

**GASB 34 AND ITS IMPLEMENTATION: PERSPECTIVES OF
GOVERNMENT ACCOUNTING AND FINANCE OFFICIALS**

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ABSTRACT. **Governmental Accounting Standards Board Statement No. 34** (GASB 34) mandates significant changes in the external financial reporting practices of state and local governments. Analysis of data from accounting and finance officials indicates that they believed GASB 34 will do relatively little to improve the usefulness of their governments' financial reports, while several aspects of its implementation may create considerable problems for the governments. GASB 34 training for accounting and finance personnel, prior publication of a Comprehensive Annual Financial Report, and prior reporting of capital assets moderated GASB 34 implementation problems.

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INTRODUCTION

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments

(GASB 34) (GASB, 1999) mandates significant changes in the external financial reporting practices of state and local governments. Among the most notable new requirements of GASB 34 are the presentation of government-wide financial statements that reflect a full accrual basis of accounting for all the government’s activities; reporting of the historical cost and depreciation of the government’s capital assets (including general infrastructure assets such as bridges and roads) in the government-wide financial statements; presentation of financial statements for major individual funds; and presentation of management’s discussion and analysis (MD&A) of important financial activities affecting the government’s general purpose external financial report (GFOA, 1999).

Major changes in the financial reporting model stemming from GASB 34 have been posited to provide a number of benefits to citizens, legislators, creditors, investors, and other users of state and local governments’ financial reports. For example, the revamped GASB 34 financial report is proposed to be better for making assessments regarding issues such as the operating results and financial condition of the government as a whole; the cost of government services and the extent to which these services are being paid for by current citizens; the extent to which the government has

invested in and maintained capital assets; and the government's service efforts and accomplishments (GASB, 1999; Freeman and Shoulders, 2000; Chaney, Mead, and Schermann, 2002).

Proposed benefits to users of their financial reports notwithstanding, implementation of GASB 34 may present significant problems for state and local governments. Additional types of accounting data may have to be gathered and new accounting procedures and changes in the accounting system infrastructure may be necessary to process both these and existing types of data into new accounting information required by GASB 34 (Chase and Triggs, 2001; Cote and Herron, 2000; Durler, Carment, and Kennett, 2002). However, certain factors may alleviate GASB 34 implementation problems. For example, governments that were preparing a Comprehensive Annual Financial Report (CAFR) or were reporting capital assets in their financial report at the time of GASB 34 implementation may have fewer implementation problems as these governments may already be capturing some types of data necessary to meet the new GASB 34 requirements (Freeman and Shoulders, 2000; Robbins and Houston, 2002). Also, greater GASB 34 training on the part of accounting and finance personnel may lead to fewer implementation problems (Cote and Herron, 2000).

Most of the literature regarding GASB 34 and its implementation has been theoretical or anecdotal in nature. The purpose of the study reported here is to provide empirical evidence regarding the extent to which GASB 34 increases the usefulness of state and local governments' general purpose external financial reports, the extent to which governments encounter problems in implementing GASB 34, and factors that moderate GASB 34 implementation problems. Data for the study were based on responses from accounting and finance officials of state and local governments. These people are likely

to be most familiar with and to have the greatest understanding of the external financial reporting practices and accounting information system within their government. They are also likely to have expertise regarding the interpretation and analysis of state and local governments' financial reports.

METHOD

Sample and Procedures

A questionnaire was mailed in late 2001 to 854 members of the Association of School Business Officers International (ASBO) and 1,065 members of the Association of Government Accountants (AGA). Relevant items on the questionnaire sent to ASBO members were virtually identical to those on the questionnaire sent to AGA members; however, the phrase "fixed assets" was used in certain items for ASBO members, whereas "capital assets" was used in the corresponding items for AGA members. Respondents indicating that their organization was other than a school district, state government, county government, or city government were not retained in the study. Questionnaires on which there were valid responses to all the items used in the study were returned by 317 (37.1%) ASBO members and 307 (28.8%) AGA members, who were combined into a single sample of 624 respondents.

Respondents were predominately (52.6%) employed by school districts, while 27.9% were employed by county governments, 18.9% were employed by city governments, and 0.6% were employed by state governments. Most (53%) of the governments for which respondents worked had annual revenues for the most recently completed fiscal year of between \$10 million and \$100 million, while 38.8% of the governments had revenues of less than \$10 million and 8.2% had revenues of over

\$100 million. Seventy-six percent of respondents were working on implementing GASB 34 at the time they completed the questionnaire.

