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PROPOSED ACCOUNTING TRANSACTIONS FOR X7000 ACCOUNTS

✘ PLEASE NOTE THAT THIS ILLUSTRATION IS A ROUGH DRAFT. WE NEED AGENCIES THAT HAVE THESE TYPE OF ACTIVITIES TO REVIEW AND PROVIDE US WITH COMMENTS.

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Background

Formerly known as Foreign Transaction (FT) account, X7000 accounts were established to report foreign currencies acquired without expenditure of U.S. dollars, such as donated revenue, sale of commodities and etc. The currencies in the X7000 account is not translated into US dollar equivalent, rather it is assigned 1:1 exchange rate to avoid budgetary loss and to accommodate Treasury. However, this valuation of the foreign currency causes a conflict with the guidance from the FASAB Standard #1, which states that foreign currencies have to be translated in to U.S. dollar equivalent. This will result in translational gain or loss, including in the X7000 account.

What are unfunding and reclaiming? How do they relate to X7000 accounts and the 20x6701?

In October 15, 1996, a permanent legislation pursuant to Public law 89-667 was approved. This law allows the Federal government to utilize foreign currency that has no immediate use by the program accounts thereby delaying the expenditure of appropriated U.S. dollar. The law states that “any foreign currencies held by the United States which have been or may be reserved or set aside for specified programs or activities of any agency of the Government may be used by Federal agencies for any authorized purpose, except 1) that reimbursements shall be made to the Treasury from applicable appropriations of the agency concerned, and 2) that any foreign currencies so used shall be replaced when needed for the purpose for which originally reserved or set aside.” As a result of this legislation, a special deposit fund 20x6701 was established. It is a dollar denominated account and the balance is subject to exchange difference.

U.S. D.O. borrows (Unfunding) the foreign currency for his/her operating needs from X7000 accounts. When the program agency (X7000) needs the foreign currency for expenses, the USDO buys the actual foreign currency needed and makes the disbursement on their behalf. This expenditure is made against the X7000 program account (Reclaiming), which reduces the amount of foreign currency owed to the agency. USDO use 20x6701 to process the unfunding and reclaiming of foreign currency activity relating to X7000 accounts.

Who should bear the exchange loss?

An FMS memorandum dated September 11, 1964 stated that risk of exchange loss should be assumed by Treasury, and that assurances be given to program agencies that currencies “borrowed” from program accounts will be returned when needed for program purposes in amounts fixed in terms of currency units regardless of dollar values. However, FASAB standard #1 requires foreign currency to be translated to U.S. dollar equivalent therefore program accounts with foreign currency will have exchange gain or loss.

FMS used to report X7000 accounts, why was the reporting responsibility changed?

The financial statement auditors for the Treasury Managed Accounts (TMA) determined that foreign currencies held by the U.S. government should not be reported as an asset of the Financial Management Service. The auditors feel these foreign currencies do not meet the asset requirements of the Statement of Federal Financial Accounting Standard #1. An asset must either be available to the entity for use in its operation, or must be held by the entity but not available for use in its operations. The foreign currency accounts do not meet either of the requirements. As a result, FMS no longer reports these foreign currency accounts in their financial statement. It is now up to the agencies to report these foreign currencies on their financial report.

