



**Department of Energy**  
Washington, DC 20585

**MEMORANDUM FOR THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD**

**FROM**

*April Stephenson* 5/31/2012  
April Stephenson, Director, Office of Financial Risk, Policy and Controls

**SUBJECT**

Comments on the Exposure Draft, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*

The Department of Energy (Department) appreciates the opportunity to comment of Exposure Draft, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. The comments below reflect input from the Department of Energy's Office of the Chief Financial Officer, its field financial management offices, and the Office of Acquisition and Project Management.

Our answers to the Board's specific questions are listed below.

**Q1.** The Board proposes to establish a requirement to recognize impairment losses when there is a *significant and permanent* decline, whether gradual or sudden, in the service utility of G-PP&E. Refer to paragraphs 8 and 10 of the proposed standards and paragraphs A3 through A5 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Response:** The Department partially agrees with the proposed standard. If the standard is to be enacted, the Department suggests clarifications to the Board's proposal to recognize impairment losses when there is a significant and permanent decline, whether gradual or sudden, in the service utility of G-PP&E. While the definition appears simple, it remains difficult to assess for an organization that does not create revenue or gross profit. Leaving the proposed definition unchanged would require additional non-prescriptive guidance. We want to avoid differences of opinion between external auditors and the management of an organization. Eliminating the phrase "whether gradual or sudden" and adding "that is not already recognized by routine depreciation" after the word "decline" would avoid mistaking routine or anticipated decline for impairment. The revised statement of purpose would then read:

*The Board proposes to establish a requirement to recognize impairment losses when there is a significant and permanent decline in the service utility of G-PP&E that is not already recognized by routine depreciation.*

**Q2.** The Board proposes that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities are not expected to alter existing assessment methods as a direct consequence of the proposed standards. Refer to paragraphs 7, 13, and 14 of the proposed standards and paragraphs A3b, and A4 through A9 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Response:** The Department agrees with the Board's proposal that this Statement should not require entities to review their G-PP&E portfolios solely for potential impairments. Entities should not solely review their portfolio for potential impairments and may incorporate checking for indicators of impairment through other reviews conducted on regular intervals.

**Q3.** The Board has identified the following as indicators of G-PP&E impairments: evidence of physical damage, enactment or approval of laws or regulations which limit or restrict G-PP&E

usage, changes in environmental or economic factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of G-PP&E, and construction stoppage or contract termination, and G-PP&E scheduled or awaiting disposal (i.e., idled or unserviceable), retirement, or removal for excessively long periods. Refer to paragraph 12 of the proposed standards and paragraphs A4 through A9 and A11 through A16 in Appendix A – Basis for Conclusions for a discussion and related explanation.

**Response:** The Department generally agrees with having indicators of G-PP&E impairment. These indicators should be kept general in nature and not be a prescriptive list as to allow for proper management/business judgment. At least one comment indicated that two of the seven indicators will lead to false impairment determinations, including:

- *Changes in the manner or duration of use* – Specialized G-PP&E used on an as-needed basis or required for work performed on behalf of other entities may follow inconsistent utilization patterns.
- *G-PP&E scheduled or awaiting disposal* – In cases where this indicator does not overlap any of the aforementioned six in paragraph 12, the G-PP&E has most likely reached the end of its mission. Retaining this indicator would mean that all assets would appear impaired prior to disposition. This seems contrary to the stated scope and applicability of this proposed standard as paragraphs 7 and 11 both refer to G-PP&E “remaining in use.”

**Q4.** The Board believes that impairment losses should be estimated using a measurement method that reasonably reflects the diminished or lost service utility of the G-PP&E. The Board has identified the following methods for use in the federal environment to measure diminished service utility: replacement approach; restoration approach; service units approach; deflated depreciated current cost approach; cash flow approach; and for construction stoppages/contract terminations the lower of (1) net book value or (2) the higher of its net realizable value or value in-use estimate approach. Refer to paragraph 17 of the proposed standards and paragraphs A11 through A19 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**Response:** The Department agrees that the measurement method selected should reasonably reflect the diminished service utility of the G-PP&E. There should be multiple methods of determining impairment. This keeps management judgment as a prime consideration and removes prescribed methods from limiting possible methods of use. The measurement method selected should reflect the diminished service utility of the G-PP&E as the government does not typically sell its assets whole in the marketplace nor does it pledge its assets in exchange for consideration.

**Q5.** The Board believes that the benefits of implementing this Statement outweigh its administrative costs of implementation. Benefits include: specific impairment guidance for federal G-PP&E, eliminating the need to rely on other accounting literature to determine appropriate treatment, reporting impairments when they occur rather than through depreciation expense or disposal, providing management with information useful for decisions regarding GPP& E investments, discerning the cost of impairments and impact on the entity and the cost of services provided following the impairment, and lastly, enhancing comparability between entities. Refer to paragraph A21 in Appendix A - Basis for Conclusions for a discussion and related explanation.

**a. Are there other costs or benefits in addition to those identified by the Board that should be considered in determining whether benefits outweigh costs? Please provide the rationale for your answer.**

**Response:** Entities evaluating assets for impairments will incur additional costs. There are the administrative costs of training workers to assess whether an impairment exists under the new standard as well as documenting methodologies used for determination. Independent audit firms will review if an organization is complying with impairment accounting standards. This means additional work (responding to auditors' requests) for a business enterprise during an audit engagement. Once the new statement has been promulgated, auditing firms will have a review section in their work plan. Business enterprises will have to document and respond to satisfy the auditors' due diligence review.

**b. Are there G-PP&E categories, classes, or base units to which provisions of this proposed Statement should not apply? Please provide the rationale for your answer.**

**Response:** The proposed standard should apply equally to all categories, classes, or base units of G-PP&E remaining in use that entities capitalize since such assets have or had distinct book value.

**c. Do you agree or disagree that the benefits of implementing this Statement outweigh its costs? Please provide the rationale for your answer.**

**Response:** The Department disagrees that the benefits of implementing this Statement outweigh the costs. The proposed standard would add administrative burden in several areas:

- Increased level of effort in making adjustments to G-PP&E records in the Department's accounting system.
- Increased level of effort in reconciling the accounting system with the Department's property management system.
- Increased level of effort and cost for financial statement audits and Departmental management of those audits.