changes to or within the financial reporting entity resulting from a change in presentation of QRS Foundation from blended to discretely presented.

(B) Changes to or within the financial reporting entity resulting from a determination that XYZ Foundation met the requirements for inclusion as a discretely presented component unit.

(C) Error correction resulting from overstatement of capital assets in prior years.

Appendix D

CODIFICATION INSTRUCTIONS

Codification of Governmental Accounting and Financial Reporting Standards—June 2023 Update

D1. The instructions that follow update the December 31, 2020 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), as amended by Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the provisions of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

[Update cross-references throughout.]

* * *

REPORTING CAPITAL ASSETS SECTION 1400

.705-13 [Revise the third sentence of the answer as follows:] The effects of a change in useful life should be accounted for as a change in estimate in accordance with paragraphs .137 and .138 of Section 2250, "Additional Financial Reporting Considerations." [GASBIG 2015-1, Q7.14.4, as amended by GASBS XX, ¶7, ¶20, and ¶21]

.718-2 [Revise the last sentence of the answer as follows:] The effects of a change in the useful life to no longer be indefinite should be accounted for as a change in accounting estimate similar to the effects of a change in the useful life of any type of capital asset. [GASBIG 2015-1, QZ.51.26, as amended by GASBS XX, ¶7]

.727-9 [Delete paragraph; renumber subsequent paragraphs.]

* * *

CLASSIFICATION AND TERMINOLOGY SECTION 1800

Sources: [Add GASBS XX.]

.102 [Insert the following after the second sentence in subparagraph b(1):] This category does not include the addition or removal of a fund that results from movement of resources within the primary government, which should be reported as a change to or within the financial reporting entity. (See Section 2250, "Additional Financial Reporting Considerations.") [GASBS 34, ¶112, as amended by GASBS 63, ¶8 and GASBS XX, ¶9; GASBS XX, ¶9]

.106 [Revise the sources as follows:] GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13; GASBS XX, ¶9

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COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Add GASBS XX.]

.150 [Replace *paragraphs .151 and .152* with *paragraphs .143–.145*.] [GASBS 62, ¶50, as amended by GASBS XX, ¶26–¶28; GASBS XX, ¶26–¶28]

.155 [Revise the sources as follows:] GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13; GASBS XX, ¶9

.203 [Replace *paragraphs .125−.152* with *paragraphs .121−.154*.] [GASBS 62, ¶53, as amended by GASBS XX, ¶4–¶37; GASBS XX, ¶4–¶37]

[Replace the text under heading .728 with the following:] No questions assigned.

.729-10 [Delete the last sentence of the answer.] [GASBIG 2015-1, Q7.55.7, as amended by GASBS XX, ¶24 and ¶25]

* * *

ADDITIONAL FINANCIAL REPORTING CONSIDERATIONS SECTION 2250

Sources: [Add GASBS XX.]

.101 [In the first sentence, delete *prior-period adjustments,*; in the third sentence, add paragraphs .121–.154 to the list.] [GASBS 56, ¶2; GASBS 62, ¶3 and ¶54−¶57; GASBS XX, ¶2 and ¶4–¶37]

.115 [Delete *or the criteria for prior-period adjustments*.] [GASBS 56, ¶14, as amended by GASBS XX, ¶4–¶14]

[Replace paragraphs .121–.152, including headings and footnotes, with the following; renumber subsequent footnotes.]

Accounting Changes and Error Corrections

.121–.154 [GASBS XX, ¶4–¶37, including headings and footnotes]

[Replace headings .705–.727 and associated text with the following; renumber subsequent heading and associated paragraphs.]

.705 Accounting Changes and Error Corrections

No questions assigned.

.706 Classification

No questions assigned.

.707 Accounting Changes

No questions assigned.

.708 Change in accounting principle

No questions assigned.

.709 Change in accounting estimate

No questions assigned.

.710 Change to or within the financial reporting entity

No questions assigned.

.711 Correction of an Error in Previously Issued Financial Statements

No questions assigned.

.712 First-Time Adoption of the U.S. GAAP Financial Reporting Framework

No questions assigned.