Measures

GASB 34 Report Usefulness. A questionnaire item asked respondents the degree to which GASB 34 will increase the usefulness of their government's financial report. Responses were on a 5-point scale (significant, moderate, somewhat, very little, none).

GASB 34 Implementation Problems. Seven items addressed the degree to which aspects of GASB 34 implementation could be a problem for the respondent's government. The items were:

- Gathering cost information for capital (fixed) assets.
- Determining the useful life of capital (fixed) assets.
- Choosing a depreciation method.
- Moving to full accrual.
- Setting up procedures for recording transactions on two levels.
- The reconciliation between the General and Fund Financial Statements.
- Development of Management's Discussion and Analysis (MD&A).

Responses to each item were on a 5-point scale (no problem, very little, somewhat, moderate, significant).

Personal GASB 34 Training. Respondents were asked how much training they have had on GASB 34. Responses were along a 5-point scale (no specific GASB 34 training, generally 1-8 hours, generally 9-16 hours, generally 17-24 hours, and generally 24 hours or more).

Staff GASB 34 Training. Respondents indicated along a 5-point scale (none, very little, somewhat, moderate, significant) how much training their staff has had on GASB 34.

Capital Asset Reporting. Respondents indicated whether or not their government currently reports capital (fixed) assets (no, yes).

CAFR Publication. Respondents indicated whether or not their government currently publishes a Comprehensive Annual Financial Report (CAFR) (no, yes).

ANALYSIS AND RESULTS

How Useful is the GASB 34 Report?

Twelve percent of the respondents indicated that GASB 34 would not increase the usefulness of their government's financial report; 34.8% indicated that GASB 34 would increase the usefulness of their government's financial report very little; 31.1% indicated that GASB 34 would increase the usefulness of their government's financial report somewhat; 14.7% indicated that GASB 34 would increase the usefulness of their government's financial report moderately; and 7.4% indicated that GASB 34 would increase the usefulness of their government's financial report significantly. On whole, the results suggest that respondents believed GASB 34 requirements will have only a marginal effect on the usefulness of their governments' financial report.

To identify factors that influenced respondents' perceptions of the effect that GASB 34 would have on the usefulness of their government's financial report, GASB 34 report usefulness was regressed on four predictor variables: personal GASB 34 training, whether or not the government was currently implementing GASB 34, type of government (school district, city, county, state), and size of the government (less than \$10 million in revenue, \$10-\$100 million in revenue, over \$100 million in revenue). Table 1 shows the results of the regression analysis. The betas, or standardized regression coefficients, represent the relationship between a given predictor variable and GASB 34 report usefulness after controlling for the other predictor variables in the regression model. Statistically

significant ($p < .05$) beta coefficients indicate that greater personal GASB 34 training was related to greater perceived usefulness of the GASB 34 report and that type of government was related to the perceived usefulness of the GASB 34 report. To determine the specific nature of this latter relationship, analysis of covariance techniques were employed to make pairwise comparisons across the four types of governments. This analysis indicated that respondents employed by school districts perceived the GASB 34 report to be significantly less useful than did respondents from states, counties, or cities.

*** INSERT TABLE 1 HERE ***

How Problematical is GASB 34 Implementation?

Table 2 shows the degree to which respondents reported that each of the seven aspects of the GASB 34 implementation process could be a problem for their government. At least 57 percent of respondents indicated either significant or moderate problems with four aspects of the GASB 34 implementation process: setting up procedures for recording transactions on two levels (64.9%), development of the MD&A (61.8%), the reconciliation between the General and Fund financial statements (57.9%), and gathering cost information for capital assets (57%). For only one aspect of the GASB 34 implementation process, choosing a depreciation method, did more than 36 percent of the respondents indicate either very little or no problem. On whole, the results suggest that respondents believed that several aspects of GASB 34 implementation will present a considerable amount of problems for their government.

*** INSERT TABLE 2 HERE ***

What Factors Moderate GASB 34 Implementation Problems?

Principal components factor analysis with an oblimin rotation was applied to the seven items measuring GASB 34 implementation problems to reduce the data and to identify implementation problems that were related to one another. The results of the factor analysis were evaluated on the basis of eigenvalues and the scree test (Cattell, 1966), which indicated that only the first two factors explained a meaningful amount of the variance in the data. Together, these two factors explain 69.7% (51.8% and 17.9%, respectively) of the variance in the data.

