



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

FEB 4 2016

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
Washington, DC

Dear Ms. Payne:

The Department of Commerce has reviewed the Exposure Draft –*Establishing Opening Balances for General Property, Plant, and Equipment*, dated December 22, 2015.

Please find enclosed answers to the questions that were asked of respondents. If you have any questions, please contact me at (202) 482-1207 or galston@doc.gov.

Sincerely,

A handwritten signature in blue ink, appearing to be "G. Alston", written over a horizontal line.

Gordon T. Alston
Acting Deputy Chief Financial Officer and
Director for Financial Management

Enclosure

cc: Diane Marston
Atisha Burks
Bruce Henshel

Department of Commerce Response
FASAB Exposure Draft (December 22, 2015) – *Establishing Opening Balances for General Property, Plant, and Equipment*

Prepared by: Department of Commerce, Office of Financial Management
Date Prepared: February 4, 2016

Questions and Answers

Q1. The Board proposes a reporting entity be permitted to apply an alternative valuation method in establishing opening balances for general property, plant, and equipment (PP&E) when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method.

The proposed Statement describes the alternative valuation method and related disclosures.

Q1.a. Do you agree or disagree with the proposal to permit opening balances of General PP&E to be valued based on deemed cost? Please provide your rationale.

Departmental Response:

The Department agrees with the proposal to permit opening balances of General PP&E to be valued based on deemed cost, either (1) for the first time or (2) after a period which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of alternative valuation methods, when historical costs are not available. Systematic, rational, and reasonable alternative methods to estimate historical costs of opening balances should be available when historical cost data is not available.

Q1.b. Do you agree or disagree that the related disclosures are appropriate? Please provide your rationale. Please provide your rationale.

Departmental Response:

The Department agrees that the disclosure requirements for the use of deemed cost method(s) for opening balances of General PP&E are appropriate. Disclosure of the method(s) used to determine the deemed cost may be useful and relevant information to the reader and helps to further agency accountability. The Department further believes a one-time disclosure of the deemed cost method(s) used for each item is sufficient.

Q2. The Board proposes to amend Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, so that land categorized as General PP&E may be excluded from the opening balances of General PP&E. Instead, disclosures would reveal the acres of land and changes in those acres over time. A reporting entity electing to exclude land from its General PP&E opening balance should continue to exclude future land acquisition amounts and provide the disclosures.

Some members suggested valuing existing land holdings based on a set amount per acre of land or deemed cost. For example, one study estimated the land value in the United States at roughly \$4.5 trillion in the third quarter of 2009. Since the number of acres in the United States is almost 2.3 billion, this equates to approximately \$2,000 per acre. (Land values vary greatly based on location, potential use, and availability and cost of financing.) These members are interested in receiving comments on the usefulness of a General valuation approach that could be applied government-wide.

The Board intends to begin a project on land in the near future that would review existing standards and consider a consistent approach. Based on the results of that project, the decisions made for opening balances and future acquisitions of land in this Statement may be revised. Also, some members suggested deferring any changes in the historical basis for land acquired for use in operations until the Board completes a re-examination of the appropriate basis of accounting for land.

(See par. 12.d. and 12.g. for relevant standards and par. A27- A34 for a discussion of certain members' concerns and A55 in the Basis for Conclusions.)

Q2.a. Do you agree or disagree with the proposal to allow exclusion of land from the opening balances of General PP&E even though other component reporting entities will report the cost of certain land in General PP&E?

If you disagree, do you prefer (1) to value land holdings based on existing standards requiring historical cost of land acquired in connection with other General PP&E to be capitalized, a set amount per acre of land, deemed cost, or another valuation method, (2) to defer any changes in the current requirements until the Board completes a reexamination of the appropriate basis of accounting for land, or (3) to adopt another option? Please provide your rationale.

Departmental Response:

The Department disagrees with the proposal to allow for the exclusion of land from the opening balances of General PP&E. Land (real property) is a component of General PP&E, and the Department believes it is not warranted, even while considering cost versus benefit considerations, to provide the option of exclusion for the opening balances of land. The Department believes providing an optional exclusion of land undermines the integrity of and a primary purpose of a reporting entity's financial statements; that is, to present a reporting entity's financial condition as of the balance sheet date (in this case, proper presentation of land and land rights assets), and the results of operations for the specified timeframe. The Department further believes that the required disclosures required if land is elected to be excluded do not promote the above stated primary purpose of the financial statements. The Department believes deemed cost methods provided for in the Exposure Draft, which includes reasonable methods not specified in the Exposure Draft, provides a sufficient array of methods to reporting entities for determining deemed costs for land.

The Department, accordingly, prefers that valuations of land for opening balances be based on existing standards, with the alternate valuation methods for deemed costs set forth in this Exposure Draft being available as an option for opening balances of land when historical data is not available.

The Department strongly prefers that FASAB not revise any existing standards for the valuation of land until FASAB completes a reexamination of the appropriate basis of accounting for land.

**Q2.b. Do you agree or disagree that the related disclosures are appropriate?
Please provide your rationale.****Departmental Response:**

The Department disagrees that the related disclosures are appropriate. Per the response to Q2.a. above, the Department believes that the required disclosures if land is elected to be excluded do not promote a primary purpose of the financial statements; that is, to present a reporting entity's financial condition as of the balance sheet date (in this case, proper presentation of land and land rights assets), and the results of operations for the specified timeframe.

