



Contents lists available at ScienceDirect

## Journal of Accounting Education

journal homepage: [www.elsevier.com/locate/jaccedu](http://www.elsevier.com/locate/jaccedu)

## The United States federal budget project

Patrick Kelly, Cassandra Rohland\*

<sup>a</sup> Providence College, 1 Cunningham Square, Providence, RI 02918, USA<sup>b</sup> UMass Lowell, 1 University Avenue, Lowell, MA 01854, USA

## ARTICLE INFO

## Article history:

Received 30 September 2015

Received in revised form 14 September 2017

Accepted 15 September 2017

Available online xxx

## Keywords:

Government accounting

Federal budgetary process

Federal accounting responsibilities

Federal financial statements

National debt

Federal debt

Federal deficit

## ABSTRACT

This project was developed to enable you to learn about the fiscal challenges that the federal government faces. Your class is asked to perform an analysis of the federal budget in light of increasing federal debt and make recommendations on how to address the fiscal challenges. This project is designed to increase your understanding of federal budgeting and accounting issues, and to help you better understand the public-interest complexities that occur in federal budgetary decision-making. The project achieves four primary learning objectives, and after completing the project you should be able to: (1) describe the federal budget process and accounting model; (2) explain the roles and responsibilities of key federal organizations and agencies with budgetary and spending responsibilities; (3) describe the inherent political factors involved in the federal budgeting process; and (4) communicate federal budget recommendations based on research conducted.

© 2017 Elsevier Ltd. All rights reserved.

## 1. Project

## 1.1. Current status of US federal debt

The United States' national debt has increased significantly since the start of the 21st century. Recently, the national debt issue has received increased scrutiny from the media, citizens, and professional organizations such as the American Institute of Certified Public Accountants (AICPA), as the US moved from having a budgetary surplus in the latter years of the Clinton administration to significant deficits during both the Bush and Obama administrations. The national debt totaled \$5.67 trillion at the beginning of fiscal year 2001, and by the start of fiscal year 2015, it had ballooned to over \$19 trillion (US Department of the Treasury, 2017; US National Debt Clock, 2017). Furthermore, there are over \$100 trillion in unfunded liabilities when one considers federal obligations which include Social Security and Medicare costs (US National Debt Clock, 2017).<sup>1</sup> During this period, federal receipts exceeded outlays in only one year (2001); receipts as a percentage of Gross Domestic Product (GDP) averaged 16.8%, while spending as a percentage of GDP was 20.3% (US Office of Management, 2017a). This budget situation is widely regarded as unsustainable in the long term (e.g., Allen & Kelly, 2017).

Future prospects for limiting the national debt are not encouraging. Even as the recent annual deficits of the federal government have been decreasing, the national debt has continued to increase. The Congressional Budget Office (CBO) calculates

\* Corresponding author.

E-mail addresses: [pkelly@providence.edu](mailto:pkelly@providence.edu) (P. Kelly), [Cassandra\\_Rohland@UML.edu](mailto:Cassandra_Rohland@UML.edu) (C. Rohland).

<sup>1</sup> On the US Debt Clock website (<http://www.usdebtclock.org/>), if you hover or click your pointer over a particular amount, you will be able to view details related to the item. For example, the US Unfunded Liability (GAAP) amount includes social security, Medicare (Parts A, B, and D), Federal Debt held by the public, plus Federal Employee and Veteran Benefits.

and publishes short-term and long-term federal government deficit projections several times a year. For the years 2018–2027, the CBO calculated that the deficits are expected to increase almost every year during this period and that these deficits over this time period are estimated to add \$9.43 trillion to the federal debt (Congressional Budget Office (CBO), 2017a).

A deficit can be thought of as being comprised of cyclical and structural components. Although in actuality it is difficult to tease out the individual components, the *cyclical* part of a deficit is that portion that is due to a weak economy. For example, in a recession, government revenue is lower because businesses and workers are not earning as much taxable income as they would have in a growing economy, and therefore their tax burden is not as high as it would have been if they were earning more. Additionally, during weak economic times, spending for assistance programs such as SNAP (Supplemental Nutrition Assistance Program – formerly the food stamps program) increases. However, if government spending is greater than tax revenues when the economy is strong, then deficits are considered to be *structural* in nature. Structural deficits are a result of imbalances between revenue and spending given the current policies and laws (e.g., Concord Coalition, 2017).