Table 3 shows the factor loadings from the pattern matrix when the factor solution was constrained to two factors. The items with high loadings on the first factor represent GASB 34 implementation problems related to preparing government-wide financial statements, such as reconciling the government-wide and fund financial statements and using full accrual accounting, and to development of the MD&A. This factor was labeled “government-wide reporting/MD&A problems.” The items with high loadings on the second factor represent GASB 34 implementation problems related to capital asset disclosure, such as gathering cost information on and determining the useful life of capital assets. This factor was labeled “capital asset disclosure problems.” The items comprising each factor were treated as summed-item scales for use in subsequent analysis. Alpha internal reliability coefficients for the government-wide reporting/MD&A problems and capital asset disclosure problems scales were .85 and .76, respectively. Both alphas exceed the minimum .70 level recommended by Nunnally (1978).

*** INSERT TABLE 3 HERE ***

Two-step regression analysis was used to identify factors that moderate GASB 34 implementation problems. A separate regression model was estimated for each category of GASB 34 implementation problems: government-wide reporting/MD&A problems and capital asset disclosure problems. At step 1, type of government, size of the government, and whether or not the government was currently implementing GASB 34 were entered as a group into each regression model. These predictor variables served as control variables because of their potential to influence GASB 34 implementation problems. At step 2, personal GASB 34 training, staff GASB 34 training, capital asset reporting, and CAFR publication were entered as a group into each regression model. These predictor variables address factors that have been proposed as moderating GASB 34 implementation problems.

Table 4 shows the results of the two-step regression analysis. With regard to government-wide reporting/MD&A problems, R^2 indicates that the control variables as a group explained a significant amount of variation in this category of GASB 34 implementation problems. Significant beta coefficients at step 1 indicate that larger governments and current implementation of GASB 34 were related to fewer government-wide reporting/MD&A problems. Change in R^2 indicates that the proposed moderators of GASB 34 implementation problems as a group also explained a significant amount of variation in this category of implementation problems. Significant beta coefficients at step 2 indicate that greater staff GASB 34 training, capital asset reporting, and publication of a CAFR were related to fewer government-wide reporting/MD&A problems.

*** INSERT TABLE 4 HERE ***

With regard to capital asset disclosure problems, the control variables as a group explained a significant amount of variation in this category of GASB 34 implementation problems. Significant beta

coefficients at step 1 indicate that larger governments had fewer capital asset disclosure problems. The proposed moderators of GASB 34 implementation problems as a group also explained a significant amount of variation in this category of implementation problems. Significant beta coefficients at step 2 indicate that greater personal GASB 34 training and capital asset reporting were related to fewer capital asset disclosure problems.

DISCUSSION

GASB 34 has been proposed to provide many benefits to the users of state and local governments' financial reports (e.g., GASB 1999; Chaney, Mead, and Schermann, 2002). Moreover, some authors (e.g., Freeman and Shoulders, 2000) have downplayed the extent to which implementation of GASB 34 might present problems for governments. Our results provide some of the first empirical evidence regarding these issues. They suggest that GASB 34 may do relatively little to improve the usefulness of many governments' financial reports, while several aspects of its implementation, such as recording transactions on two levels and developing the MD&A, may create considerable problems for the governments.

While our sample of government accounting and finance officials believed, on whole, that financial reports based on GASB 34 requirements would be only marginally more useful than reports prepared under the preceding financial reporting model, this assessment was more positive among respondents who had greater training on GASB 34, and was more negative among respondents who worked for school districts rather than state, county, or city governments. Respondents with greater GASB 34 training may have a better understanding and thus more appreciation of the objectives and

potential benefits of GASB 34. Respondents from school districts may be more likely to have a background as educators, rather than as an accounting and finance professionals, and may therefore have less grasp of GASB 34's implications for their school district's financial report.

Regardless of judgments regarding its costs relative to its benefits, many state and local governments have no discretion as to whether or not they will implement GASB 34. Although our study indicates that many aspects of GASB 34 implementation could be problematical for governments, it also suggests several factors that may reduce implementation problems. These factors include GASB 34 training for accounting and finance officials and their staff, publication of a CAFR at the time of GASB 34 implementation, and capital asset reporting at the time of GASB 34 implementation. All of these factors may be indicators of a more general construct that captures the sophistication of a government's accounting system and the professionalism of its accounting and finance staff. A more sophisticated accounting system and more professional accounting and finance staff are likely to benefit a state and local government not only with respect to implementing GASB 34, but also with respect to implementing future financial reporting requirements established by the GASB.

Interpretation of our results must be made in light of several limitations. First, the judgments of the usefulness of GASB 34 reports were made by government accounting and finance officials, rather than by external users such as citizens, legislators, bond analysts, and creditors. These external users may have a different perspective than do people whose concern with GASB 34 focuses largely on the preparation of, rather than the use of, their government's financial report. Future research might examine not only various external groups' judgments regarding the usefulness of GASB 34 reports, but

also attempt to identify elements of the GASB 34 reporting model that these users find to be particularly salient to their decisions.