.713 Accounting and Financial Reporting for Accounting Changes and Error Corrections

No questions assigned.

.714 Change in Accounting Principle

No questions assigned.

.715 Notes to financial statements

No questions assigned.

.716 Change in Accounting Estimate

No questions assigned.

.717 Notes to financial statements

No questions assigned.

.718 Change to or within the Financial Reporting Entity

No questions assigned.

.719 Notes to financial statements

No questions assigned.

.720 Correction of an Error in Previously Issued Financial Statements

No questions assigned.

.721 Notes to financial statements

No questions assigned.

.722 Reclassification in the Financial Statements Resulting from a Change in Accounting Principle or a Correction of an Error

No questions assigned.

.723 Other Financial Reporting Requirements

No questions assigned.

.724 Display in the financial statements

No questions assigned.

.725 Notes to financial statements

No questions assigned.

.726 Required supplementary information and supplementary information

No questions assigned.

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

Sources: [Add GASBS XX.]

.107 [Revise subparagraphs uu and vv as follows:]

uu. Current-period adjustments to an extraordinary or special item that was reported in a prior period. (See Section 2200, paragraph .150.)

vv. Accounting changes and error corrections. (See Section 2250, paragraphs .135, .136, .139, .141, .142, .144–.147, and .149–.151.)

[In the sources, remove GASBS 62, ¶62, ¶75, ¶85, ¶87, and ¶89; add GASBS XX, ¶18, ¶19, ¶22, ¶24, ¶25, ¶27–¶30, and ¶32–¶34.]

.114 [Replace the second sentence with the following:] In some cases, the disclosure of accounting policies should refer to related details presented elsewhere in the notes to financial statements. For example, a change in accounting policy that meets the definition of a change in accounting principle should be described with cross-reference to the note disclosures required by Section 2250 for a change in accounting principle. [GASBS 62, ¶94, as amended by GASBS XX, ¶5, ¶18, and ¶19]

* * *

CASH FLOWS STATEMENTS **SECTION 2450**

.108 [Replace the last sentence with the following:] Any change in that policy is a change in accounting principle if the change is justified on the basis that the new principle is preferable. See Section 2250 regarding how to report a change in accounting principle, including a change in accounting principle that results in a reclassification in the financial statements. [GASBS 9, ¶11, as amended by GASBS XX, ¶5, ¶15–¶19 and ¶29]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE **SECTION 2600**

Sources: [Add GASBS XX.]

.117 [Revise the sources as follows:] GASBS 34, ¶61, as amended by GASBS 63, ¶8 and GASBS 65, ¶13; GASBS XX, ¶9

* * *

DERIVATIVE INSTRUMENTS **SECTION D40**

[Delete paragraph .711-4; renumber subsequent paragraphs.]

* * *

INVESTMENTS **SECTION I50**

.116 [Revise subparagraph d as follows:] The government's share of special and extraordinary items reported in the financial statements of the investee should be classified in accordance with paragraphs .143 and .145–.150 of Section 2200, "Comprehensive Annual Financial Report." [GASBS 62, ¶209, as amended by GASBS 63, ¶8, GASBS 69, ¶39, and GASBS XX, ¶4–¶37]

[Delete paragraph .741-2; renumber subsequent paragraphs.]

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LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS SECTION L10

.112 [In the second sentence, delete *corrections of errors in estimation*.] [GASBS 18, ¶14, as amended by GASBS XX, ¶12]

* * *

REAL ESTATE SECTION R30

Sources: [Add GASBS XX.]

.181 [Replace *paragraph .146* with *paragraphs .137–.139*.] [GASBS 62, ¶361, as amended by GASBS XX, ¶20–¶22; GASBS XX, ¶20–¶22]

* * *

PROPRIETARY FUND ACCOUNTING AND FINANCIAL REPORTING SECTION P80

.704-5 [Delete the last sentence of the answer.] [GASBIG 2015-1, Q7.55.7, as amended by GASBS XX, ¶25 and ¶26]

* * *

COMBINATIONS AND DISPOSALS OF OPERATIONS SECTION Co10

.140 [Replace the last sentence with the following:] The difference between the acquisition price and the carrying value of the net position acquired should be reported as a special item by the acquiring government in its separately issued statements. For acquisitions with discretely presented component units, that difference should be reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity. For acquisitions with blended component units, the transaction should be treated as a change to or within the financial reporting entity.[5] (See Section 2250.) [GASBS 69, ¶43, as amended by GASBS XX, ¶9; GASBS XX, ¶9–¶10]

[5][Insert current footnote 5.]