Q2.c. Do you agree or disagree that a reporting entity electing to exclude land from its General PP&E opening balances should continue to exclude future land acquisition amounts? Please provide your rationale.

Departmental Response:

The Department disagrees that a reporting entity electing to exclude land from its General PP&E opening balances should continue to exclude future land acquisition amounts from General PP&E.

Land (real property) is a component of General PP&E, and the Department believes it is not warranted, even while considering cost versus benefit considerations, to provide the option of exclusion for subsequent future land acquisition amounts, for the apparent primary purpose of having accounting consistent with the opening balances exclusion elected. The Department believes that providing for an optional exclusion of land undermines the integrity of and a primary purpose of a reporting entity's financial statements; that is, to present a reporting entity's financial condition as of the balance sheet date (in this case, proper presentation of land and land rights assets), and the results of operations for the specified timeframe. The Department therefore believes that subsequent land acquisition amounts under this scenario should be recorded under existing standards; with full consideration given to that the subsequent land acquisition accounting would differ from the exclusion of land for opening balances, for which the Department believes should not be a primary concern.

The Department, accordingly, strongly prefers to value land of subsequent acquisitions, if an exclusion for opening balances is elected, based on existing standards.

The Department strongly prefers, and believes appropriate, that FASAB not revise any existing standards for the valuation of land until FASAB completes a reexamination of the appropriate basis of accounting for land.

Q2.d. The Board anticipates a project on land to review existing standards and to consider a consistent approach for all component reporting entities. Please provide any suggestions you have for improving current reporting on land.

Departmental Response:

The Department prefers the use of existing standards for the recording of land as previously set forth in responses to Q2.a. and Q.2.c. The Department does not currently have any suggestions for improving current reporting on land.

Q3. The Board proposes to amend SFFAS 10, *Accounting for Internal Use Software*, to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software when presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB) either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative valuation method. The Statement provides for selecting between (1) an alternative valuation method of deemed cost that is consistent with that provided for all General PP&E and (2) prospective capitalization of internal use software.

The proposed Statement describes the alternatives and related disclosures. (See par. 13-14 for relevant standards and par. A35- A39 and A56 in the Basis for Conclusions.)

Q3.a. Do you agree or disagree with the proposal to allow a reporting entity to choose among alternatives in establishing an opening balance for internal use software? Please provide your rationale.

Departmental Response:

The Department agrees only with the proposal to allow a reporting entity to choose alternative valuation methods for deemed cost in establishing opening balances for internal use software where historical cost is not available.

The Department disagrees with both options provided for prospective capitalization of internal use software. The Department believes that providing for an optional exclusion of internal use software undermines the integrity of and a primary purpose of a reporting entity's financial statements; that is, to present a reporting entity's financial condition as of the balance sheet date (in this case, proper presentation of internal use software), and the results of operations for the specified timeframe (in this case, to include depreciation/amortization of internal use software). The Department believes deemed cost methods provided for in the Exposure Draft, which includes reasonable methods not specified in the Exposure Draft, provides a sufficient array of methods to reporting entities for determining deemed costs for internal use software.

The Department, accordingly, prefers that valuations of internal use software for opening balances be based on existing standards, with only alternate valuation methods for deemed costs set forth in this Exposure Draft being available as an option for opening balances of internal use software when historical data is not available.

**Q3.b. Do you agree or disagree that the related disclosures are appropriate?
Please provide your rationale.**

Departmental Response:

The Department agrees that the disclosure requirements for the use of deemed cost method(s) for opening balances of internal use software are appropriate. Disclosure of the method(s) used to determine the deemed cost may be useful and relevant information to the reader and helps to further agency accountability. The Department further believes a one-time disclosure of the deemed cost method(s) used for each item is sufficient.

As set forth in the response to Q3.a above, the Department disagrees to both options provided for prospective capitalization of internal use software.

Q4. The Board proposes to rescind SFFAS 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Accounting Standards 6 and 23*, because this Statement would provide comprehensive guidance for establishing opening balances. The Board has incorporated the relevant components of SFFAS 35 in the proposed guidance in this Statement. The Board did not incorporate language from SFFAS 35 that explicitly allows for reasonable estimates on a go-forward basis to identify the cost of newly-acquired or constructed General PP&E.

Instead, the Board acknowledges that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35, and are acceptable without guidance from the Board. (See par.18-19 for relevant standards and par. A43- A51 in the Basis for Conclusions.)

**Q4.a. Do you agree or disagree with the proposal to rescind SFFAS 35?
Please provide your rationale.**

Departmental Response:

The Department agrees with the proposal to rescind SFFAS 35, because FASAB has indicated it has incorporated relevant components of SFFAS 35 in the Exposure Draft.

**Q4.b. Do you agree or disagree that reasonable estimates are permitted in the preparation of financial statements, with or without the existence of SFFAS 35?
Please provide your rationale.**

Departmental Response:

The Department strongly agrees that reasonable estimates are permitted in the preparation of financial statements with or without the existence of SFFAS 35. Reasonable estimates have been established as a generally accepted accounting principle for federal reporting entities.