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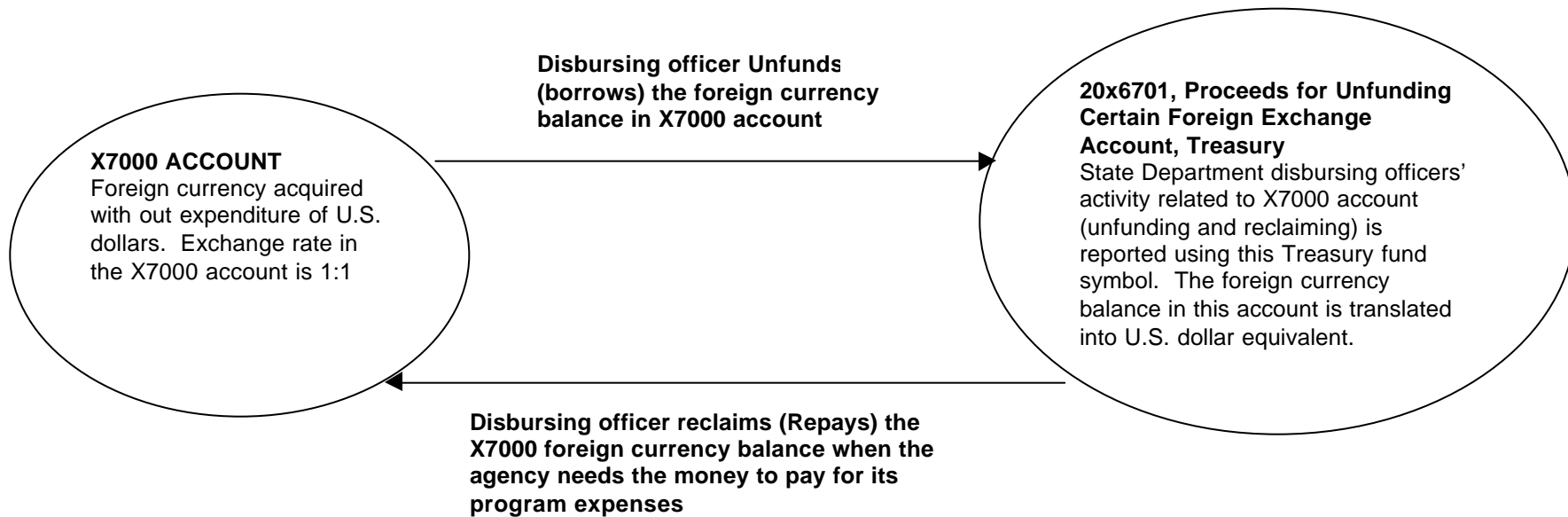
***** For more comprehensive information on foreign currency, refer to TFM Volume I, Part II, Chapter 3200, "Foreign Currency Accounting and Reporting".

References

- Policy-Proceeds for unfunding certain foreign exchange transactions, Treasury
- Disbursing Officer Accounts X-7000 Accounts, FMP/F/IFS/Issue #34, dated July 17, 2000
- FMS Memorandum dated 11/9/2000
- KPMG Financial Management Service – Treasury-managed Accounts Foreign Currency Position Paper, dated September 20,2000
- Memorandum from H.R. Gearhart , commissioner of Accounts, dated 9/11/1964
- FASAB Standard #1, Selected Assets and Liabilities

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THE RELATIONSHIP BETWEEN X7000 ACCOUNT AND 20X6701



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There are some outstanding issues relating to the X7000 accounts.

ISSUES	COMMENTS
1) Is agency using X7000 accounts to record initial deposit of foreign currency collection and disbursements out of the X7000 accounts? If not, what accounts are you using?	
2) The budgetary illustrations are not shown in the X7000 account. Each agency should decide with their budget examiner to see whether they are required to submit OMB 132 and OMB 133 for X7000 accounts (see below). Once agencies are told to do so by OMB, we could revisit the budgetary issues at that time. Until then, only the proprietary entries will be illustrated in the case study.	
<p>3) <i>OMB A34, Section 20.6</i> What accounts are not apportioned? Foreign currency (FT) fund accounts</p> <p><i>OMB A34, Section 21.19</i> OMB may request that you apportion your FT account. If so, type "Authority to spend foreign currency receipts" in the stub column for line 1 on the SF 132. Include the most recent Treasury exchange rates on each SF 132 and SF 133. Include amounts transferred from Treasury and credited to the agency foreign currency accounts on line 1A. Include amounts anticipated to be transferred during the year on line 1E. Limit balances brought forward (on line 2A) to balances in your FT accounts. Verify that foreign currency units reported in dollars agree with the "foreign Currency Statement and Account Current" (Foreign services Form 488) prepared by disbursing officers. OMB may require that you prepare an SF133 report in dollars for each currency in each FT account.</p>	<p><u>Per OMB</u> It is up to individual budget examiner to determine whether apportionment and submission of 133s are needed.</p>
4) What do we do with budgetary gain/loss?	See issues 2 & 3
<p>5) When 20X6701 borrows money from X7000 account, is this considered an outlay or means of financing for X7000 account?</p> <p><i>OMB A11, Section 20.6 and 20.7</i> ". you don't record outlays for the following: Repayment of debt Disbursements from deposit funds " "Under means of financing and not as outlay certain exchange of cash . . . changes in Treasury's operating cash balance"</p> <p><i>OMB A11, Section 20.6</i> Outlay means a payment to liquidate an obligations . . .</p>	<p><u>Per OMB</u> It is not a borrowing authority since that law did not specifically say so.</p> <p><u>Per PL 88-677</u> "F.C....maybe used by Federal agencies . . 1) <i>reimbursement</i> shall be made to Treasury from applicable appropriation . . . 2) . .F.C. <i>shall be replaced</i> when needed. . "</p> <p><u>OMB A11</u> Based on A11, section 20.6, it is not an outlay because it doesn't liquidate obligation.</p>