[Insert new paragraph .147, including heading, as follows; renumber subsequent paragraphs.]

Intra-Entity Government Transfers of Operations

.147 In financial statements of the reporting entity, a transfer of operations that occurs between a primary government and its discretely presented component units that results in the addition or removal of a fund or discretely presented component unit (including the establishment of a new discretely presented component unit) should be accounted for in accordance with paragraphs .143–.146 of this section. In the financial statements of the reporting entity, a transfer of operations that occurs between a primary government and its blended component units that results in the addition or removal of a fund or blended component unit (including the establishment of a new blended component unit) should be accounted for as a change to or within the financial reporting entity. [GASBS 69, ¶46–¶49; GASBS XX, ¶9 and ¶10]

* * *

INVESTMENT POOLS (EXTERNAL) **SECTION In5**

.107 [Replace *paragraphs .136 and .137* with *paragraph .122*.] [GASBS 79, ¶7, as amended by GASBS XX, ¶5]

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PUBLIC ENTITY RISK POOLS **SECTION Po20**

.720-7 [Revise the answer as follows:] A—Although there is no specific requirement in paragraph .146b of this section, the disclosures for changes in accounting estimates, as described in Section 2250, "Additional Financial Reporting Considerations," should be made, as applicable. [GASBIG 2015-1, Q3.28.1, as amended by GASBS XX, ¶22]

* * *

Comprehensive Implementation Guide—June 2023 Update

D2. The instructions that follow update the December 31, 2020 *Comprehensive Implementation Guide* for the provisions of this Statement.

* * *

[Replace the text of Question 1.57.2 with *[Question number not used]*.] [Superseded by GASBS XX, ¶4–¶14]

3.28.1. [Revise the answer as follows:] A—Although there is no specific requirement in paragraph .146b of this section, the disclosures for changes in accounting estimates, as described in GASB Statement No. XX, *Accounting Changes and Error Corrections,* should be made, as applicable. [GASBIG 2015-1, Q3.28.1, as amended by GASBS XX, ¶22]

[Replace the text of Question 4.38.3 with *[Question number not used]*.] [Superseded by GASBS XX, ¶9 and ¶10]

[Replace the text of Question 4.38.4 with *[Question number not used]*.] [Superseded by GASBS XX, ¶9 and ¶10]

7.14.4. [Revise the third sentence of the answer as follows:] The effects of a change in useful life should be accounted for as a change in estimate in accordance with paragraphs 20 and 21 of Statement No. XX, *Accounting Changes and Error Corrections.* [GASBIG 2015-1, Q7.14.4, as amended by GASBS XX, ¶7, ¶20, and ¶21]

[Replace the text of Question 7.22.16 with *[Question number not used]*.] [Superseded by GASBS XX, ¶26–¶28]

[Replace the text of Question 7.22.17 with *[Question number not used]*.] [Superseded by GASBS XX, ¶4–¶14]

[Under heading 7.53, delete the cross-reference text.]

7.55.7. [Delete the last sentence of the answer.] [GASBIG 2015-1, Q7.55.7, as amended by GASBS XX, ¶24 and ¶25]

[Replace the text of Question 7.104.17 with *[Question number not used]*.] [Superseded by GASBS XX, ¶4–¶14]

[Replace the text of Question 10.20.5 with *[Question number not used]*.] [Superseded by GASBS XX, ¶5]

Z.51.26. [Revise the last sentence of the answer as follows:] The effects of a change in the useful life to no longer be indefinite should be accounted for as a change in accounting estimate similar to the effects of a change in the useful life of any type of capital asset. [GASBIG 2015-1, QZ.51.26, as amended by GASBS XX, ¶7]