The CBO identified three primary factors expected to contribute to increased government outlays each year from 2018 to 2027: Social Security payments, Medicare spending, and interest on the federal debt (CBO, 2017a). The CBO also reports a bleak outlook for the federal government's long-term financial situation. In its 2017 *Long-Term Budget Outlook* report, the CBO estimates that the federal debt held by the public will reach 86% of GDP by 2026 and increase to 146% of GDP by 2046 (Congressional Budget Office (CBO), 2017b). Similarly, the Government Accountability Office (GAO) recently noted that health care spending, interest on the federal debt, and Social Security payments put the federal government on an “unsustainable fiscal path” (US Government Accountability Office (GAO), 2017a).

Leaders of both the Republican and Democratic political parties have expressed concern regarding the current high level of federal debt, more than \$61,000 for every US citizen and more than \$165,000 for every taxpayer (US National Debt Clock, 2017). In his first address to Congress in 2001, President George Bush discussed his plan to address the national debt and “pay down” \$2 trillion of the debt over the following ten years (George W. Bush Whitehouse Archives, 2008). Once elected, President Obama created the bipartisan National Commission on Fiscal Responsibility and Reform to examine our nation's looming fiscal crisis and long-term financial sustainability. The Commission's *Moment of Truth* report was released in December 2010 and provided a number of recommendations relating to tax reform, health policies, Social Security, and discretionary spending. The Commission recommended reducing the deficit approximately \$4 trillion over a ten-year period while strengthening the Social Security program (National Commission on Fiscal Responsibility & Reform, 2010). Few of the Commission's recommendations were supported by President Obama or Congress, and ultimately its proposals were not enacted and the national debt continues to increase significantly.

The national debt has attracted attention of those outside the government as well, including accounting educators and the AICPA. For example, Allen (2013) emphasized that accounting educators are well positioned to positively contribute to a discussion of federal spending and the national debt. He also highlighted accounting educator responsibilities to focus on societal issues and to educate students about our country's financial challenges (Allen, 2013). More recently, the American Accounting Association's 2015 Public Interest Section Midyear Meeting included the Panel Session, “The US National Debt and the Public Interest.” Panelists included representatives from the AICPA, the Committee for a Responsible Federal Budget (CRFB), and a former member of Congress (American Accounting Association (AAA), 2015a). In addition, in plenary sessions, Paul Stebbins, a former Chairman and CEO of a Fortune 500 company, addressed accountability for the national debt at several of the American Accounting Association 2015 regional meetings (e.g., the Northeast Region Meeting) (American Accounting Association (AAA), 2015b).

In 2013, the AICPA began the program “What's at Stake? The CPA Profession on Federal Fiscal Responsibility.” The goal of this initiative is to focus attention on our country's financial position and fiscal sustainability. The AICPA emphasizes the role of CPAs in explaining our government's financial statements. For example, the materials highlight that future Social Security and Medicare obligations are not reflected as liabilities on the face of the statements, but rather as footnotes. That is, in addition to the 2016 accumulated deficit of \$19.3 trillion (\$3.5 trillion in assets less \$22.8 trillion in liabilities) indicated by the US financial statements, the government has an additional calculated social insurance obligation of \$64.9 trillion, bringing the total future obligations to more than \$87 trillion. The AICPA has expressed an interest in raising awareness about the national debt, providing non-partisan information on federal finances, and working with elected officials to reduce budget deficits and the national debt (American Institute of Certified Public Accountants, 2017a,b).

## 1.2. Federal accounting and budget overview

Information on the federal budget process and the federal accounting system is provided in a variety of federal government sources. The key agencies involved in the budget process/accounting system include the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and the Federal Accounting and Standards Advisory Board (FASAB). The role of each of these agencies is described below.

The *Department of the Treasury* is part of the executive branch and is led by the Secretary of the Treasury. This agency's responsibilities include central accounting for the federal government, preparation of government-wide financial statements, management of cash receipts and disbursements, and management of federal government debt. The government-wide financial statements include the following (e.g., Freeman, Shoulders, McSwain, & Scott, 2018):

Download English Version:

<https://daneshyari.com/en/article/6842721>

Download Persian Version:

<https://daneshyari.com/article/6842721>

[Daneshyari.com](https://daneshyari.com)