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OPTION A

Assume reporting period begins in 10/1/x0 to 9/30/x1

DESCRIPTION	AGENCY Y's X7000 ¹ (OFF BUDGET)	TREASURY (20X6701) Proceeds for Unfunding Certain Foreign Exchange Accounts, Treasury
<p>1) On 10/1/x0 Agency Y receives 100 Psos as donated revenue and records it in the X7000 account. (X7000 collects foreign currency without expenditure of appropriated \$ and donated revenue used in this illustration is one of the examples) Note transactions 1 and 2 will occur simultaneously.</p> <p>Treasury exchange rate \$1 = 4 Psos</p>	<p><u>Proprietary</u> 1200 Foreign Currency 25 (100 Psos) 5600 Donated rev 25 (100 Psos)</p> <p><u>Budgetary</u> None</p>	<p><u>Proprietary</u> None</p> <p><u>Budgetary</u> None</p>
<p>2) The USDO immediately unfunds (borrow) the foreign currency in the x7000 account. It is at this point that 20X6701, a Treasury account will record the liability. Note transactions 1 and 2 will occur simultaneously.</p> <p>Q1) Should the liability be account 2400? Since 20x6701 is a deposit fund?</p> <p>Treasury exchange rate \$1 = 4 Psos, ¼ = .25 100psos x .25 = \$25</p>	<p><u>Proprietary</u> 1310G A/R 25(100Psos) 1200 Foreign Currency 25(100Psos)</p> <p><u>Budgetary</u> None</p>	<p>Exchange rate for FC to the \$ is 4Psos=\$1 100Psos x .25 = \$25</p> <p><u>Proprietary</u> 1200 Foreign Currency 25 2110G AP 25</p> <p><u>Budgetary</u> None</p>
<p>3) On 6/30/X1, Agency Y needs to pay 80Psos for its Program. USDO pays back (reclaims) the amount borrowed from X7000 account.</p> <p>Note: Even though foreign currencies are stated in foreign currency units, it needs to be translated to \$ equivalent for financial statement purposes. Therefore, Gain or losses will be recognized.</p> <p>Treasury exchange rate \$1= 5 Psos, 1/5 = .2 Foreign currency = 80psos x .2 = \$16 Loss = \$20 - \$16 = \$4</p>	<p><u>Proprietary</u> 1200 Foreign Currency 16(80Psos) 7290G O.Losses 4 1310G A/R 20(80Psos)</p> <p><u>Budgetary</u> None</p>	<p>Exchange rate for FC to the \$ is 5Psos=\$1 80 Psos x .25 = \$20 80Psos x .20 = <u>\$16</u> Gain 4</p> <p><u>Proprietary</u> 2110G AP 20 1200 F.Currency 16 7190G Gain 4</p> <p><u>Budgetary</u> None</p>

¹ The foreign currency amount in X7000 account is valued at the local currency. It is not translated to \$ equivalent. However, FASAB Statement #1 requires all foreign currency to be valued in US \$ equivalent.

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<p>4) At the end of FY 9/30/x1 Foreign currency, Receivable and Payable are revalued</p> <p>Treasury exchange rate is \$1 = 6 Psos, 1/6 = .16667</p> <p>Accounts receivable 20Psos x .25 = 5.00 20Psos x .16667 = <u>3.33</u> 1.67</p> <p>Foreign currency: 80psos x .2 = \$16 80Psos x .16667 = <u>13.33</u> Loss 2.67</p>	<p><u>Proprietary</u></p> <p>7290G O.Losses 1.67 1310G A/R 1.67</p> <p>7290G O. Losses 2.67 1200 Foreign Currency 2.67</p> <p><u>Budgetary</u> None</p>	<p>Exchange rate for FC to the \$ is 6Psos=\$1</p> <p>Accounts Payable: 20Psos x .25 = 5.00 20Psos x .1667 = <u>\$3.33</u> Gain 1.67</p> <p><u>Proprietary</u></p> <p>2110G AP 1.67 7190G Gain 1.67</p> <p><u>Budgetary</u> None</p>
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TRIAL BALANCES FOR OPTION A

