UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

ITA Accounting Memorandum 2005-02 September 20, 2005

MEMORANDUM FOR: Program Managers and Resource Managers

From: Leslie Hyland, Director of Accounting and Financial Systems

Subject: Accounting for Contingent Liabilities - Unasserted Claims

Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government* (SFFAS No.5) defines a liability as a probable future outflow or other sacrifice of resources as a result of past transactions or events. In addition to the general principle for recognizing liabilities, the Statement includes several specific Federal liability accounting standards. With regard to contingencies, the Statement provides that:

> "A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. Contingent future outflows or other sacrifices of resources as a result of past transactions or events may be recognized, may be disclosed, or may not be reported at all, depending on the circumstances. Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable."

SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government,* specifically addresses treatment of loss contingencies for matters of pending or threatened litigation and unasserted claims. Based on the Statement:

- A contingent liability will be recognized (formally recorded or incorporated into financial statements) when a future outflow or other sacrifice of resources is **probable** (likely to occur), a past event or exchange transaction has occurred, and the future outflow or sacrifice of resources is measurable.

- A contingent liability will be disclosed (reported as information in footnotes) when a future outflow or other sacrifice of resources is **reasonably possible** (less than probable but more than remote), a past event or exchange has occurred, and the future outflow or sacrifice of resources is measurable.

Cleared: J Donahue
Jim Donahue, Deputy Chief Financial Officer