



Federal Accounting Standards Advisory Board

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CLARIFICATION OF PARAGRAPHS 40-41  
OF SFFAS 6, *ACCOUNTING FOR  
PROPERTY, PLANT, AND EQUIPMENT,*  
AS AMENDED

**PROPOSED STAFF IMPLEMENTATION GUIDANCE 6.1**

Written comments are requested by May 31, 2018

May 14, 2018

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# Staff Implementation Guidance 6.1: Clarification of Paragraphs 40-41 of SFFAS 6, *Accounting for Property, Plant, and Equipment*, as amended

## Summary

This guidance addresses implementation guidance provided in Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, as amended. Specifically, it responds to a question raised since the issuance of SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*.

## Introduction

1. After the issuance of Statement of Federal Financial Accounting Standards (SFFAS) 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, Federal Accounting Standards Advisory Board (FASAB) staff identified certain necessary clarifications<sup>1</sup> regarding whether both the alternative methods for establishing opening balances and the alternative for estimated net remaining cost per the second sentence in paragraph 41 of SFFAS 6, as amended, could be applied.
2. The below Staff Implementation Guidance (SIG) Q&A addresses the question raised by the Department of Defense (DoD). SIG does not establish new requirements. Rather, SIG is intended to assist preparers in the application of FASAB literature.

## Technical Guidance

3. **Q1: Can both the alternative methods for establishing opening balances provided by paragraph 40 of SFFAS 6, as amended, and the alternative to record property, plant, and equipment (PP&E) at its estimated net remaining cost provided by paragraph 41 of SFFAS 6, as amended, be applied?**

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<sup>1</sup> These clarifications were outside the scope of the implementation guidance that FASAB provided in Technical Release (TR) 18, *Implementation Guidance for Establishing Opening Balances*.

4. Yes. Paragraph 40 of SFFAS 6, as amended, provides alternative methods for establishing opening balances for reporting entities that meet the specified conditions and elect to apply any of the alternative methods available.
5. For those reporting entities, the implementation guidance provided in paragraph 41 of SFFAS 6, as amended, may also be applied. Paragraph 41 states:

Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the PP&E has been in use relative to its estimated useful life. Alternatively, the PP&E may be recorded at its estimated net remaining cost<sup>45</sup> and depreciation/amortization charged over the remaining life based on that net remaining cost.

<sup>45</sup>*Net remaining cost* is the original cost of the asset less any accumulated depreciation/amortization to date.

6. This alternative allows for PP&E to be recorded at its estimated net remaining cost (often called net book value), which is the original cost of the asset less any accumulated depreciation/amortization to date.<sup>2</sup> This alternative was provided as a cost-beneficial option for the year of implementation.
7. An important premise for all the opening balance alternatives is that management should expect to provide adequate documentation that is consistent with the method used and supports the overall reasonableness of the valuation.<sup>3</sup> Further, management is also responsible for maintaining adequate documentation of data sources and the application of methodologies.<sup>4</sup> Applying the provisions of paragraph 41 does not alter the requirement to ensure adequate support for any values established for opening balances using the alternatives methods (such as deemed cost), including accumulated depreciation and in-service dates.

## Effective Date

8. This guidance is effective upon issuance.

The provisions of this Staff Implementation Guidance need not be applied to immaterial items.
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<sup>2</sup> Therefore, in the year of implementation the opening balance of accumulated depreciation would be zero and the depreciation/amortization expense would be charged based on the net remaining cost and the remaining life. This alternative also is applicable to required disclosures articulated in paragraph 45 of SFFAS 6, as amended.

<sup>3</sup> TR 18, par. 10.

<sup>4</sup> TR 18, par. 11.

## Basis for Conclusions

- A1. After the issuance of SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending Statement of Federal Financial Accounting Standards (SFFAS) 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*, DoD inquired whether the alternative methods for establishing opening balances could be applied in concert with the second sentence in paragraph 41 of SFFAS 6, as amended. Because “deemed cost” (as defined in the amendments to SFFAS 6) was not incorporated in paragraph 41, it may be unclear whether recording PP&E at “net remaining cost” is appropriate when deemed cost is used to establish initial amounts.
- A2. FASAB staff drafted a response based upon the question received from DoD. Because deemed cost is a surrogate for initial costs, staff believes the alternative to record PP&E at estimated net remaining cost is appropriate even when the surrogate is used. Staff hosted a public meeting with the preparer and auditor community to discuss the draft response.
- A3. The participants discussed several issues regarding documentation and support for opening balances, including the underlying in-service dates, useful lives, and capital improvements. The participants noted concerns with these areas but understood that those particular issues go beyond the scope of this proposed Staff Implementation Guidance. Participants acknowledged that the proposed guidance relates to a very narrow scope.
- A4. The scope of this guidance is strictly to answer the question in paragraph 3 of the proposal; it does not provide guidance on useful lives, estimating remaining useful lives, or the treatment of capital improvements.