AGENCY's X7000 ACCOUNT (OFF BUDGET)	TREASURY (20X6701)
<p><u>Proprietary</u></p> <p>1200 F.Currency 13.333 (80 Psos) 1310G A/R 3.333(20 Psos) 7290G O.Losses 8.334 5600 Donated rev 25 (100 Psos)</p> <p><u>Budgetary</u> None</p>	<p><u>Proprietary</u></p> <p>1200 Foreign Currency 9 2110G Accounts Payable 3.33 7190G Other Gains 5.67</p> <p><u>Budgetary</u> None</p>

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OPTION B

Unlike the option A, option B illustrates X7000 carrying 1:1 exchange rate at the transactional level. At the end of the reporting period for financial purpose agencies with X7000 account will translate their foreign currency and receivable balance to U.S. Dollar Equivalent.

DESCRIPTION	AGENCY Y's X7000 (During the Year, rate is valued at 1:1 ratio but for the financial statement purpose, foreign currency is valued at the Treasury exchange rate ²)	TREASURY (20X6701) Proceeds for Unfunding Certain Foreign Exchange Accounts, Treasury																									
<p>1) On 10/1/x0 Agency Y receives 100 Psos as donated revenue and records it in the X7000 account, which is assigned 1:1 exchange rate. (X7000 acquires foreign currency without expenditure of appropriated \$ and donated revenue used in this illustration is one of the examples)</p> <p>Note transactions 1 and 2 will occur simultaneously.</p> <p>Treasury exchange rate on 10/1/x0 \$1 = 4 Psos</p>	<p><u>Proprietary</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">1200</td> <td style="width: 40%;">Foreign Currency</td> <td style="width: 10%; text-align: right;">100</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td></td> <td>5600 Donated rev</td> <td></td> <td style="text-align: right;">100</td> <td></td> </tr> </table> <p><u>Budgetary</u></p> <p>None</p>	1200	Foreign Currency	100				5600 Donated rev		100		<p><u>Proprietary</u></p> <p>None</p> <p><u>Budgetary</u></p> <p>None</p>															
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² FASAB #1, Accounting for Selected Assets and Liabilities, paragraph 32, " Foreign currency account balances should be translated into U.S. dollars at exchange rates determined by the Treasury and effective at the financial reporting date".

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		<u>Budgetary</u> None																																				
Please note that if option B is used, the balances in the account 1200, 1310 and 5600 has to be restated in US \$ equivalent. The amount illustrated on the trial balance before translation is showing 1:1 valuation. Agency needs to make the necessary adjustments to reflect correct balances (in us \$ equivalent) on their financial report.	<p style="text-align: center;"><u>TRIAL BALANCE BEFORE TRANSLATION</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">1200</td> <td style="width: 10%;">F.Currency</td> <td style="width: 10%; text-align: right;">80</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>1310G</td> <td>A/R</td> <td style="text-align: right;">20</td> <td></td> <td></td> <td></td> </tr> <tr> <td>5600</td> <td>Donated rev</td> <td></td> <td style="text-align: right;">100</td> <td></td> <td></td> </tr> </table>	1200	F.Currency	80				1310G	A/R	20				5600	Donated rev		100																					
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<p>5) Adjusting entry:</p> <p>Foreign currency: 80psos x .25 = \$20</p> <p>Accounts receivable 20Psos x .25 = 5</p> <p>Donated revenue 100Psos x .25 = 25</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">5600</td> <td style="width: 10%;">Donated rev</td> <td style="width: 10%; text-align: right;">100</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>1200</td> <td>F.Currency</td> <td style="text-align: right;">80</td> <td></td> <td></td> <td></td> </tr> <tr> <td>1310G</td> <td>A/R</td> <td style="text-align: right;">20</td> <td></td> <td></td> <td></td> </tr> <tr> <td>1200</td> <td>F.Currency</td> <td style="text-align: right;">20</td> <td></td> <td></td> <td></td> </tr> <tr> <td>1310G</td> <td>A/R</td> <td style="text-align: right;">5</td> <td></td> <td></td> <td></td> </tr> <tr> <td>5600</td> <td>Donated rev</td> <td></td> <td style="text-align: right;">25</td> <td></td> <td></td> </tr> </table>	5600	Donated rev	100				1200	F.Currency	80				1310G	A/R	20				1200	F.Currency	20				1310G	A/R	5				5600	Donated rev		25			
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TRIAL BALANCE AFTER TRANSLATION FOR OPTION B

AGENCY's X7000 ACCOUNT (OFF BUDGET)	TREASURY (20X6701)																																			
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