Second, questionnaire items dealing with implementation problems related to capital asset disclosure did not make a distinction between the capital assets that many governments were already disclosing in their financial report prior to GASB 34 (i.e., capital assets accounted for in the general fixed asset group and in proprietary funds) versus general infrastructure assets, which most governments did not account for prior to GASB 34. Accounting for the latter may be a much more onerous aspect of implementing GASB 34 than accounting for the former (Cote and Herron, 2000; Robbins and Houston, 2002).

Third, although we identified several factors that can alleviate GASB 34 implementation problems, the R²s of our regression equations suggest that other factors not addressed in the study may also play a role. Future research might seek to identify specific aspects of government accounting systems (encompassing procedures, infrastructure, and personnel) that ease the implementation of GASB 34 and other new financial reporting requirements.

CONCLUSION

The above limitations notwithstanding, the current study suggests that one important stakeholder group, government accounting and finance officials, has reservations regarding whether the benefits to be realized from GASB 34 exceed its implementation costs. A gap may exist between the GASB's perceptions of GASB 34's benefits and costs when compared to the perceptions and experiences of relevant groups of implementers and government financial report users. Such a gap could stem from

objective shortcomings with GASB 34 or instead from a failure on the part of implementers and government financial report users to fully grasp GASB 34's contributions to improved financial reporting or to recognize how it can be implemented in an efficient manner. In the former case, the GASB may have to modify GASB 34 requirements over time. In the latter case, the GASB might seek to promote more education regarding GASB 34 and its implementation.

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TABLE 1

**Results of Regression Analysis Identifying Predictors of Respondents’
Perceptions of Usefulness of the GASB 34 Report**

Predictor Variable	Beta
Personal GASB 34 training	.18***
Current implementation of GASB 34	.05
Type of government	-.15***
Size of government	-.01
Total R ²	.09***

Note: The betas are standardized regression coefficients.

* p < .05. ** p < .01. *** p < .001.

TABLE 2**Degree to Which Aspects of the GASB 34 Implementation Process Could be a Problem for the Government**

Aspect of GASB 34 Implementation Process	Significant	Moderate	Somewhat	Very Little	No Problem
Gathering cost information for capital (fixed) assets	34.6%	22.4%	17.0%	15.9%	10.1%
Determining the useful life of capital (fixed) assets	12.2%	24.2%	28.5%	24.8%	10.3%
Choosing a depreciation method	5.3%	14.7%	19.1%	35.7%	25.2%
Moving to full accrual	21.3%	23.1%	29.2%	18.3%	8.2%
Setting up the procedures for recording transactions on two levels	33.8%	31.1%	23.1%	9.3%	2.7%
The reconciliation between the General and Fund Financial Statements	24.2%	33.7%	27.6%	12.3%	2.2%
Development of Management's Discussion and Analysis (MD&A).	28.8%	33.0%	22.9%	11.5%	3.7%

Note: Percentages represent the proportion of the total respondents that gave a particular response to the item.

TABLE 3**Results of Factor Analysis of Items Measuring GASB 34 Implementation Problems**

Factor and Item	(Alpha) Factor Loading
Factor 1 - "Government-wide reporting/MD&A Problems":	(.85)
The reconciliation between the General and Fund Financial Statements.	.92
Development of Management's Discussion and Analysis (MD&A).	.85
Setting up procedures for recording transactions on two levels.	.85
Moving to full accrual	.63
Factor 2 - "Capital Asset Disclosure Problems":	(.76)
Determining the useful life of capital (fixed) assets	.91
Choosing a depreciation method	.81
Gathering cost information for capital (fixed) assets	.74

Note: Alpha coefficients are for summed-item scales composed of the items associated with the factor.

TABLE 4
Results of Regression Analysis Determining Predictors
of GASB 34 Implementation Problems

Predictor Variable	Beta	
	Government-wide Reporting/ MD&A Problems	Capital Asset Disclosure Problems
Step 1: Control variables		
Type of government	.05	.06
Size of government	-.09*	-.13**
Current implementation of GASB 34	-.11**	-.06
R ²	.04***	.04***
Step 2: Moderators of GASB 34 implementation problems		
Personal GASB 34 training	.01	-.14**
Staff GASB 34 training	-.20***	-.01
Capital asset reporting	-.11**	-.22***
CAFR publication	-.09*	-.03
) in R ²	.05***	.07***
Total R ²	.09***	.10***

Note: The betas are standardized regression coefficients.

* p < .05. ** p < .01. *** p < .001.